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

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**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, 2015

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 No. 001-35517

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**ARES COMMERCIAL REAL ESTATE CORPORATION**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**45-3148087**  
(I.R.S. Employer  
Identification No.)

**245 Park Avenue, 42nd Floor, New York, NY 10167**  
(Address of principal executive offices) (Zip Code)

**(212) 750-7300**  
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section §232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2015, based on the closing price on that date of \$12.41 on the New York Stock Exchange, was approximately \$319,709,178. As of February 29, 2016 there were 28,609,650 shares of the registrant's common stock outstanding.

Portions of the registrant's Proxy Statement for its 2016 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this annual report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

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## FORWARD-LOOKING STATEMENTS

Some of the statements contained in this annual report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend such statements to be covered by the safe harbor provisions contained therein. Forward-looking statements relate to future events or the future performance or financial condition of Ares Commercial Real Estate Corporation ("ACRE" and, together with its consolidated subsidiaries, the "Company," "we," "us" and "our"). The forward-looking statements contained in this report involve a number of risks and uncertainties, including statements concerning:

- our business and investment strategy;
- our projected operating results;
- the return or impact of current and future investments;
- the timing of cash flows, if any, from our investments;
- estimates relating to our ability to make distributions to our stockholders in the future;
- defaults by borrowers in paying debt service on outstanding indebtedness;
- our ability to obtain and maintain financing arrangements, including securitizations;
- market conditions and our ability to access alternative debt markets and additional debt and equity capital:
- the amount of commercial mortgage loans requiring refinancing;
- our expected investment capacity and available capital;
- financing and advance rates for our target investments;
- our expected leverage;
- changes in interest rates and the market value of our investments;
- effects of hedging instruments on our target investments;
- rates of default or decreased recovery rates on our target investments;
- rates of prepayments on our mortgage loans and the effect on our business of such prepayments;
- the degree to which our hedging strategies may or may not protect us from interest rate volatility;
- the impact of committed loans failing to close;
- availability of investment opportunities in mortgage-related and real estate-related investments and securities;
- the ability of Ares Commercial Real Estate Management LLC ("our Manager") to locate suitable investments for us, monitor, service and administer our investments and execute our investment strategy;
- allocation of investment opportunities to us by our Manager;
- the ability of our wholly owned subsidiary, ACRE Capital LLC, to originate and sell mortgage loans;
- our ability to successfully complete and integrate any acquisitions;

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- our ability to maintain our qualification as a real estate investment trust for U.S. federal income tax purposes;
- our ability to maintain our exemption from registration under the Investment Company Act of 1940;
- our understanding of our competition;
- general volatility of the securities markets in which we may invest;
- adverse changes in the real estate, real estate capital and credit markets and the impact of a protracted decline in the liquidity of credit markets on our business;
- changes in governmental regulations, tax law and rates, and similar matters (including interpretation thereof);
- actions and initiatives of the U.S. Government and changes to U.S. Government policies;
- the state of the U.S. economy generally or in specific geographic regions;
- uncertainty surrounding the financial stability of the U.S., European Union and China;
- global economic trends and economic recoveries;
- market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy; and
- the future of U.S. government-sponsored enterprises.

We use words such as "anticipates," "believes," "expects," "intends," "will," "should," "may" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those expressed in the forward-looking statements for any reason, including the factors set forth under "Risk Factors" and elsewhere in this annual report on Form 10-K.

We have based the forward-looking statements included in this annual report on information available to us on the date of this annual report, and we assume no obligation to update any such forward-looking statements.

## PART I

### Item 1. Business

*The following description of the business of Ares Commercial Real Estate Corporation should be read in conjunction with the information included elsewhere in this annual report on Form 10-K for the year ended December 31, 2015. We refer to Ares Commercial Real Estate Corporation ("ACRE") together with our subsidiaries as "we," "us," "Company," or "our," unless we specifically state otherwise or the context indicates otherwise. We refer to our manager, Ares Commercial Real Estate Management LLC, as our "Manager" or "ACREM" and the parent company of our Manager, Ares Management, L.P., together with its consolidated subsidiaries, as "Ares Management."*

#### GENERAL

We are a specialty finance company that is primarily focused on directly originating, managing and servicing a diversified portfolio of commercial real estate ("CRE") debt-related investments for our own account. Our target investments include senior mortgage loans, subordinated debt, preferred equity, mezzanine loans and other CRE investments. Through our Manager, a subsidiary of Ares Management, L.P. (NYSE: ARES), a publicly traded, leading global alternative asset manager, we have investment professionals strategically located across the United States and in Europe who directly source new loan opportunities for us with owners, operators and sponsors of CRE properties. This is our primary business segment, referred to as the principal lending business.

We are also engaged in the mortgage banking business through our wholly owned subsidiary, ACRE Capital LLC ("ACRE Capital"), which we believe is complementary to our principal lending business. In this business segment, we directly originate long-term senior loans collateralized by multifamily and senior-living properties and sell them to third parties pursuant to programs overseen by government agencies and government-sponsored enterprises ("GSEs"). For operating and financial information about our segments, see Note 18 to our consolidated financial statements included in this annual report on Form 10-K.

We were formed and commenced operations in late 2011. We are a Maryland corporation and completed our initial public offering (the "IPO") in May 2012. We have elected and qualified to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code"), commencing with our taxable year ended December 31, 2012. We are externally managed by our Manager pursuant to the terms of a management agreement.

#### Our Investment Strategy

##### *Principal Lending Business*

In our principal lending business, we target borrowers whose capital needs are not being suitably met in the conventional bank market by offering customized financing solutions. We implement a strategy focused on direct origination combined with experienced portfolio management. We believe the availability of the customized capital we provide in the CRE middle-market is limited and we continue to find increasing demand from borrowers and sponsors for customized solutions in this segment of the market. We act as a single "one stop" source of financing for our customers through our customized financing solutions. We generally hold our loans for investment and earn interest and interest-related income.

##### *Mortgage Banking Business*

In our complementary mortgage banking business segment, we primarily originate, sell and service multifamily and senior-living related loans under programs offered by GSEs, such as the Federal

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National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and by government agencies, such as the Government National Mortgage Association ("Ginnie Mae") and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, "HUD"). ACRE Capital is approved as a Fannie Mae Delegated Underwriting and Servicing ("DUS") lender, a Freddie Mac Program Plus® Seller/Servicer, a Multifamily Accelerated Processing ("MAP") and Section 232 LEAN lender for HUD, and a Ginnie Mae issuer. While we earn little interest income from these activities as we generally only hold loans for short periods, we receive origination fees when we close loans and sale premiums when we sell loans. We also retain the rights to service the loans, which are known as mortgage servicing rights ("MSRs") and receive fees for providing such services during the life of the loans which generally last ten years or more.

### ***Direct Origination***

We generally source new investments through our national direct origination platform consisting of over 12 offices across the United States as of December 31, 2015. We may also seek to make investments in Europe through Ares Management, which has offices in major cities across Europe.

### ***Investment Strategy***

In pursuing investment opportunities with attractive risk-reward profiles, our Manager incorporates our views 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. Our Manager's underwriting standards center on the creditworthiness of the borrower and the underlying sponsor of a given asset, with particular focus on an asset's business plan, competitive positioning within the market, existing capital structure and potential exit opportunities. All investment decisions are made so that we maintain our qualification as a REIT and our exemption from registration under the Investment Company Act of 1940, as amended (the "1940 Act").

In addition, as part of our investment strategy, we may from time to time engage in discussions with counterparties with respect to various potential strategic transactions, including potential investments in, and acquisitions of, other real estate or finance companies or asset portfolios. In connection with evaluating potential strategic transactions and assets, we may incur significant expenses for the evaluation and due diligence investigation and negotiation of any potential transaction.

Our investment strategy may be amended from time to time without the approval of our stockholders, if recommended by our Manager and approved by our board of directors. We expect to disclose any material changes to our investment strategy in the periodic quarterly and annual reports that we file with the Securities and Exchange Commission ("SEC").

### ***Our Target Assets***

Our target investments in the principal lending business include senior mortgage loans, subordinated debt, preferred equity, mezzanine loans and other CRE investment opportunities (our "principal lending target investments" and, together with our mortgage banking business, our "target investments"). With respect to multifamily properties, we may seek to provide interim-financing to borrowers prior to or while they are pursuing long-term, permanent financing through our mortgage banking business under various GSE and HUD programs.

### ***Investment Portfolio***

For information about our investment portfolio, see "Management's Discussion And Analysis Of Financial Condition And Results Of Operations-Investment Portfolio" and Note 3 to our consolidated financial statements included in this annual report on Form 10-K.

**Commercial Real Estate Loans**

- *Senior Mortgage Loans:* These mortgage loans are typically secured by first liens on commercial properties, including the following property types: office, multifamily, retail, industrial, hospitality and mixed-use. In some cases, first lien mortgages may be divided into an A-Note and a B-Note. The A-Note is typically a privately negotiated loan that is secured by a first mortgage on a commercial property or group of related properties that is senior to a B-Note secured by the same first mortgage property or group.
- *Subordinated Debt:* These loans may include structurally subordinated first mortgage loans and junior participations in first mortgage loans or participations in these types of assets. As noted above, a B-Note is typically a privately negotiated loan that is secured by a first mortgage on a commercial property or group of related properties and is subordinated to an A-Note secured by the same first mortgage property or group. The subordination of a B-Note or junior participation typically is evidenced by participations or intercreditor agreements with other holders of interests in the note. B-Notes are subject to more credit risk with respect to the underlying mortgage collateral than the corresponding A-Note.
- *Preferred Equity:* Real estate preferred equity investments are subordinate to first mortgage loans and are not collateralized by the property underlying the investment. As a holder of preferred equity, we seek to 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 investment.
- *Mezzanine Loans:* Like B-Notes, these loans are also subordinated CRE loans, but are usually secured by a pledge of the borrower's equity ownership in the entity that owns the property or by a second lien mortgage on the property. In a liquidation, these loans are generally junior to any mortgage liens on the underlying property, but senior to any preferred equity or common equity interests in the entity that owns the property. Investor rights are usually governed by intercreditor agreements.
- *Other CRE Investments:* To a lesser extent, we may invest in other loans and securities, subject to maintaining our qualification as a REIT, including but not limited to commercial mortgage-backed securities, loans to real estate or hospitality companies, debtor-in-possession loans and selected other income producing equity investments, such as triple net lease equity.

**Ares Commercial Real Estate Management LLC and Ares Management, L.P.**

We are externally managed by our Manager pursuant to the terms of a management agreement dated April 25, 2012, as amended, between us and our Manager (the "Management Agreement").

Our Manager is a subsidiary of Ares Management, a publicly traded, leading global alternative asset manager. As of December 31, 2015, Ares Management had approximately 870 employees in over 15 principal and originating offices across the United States, Europe and Asia. Since its inception in 1997, Ares Management has adhered to a disciplined investment philosophy that focuses on delivering strong risk-adjusted investment returns throughout market cycles. Ares Management believes each of its three distinct but complementary investment groups in Credit, Private Equity and Real Estate is a market leader based on investment performance. Ares Management was built upon the fundamental principle that each group benefits from being part of the greater whole.

Our Manager is responsible for administering our business activities and day-to-day operations and providing us our executive management team, principal investment team and appropriate support personnel. Pursuant to the Management Agreement, our Manager is entitled to receive a base management fee, an incentive fee and expense reimbursements. In addition, in certain circumstances, our Manager will be entitled to receive a termination fee if the Management Agreement is terminated.



Our Manager may also receive grants of equity-based awards pursuant to our equity incentive plan that was adopted on April 23, 2012, or the "2012 Equity Incentive Plan." For more information on the terms of the Management Agreement, see Note 14 to our consolidated financial statements included in this annual report on Form 10-K.

## **MARKET OPPORTUNITY**

We believe market conditions continue to be favorable for disciplined and scaled direct lending with broad and flexible product offerings. We have recently witnessed capital markets volatility driving borrowers to adjust their expectations for the cost of certain types of financing. We believe that this will result in increased demand for shorter duration and often floating rate products, which we anticipate will lead to increased financing transaction volumes and benefit our deal flow. In addition, we estimate that over the next three years a large amount of debt maturing in the real estate market will increase borrower demand.

As one of only 19 lenders approved as both a Fannie Mae DUS and Freddie Mac Program Plus® Seller/Servicer as of December 31, 2015, we believe our mortgage banking segment, ACRE Capital, possesses distinct competitive advantages in providing governmentally supported financing products to borrowers. Furthermore, given license requirements for the mortgage banking business, we believe that there are high barriers to entry to this market where government agencies and GSEs represent the largest current source of financing for multifamily borrowers. Since we operate both as a principal lender and a mortgage banker, we can offer a wider array of financing solutions to our customers. We also have the flexibility to provide a combination of solutions to our customers, including instances where our principal lending business provides a short-term, bridge loan to an owner of multifamily properties while our mortgage banking business seeks long-term permanent financing for the same customer. This provides us with the opportunity to offer our customer an efficient "one stop" financial product and at the same time earn revenues at multiple times in the relationship with the customer. First, we can earn fees, interest and interest-related income while holding the short term bridge loan. Second, we can earn interest and interest related income, origination fees and sale premiums when we provide permanent financing and sell the loans under government and GSE programs. Third, we can earn servicing fees from MSRs that we retain on the permanent loans. We expect these products will drive referral and revenue opportunities across ACRE and lead to expanded growth. We believe that this flexible approach, coupled with Ares Management's market visibility and sourcing capabilities, enables us to identify attractive investment opportunities throughout economic cycles and across a borrower's capital structure.

## **OUR FINANCING STRATEGY**

We intend to use prudent amounts of leverage to fund the origination or acquisition of our target investments. Subject to maintaining our qualification as a REIT and our exemption from the 1940 Act, we expect that our primary sources of financing will be, to the extent available to us, through (a) credit, secured funding and other lending facilities, (b) securitizations, (c) other sources of private financing, including warehouse, repurchase facilities and structuring of senior and mezzanine loans and (d) public or private offerings of our equity or debt securities. In the future, we may utilize other sources of financing to the extent available to us.

Given current market conditions and our focus on first or senior mortgages, we currently expect that such leverage would not exceed, on a debt-to-equity basis, a 4-to-1 ratio. Our charter and bylaws do not restrict the amount of leverage that we may use. The amount of leverage we will deploy for particular investments in our target investments will depend upon our Manager's assessment of a variety of factors, which may include, among others, the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing

the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy generally or in specific geographic regions and commercial mortgage markets, our outlook for the level and volatility of interest rates, the slope of the yield curve, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve.

### **Financing Agreements**

We borrow funds under the ASAP Line of Credit and the BAML Line of Credit (the "Warehouse Lines of Credit"), and the Wells Fargo Facility, the Citibank Facility, the BAML Facility, the CNB Facilities, the MetLife Facility and the UBS Facilities (individually defined in Note 6 to the consolidated financial statements included in this annual report on Form 10-K, along with the Capital One Facility, collectively, the "Secured Funding Agreements"). We refer to the Warehouse Lines of Credit, the Secured Funding Agreements and the Secured Term Loan (defined below) as the "Financing Agreements." While the borrowers under the Financing Agreements generally are our subsidiaries, all such debt agreements (excluding the Warehouse Lines of Credit) are guaranteed by ACRE. Generally, we seek to partially offset interest rate risk by matching the interest index of loans held for investment with the Secured Funding Agreements used to fund them.

Additionally, we have \$75.0 million outstanding under our \$155.0 million Credit and Guaranty Agreement (the "Secured Term Loan") with Highbridge Principal Strategies, LLC, as administrative agent, and DBD Credit Funding LLC, as collateral agent. As of December 31, 2015, our outstanding balance under the Financing Agreements was \$622.6 million. In addition, we have approximately \$255.3 million aggregate principal amount of indebtedness outstanding under two securitizations as of December 31, 2015.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Summary of Financing Agreements" included in this annual report on Form 10-K for a further discussion of our borrowings as of December 31, 2015.

### **TAXATION**

We have elected and qualified to be taxed as a REIT for U.S. federal income tax purposes under the Code, commencing with our taxable year ended December 31, 2012. We generally will not be subject to U.S. federal income taxes on our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, to the extent that we annually distribute all of our REIT taxable income to stockholders and comply with various other requirements as a REIT.

In connection with the acquisition of ACRE Capital in August 2013, we contributed the common units of ACRE Capital to ACRE Capital Holdings LLC ("TRS Holdings"), a wholly owned subsidiary of ours. We formed a wholly owned subsidiary in December 2013, ACRC Lender W TRS LLC ("ACRC W TRS") and in March 2014, ACRC Lender U TRS LLC ("ACRC U TRS") in order to issue and hold certain loans intended for sale. Entity classification elections to be taxed as a corporation and taxable REIT subsidiary ("TRS") elections were made with respect to TRS Holdings, ACRC W TRS and ACRC U TRS. A TRS is an entity taxed as a corporation other than a REIT in which a REIT directly or indirectly holds equity, and that has made a joint election with such REIT to be treated as a TRS. Other than some activities relating to lodging and health care facilities, a TRS generally may engage in any business, including investing in assets and engaging in activities that could not be held or conducted directly by us without jeopardizing our qualification as a REIT. A TRS is subject to applicable U.S. federal, state, local and foreign income tax on its taxable income. In addition, as a REIT, we also may be subject to a 100% excise tax on certain transactions between us and our TRS that are not conducted on an arm's-length basis.

## COMPETITION

Our net income depends, in part, on our ability to originate or acquire assets at favorable spreads over our borrowing costs. In our principal lending business, we compete with other public or private REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, financial institutions, governmental bodies, fund managers and other entities. In addition, there are numerous REITs with similar asset origination and acquisition objectives and others may be organized in the future. These other REITs will increase competition for the available supply of mortgage assets suitable for purchase and origination. Many of our competitors are significantly larger than we are and have considerably greater financial, technical, marketing and other resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the 1940 Act.

In our mortgage banking business, we compete with commercial banks, commercial real estate service providers and insurance companies. In addition, future changes in laws, regulations and GSE and HUD program requirements could lead to the entry of more competitors. In addition, some of our 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 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Impacting Our Operating Results—Market Conditions" included in this annual report on Form 10-K.

In the face of this competition, we have access to our Manager's and Ares Management's professionals, the ACRE Capital team and their collective industry expertise, which may provide us with a competitive advantage and help us assess investment risks and determine appropriate pricing for certain potential investments. These relationships enable us to compete more effectively for attractive investment opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face. For additional information concerning these competitive risks, see "Risk Factors—Risks Related to Our Investments—We operate in a competitive market for investment opportunities and loan originations and competition may limit our ability to originate or acquire desirable investments in our target investments" included in this annual report on Form 10-K.

## STAFFING

We are externally managed by our Manager pursuant to the Management Agreement. Our executive officers also serve as officers of our Manager. Although ACRE does not have any employees, ACRE Capital employs over 100 employees. For more information on the terms of the Management Agreement, see Note 14 to our consolidated financial statements included in this annual report on Form 10-K.

**AVAILABLE INFORMATION**

We file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Securities Exchange Act of 1934. This information is available free of charge by calling us collect at (212) 750-7300 or on our website at [www.arescre.com](http://www.arescre.com). The information on our website is not deemed incorporated by reference in this annual report. You also may inspect and copy these reports, proxy statements and other information, as well as the annual report and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's Internet site at [www.sec.gov](http://www.sec.gov). Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the SEC's Public Reference Room, 100 F Street, NE, Washington, D.C. 20549.

**Item 1A. Risk Factors**

**RISK FACTORS**

*You should carefully consider these risk factors, together with all of the other information included in this annual report, including our consolidated financial statements and the related notes thereto, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the value of our common stock and the trading price of our securities could decline, and you may lose all or part of your investment.*

**RISKS RELATED TO OUR RELATIONSHIP WITH OUR MANAGER AND ITS AFFILIATES**

**Our future success depends on our Manager, its key personnel and their access to the investment professionals of Ares Management. We may not find a suitable replacement for our Manager if our management agreement is terminated or if such key personnel or investment professionals leave the employment of our Manager or Ares Management or otherwise become unavailable to us.**

We rely on the resources of our Manager to manage our day-to-day operations (other than the operations of ACRE Capital, which has employees that provide certain services in connection with our mortgage banking business). Other than the ACRE Capital employees, ACRE does not employ any personnel. We rely completely on our Manager to provide us with investment advisory services.

Our executive officers also serve as officers of our Manager. Our Manager has significant discretion as to the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success depends to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the officers and key personnel of our Manager. The officers and key personnel of our Manager evaluate, negotiate, close and monitor our investments; therefore, our success depends on their continued service. The departure of any of the officers or key personnel of our Manager could have a material adverse effect on our business.

Our Manager is not obligated to dedicate any specific personnel exclusively to us. None of our officers are obligated to dedicate any specific portion of their time to our business. Each of them has significant responsibilities for other investment vehicles managed by affiliates of Ares Management. As a result, these individuals may not always be able to devote sufficient time to the management of our business. Further, when there are turbulent conditions in the real estate markets or distress in the credit markets, the attention of our Manager's personnel and our executive officers and the resources of Ares Management will also be required by other investment vehicles managed by affiliates of Ares Management.

In addition, we offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager's officers and key personnel. The current term of our Management Agreement with our Manager expires on May 1, 2016, and will be automatically renewed for one-year terms thereafter. Furthermore, our Manager may decline to renew the Management Agreement with 180 days' written notice prior to the expiration of the renewal term. If the Management Agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our investment strategy.

We also depend on access to, and the diligence, skill and network of business contacts of the investment professionals of other groups within Ares Management and the information and deal flow generated by Ares Management's investment professionals in the course of their investment and portfolio management activities. The departure of any of these individuals, or of a significant number of the investment professionals or partners of Ares Management, could have a material adverse effect

on our business, financial condition or results of operations. We cannot assure you that we will continue to have access to Ares Management's investment professionals or its information and deal flow.

**Our growth depends on the ability of our Manager to make investments on favorable terms that satisfy our investment strategy and otherwise generate attractive risk-adjusted returns initially and consistently from time to time.**

Our ability to achieve our investment objectives depends on our ability to grow, which depends, in turn, on the management and investment teams of our Manager and their ability to identify and to make investments on favorable terms in our target investments as well as on our access to financing on acceptable terms. The demands on the time of the professional staff of our Manager will increase as our portfolio grows, and we cannot assure you that our Manager will be able to hire, train, supervise, manage and retain new officers and employees to manage future growth effectively, and any such failure could have a material adverse effect on our business.

**There are various conflicts of interest in our relationship with our Manager and Ares Management that could result in decisions that are not in the best interests of our stockholders.**

We are subject to conflicts of interest arising out of our relationship with our Manager and Ares Management. In the future, we may enter into additional transactions with Ares Management or its affiliates. In particular, we may invest in, acquire, sell assets to or provide financing to investment vehicles managed by Ares Management or its affiliates and their portfolio companies or co-invest with, purchase assets from, sell assets to, or arrange financing from any such investment vehicles and their portfolio companies. Any such transactions will require approval by a majority of our independent directors. There can be no assurance that any procedural protections will be sufficient to ensure 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.

Our Manager and Ares Management have agreed that for so long as our Manager is managing us, neither Ares Management nor any of its affiliates will sponsor or manage any other U.S. publicly traded REIT that invests primarily in the same asset classes as us. Ares Management and its affiliates may sponsor or manage another U.S. publicly traded REIT that invests generally in real estate assets but not primarily in our target investments. However, affiliates of our Manager manage other investment vehicles whose core investment strategies focus on one or more of our target asset classes. To the extent such existing vehicles or other Ares Management vehicles that may be organized in the future seek to acquire the same target assets as our Company, subject to Ares Management's allocation policy described below, the scope of opportunities otherwise available to us may be adversely affected and/or reduced.

Ares Management has an investment allocation policy in place that is intended to enable us to share equitably with any other investment vehicles that are managed by Ares Management. In general, investment opportunities are allocated taking into consideration various factors, including, among others, the relevant investment vehicles' available capital, their investment objectives or strategies, their risk profiles and their existing or prior positions in an issuer/security, as well as potential conflicts of interest, the nature of the opportunity and market conditions. We will be responsible for our proportionate share of certain fees and expenses as determined by our Manager and Ares Management, including legal, accounting and financial advisor fees and related costs, incurred in connection with the transactions relating to such investment opportunities, regardless of whether such transactions are ultimately consummated by the parties thereto. The investment allocation policy may be amended by our Manager and Ares Management at any time without our consent.

**The ability of our Manager and its officers and employees to engage in other business activities may reduce the time our Manager spends managing our business and may result in certain conflicts of interest.**

Certain of our officers and directors, and the officers and other personnel of our Manager, also serve or may serve as officers, directors or partners of Ares Management, as well as Ares Management sponsored investment vehicles, including new affiliated potential pooled investment vehicles or managed accounts not yet established, whether managed or sponsored by Ares Management's affiliates or our Manager. Accordingly, the ability of our Manager and its officers and employees to engage in other business activities may reduce the time our Manager spends managing our business. These activities could be viewed as creating a conflict of interest insofar as the time and effort of the professional staff of our Manager and its officers and employees will not be devoted exclusively to our business; instead it will be allocated between our business and the management of these other investment vehicles.

In the course of our investing activities, we will pay base management fees to our Manager and will reimburse our Manager for certain expenses it incurs. As a result, investors in our common stock will invest on a "gross" basis and receive distributions on a "net" basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through direct investments. As a result of this arrangement, our Manager's interests may be less aligned with our interests.

**The Management Agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party.**

We rely completely on our Manager to provide us with investment advisory services. Our executive officers also serve as officers of our Manager. Our Management Agreement with our Manager was negotiated between related parties and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

We will pay our Manager substantial base management fees regardless of the performance of our portfolio. Our Manager's entitlement to a base management fee, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. This in turn could hurt both our ability to make distributions to our stockholders and the market price of our common stock.

The current term of our Management Agreement with our Manager expires on May 1, 2016. Thereafter, the Management Agreement automatically renews for one-year terms unless terminated upon 180 days' written notice prior to the expiration of the then current term in accordance with its terms. If the Management Agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our investment strategy.

**Terminating the Management Agreement for unsatisfactory performance of the Manager or electing not to renew the Management Agreement may be difficult and terminating the agreement in certain circumstances requires payment of a substantial termination fee.**

Termination of the Management Agreement with our Manager without cause is difficult and costly. Our independent directors will review our Manager's performance and the management fees annually and, upon 180 days' written notice prior to the expiration of any renewal term, the Management Agreement may be terminated upon the affirmative vote of at least two-thirds of our independent directors based upon: (a) our Manager's unsatisfactory performance that is materially detrimental to us; or (b) a determination that the management fees payable to our Manager are not fair, subject to our 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. Additionally, upon any such termination, the Management Agreement provides that we will pay our Manager a termination fee equal to three times the sum of the average annual base management fee and incentive fee received by

our Manager during the 24-month period before such termination, calculated as of the end of the most recently completed fiscal quarter. This provision increases the cost to us of terminating the Management Agreement and adversely affects our ability to terminate our Manager without cause.

**The incentive fee payable to our Manager under the Management Agreement may cause our Manager to select investments in riskier assets to increase its incentive compensation.**

Our Manager is entitled to receive incentive compensation based upon our achievement of targeted levels of Core Earnings. "Core Earnings" is defined in our Management Agreement as generally accepted accounting principles ("GAAP") net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of our target investments are structured as debt and we foreclose on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), and one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between our Manager and our independent directors and after approval by a majority of our independent directors. No incentive fees were earned for the years ended December 31, 2015, 2014 and 2013. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on Core Earnings may lead our Manager to place undue emphasis on the maximization of Core Earnings at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

**Our Manager manages our portfolio in accordance with very broad investment guidelines and our board of directors does not approve each investment and financing decision made by our Manager, which may result in our making riskier investments than those currently comprising our investment portfolio.**

While our directors periodically review our investment portfolio, they do not review all of our proposed investments. In addition, in conducting periodic reviews, our directors may rely primarily on information provided to them by our Manager. Our investment guidelines may be changed from time to time. Furthermore, our Manager may use complex strategies and transactions entered into by our Manager that may be difficult or impossible to unwind by the time they are reviewed by our directors. Our Manager has great latitude in determining the types of assets that are proper investments for us, which could result in investment 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 investments entered into by our Manager may not fully reflect your best interests.

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

Our Manager may change its investment process without stockholder consent at any time. In addition, there can be no assurance that our Manager will follow its investment process in relation to the identification and underwriting of prospective investments. Changes in our Manager's investment process may result in inferior, among other things, due diligence and underwriting standards, which may adversely affect the performance of our portfolio.



**We do not have a policy that expressly prohibits our directors, officers, stockholders 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, stockholders 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, officers and employees from engaging in any transaction that involves an actual conflict of interest with us without the approval of the audit committee of our board of directors. In addition, our Management Agreement with our Manager does not prevent our Manager and its affiliates from engaging in additional management or investment opportunities, some of which could compete with us, and our code of business conduct and ethics acknowledges that such activities shall not be deemed a conflict of interest.

**Our Manager is subject to extensive regulation as an investment adviser, which could adversely affect its ability to manage our business.**

Our Manager is subject to regulation as an investment adviser by various regulatory authorities that are charged with protecting the interests of its clients, including us. Instances of criminal activity and fraud by participants in the investment management industry and disclosures of trading and other abuses by participants in the financial services industry have led the U.S. Government and regulators to consider increasing the rules and regulations governing, and oversight of, the U.S. financial system. This activity is expected to result in changes to the laws and regulations governing the investment management industry and more aggressive enforcement of the existing laws and regulations. Our Manager could be subject to civil liability, criminal liability, or sanction, including revocation of its registration as an investment adviser, revocation of the licenses of its employees, censures, fines, or temporary suspension or permanent bar from conducting business, if it is found to have violated any of these laws or regulations. Any such liability or sanction could adversely affect our Manager's ability to manage our business. Our Manager must continually address conflicts between its interests and those of its clients, including us. In addition, the SEC and other regulators have increased their scrutiny of potential conflicts of interest. Our Manager has procedures and controls that are reasonably designed to address these issues. However, appropriately dealing with conflicts of interest is complex and difficult and if our Manager fails, or appears to fail, to deal appropriately with conflicts of interest, it could face litigation or regulatory proceedings or penalties, any of which could adversely affect its ability to manage our business.

**We may not replicate Ares Management's historical performance.**

We cannot assure you that we will replicate Ares Management's historical performance, and we caution you that our investment returns could be substantially lower than the returns achieved by other entities managed by Ares Management or its affiliates. Although such funds share our general objective of targeting investments in senior secured debt, each of them is or has been focused on making senior debt investments secured primarily by the corporate assets of their borrowers and none of them target investments in senior or any other loans secured by CRE, which is our specific investment objective.

**We do not own the Ares name, but we may use the name pursuant to a license agreement with Ares Management. 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 Ares Management pursuant to which it has granted us a non-exclusive, royalty-free license to use the name "Ares." Under this agreement, we have a right to use this name for so long as ACREM serves as our Manager pursuant to the Management Agreement. Ares Management retains the right to continue using the "Ares" name. We cannot preclude Ares Management from licensing or transferring the ownership of the "Ares" 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 Ares Management 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 may have generated and otherwise harm our business. The license agreement terminates upon expiration of the Management Agreement and may also be terminated by either party without penalty upon 180 days' written notice to the other party.

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

Pursuant to the Management Agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and will not be 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, our Manager, its officers, members, managers, directors, personnel, any person controlling or controlled by our Manager, including Ares Management, and any person providing services to our Manager will not be liable to us, any subsidiary of ours, 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 our Manager, its officers, stockholders, members, managers, directors, personnel, any person controlling or controlled by our Manager and any person providing services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts of our 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.

## **RISKS RELATED TO OUR COMPANY GENERALLY**

**We have limited operating history and may not be able to operate our business successfully or generate sufficient revenue to make or sustain distributions to our stockholders.**

We were organized on September 1, 2011, completed our IPO on May 1, 2012 and have limited operating history. We cannot assure you that we will be able to operate our business successfully or implement our operating policies and strategies as described in this annual report. The results of our operations depend on several factors, including the availability of opportunities for the origination or acquisition of target investments, the level and volatility of interest rates, the availability of adequate short and long-term financing, conditions in the financial markets and economic conditions.

**Our board of directors may change our investment strategy or guidelines, financing strategy or leverage policies without stockholder consent.**

Our board of directors may change our investment strategy or guidelines, financing strategy or leverage policies with respect to investments, originations, acquisitions, growth, operations, indebtedness, capitalization and distributions at any time without the consent of our stockholders, which could result in an investment portfolio with a different risk profile than that of our current investment portfolio or of a portfolio comprised of our target investments. A change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this annual report. These changes could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

**Changes in laws or regulations governing our operations, changes in the interpretation thereof 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.**

We are subject to regulation by laws and regulations at the local, state and federal levels. These laws and regulations, 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 current or new laws or regulations or such changes thereto, 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. Furthermore, 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.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Many of the provisions of the Dodd-Frank Act have had extended implementation periods and delayed effective dates and have required extensive rulemaking by regulatory authorities. While many of the rules required to be written have been promulgated, some have not yet been implemented. Although the full impact of the Dodd-Frank Act on us may not be known for an extended period of time, the Dodd-Frank Act, including the rules implementing its provisions and the interpretation of those rules, along with other legislative and regulatory proposals directed at the financial services industry or affecting taxation that are proposed or pending in the U.S. Congress, may negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

Over the last several years, there also has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. While it cannot be known at this time whether any regulation will be implemented or what form it will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

**Adoption of the Basel III standards and other proposed supplementary regulatory standards may negatively impact our access to financing or affect the terms of our future financing arrangements.**

In response to various financial crises and the volatility of financial markets, the Basel Committee on Banking Supervision adopted the Basel III standards several years ago. The final package of Basel III reforms was approved by the G20 leaders in November 2010. In January 2013, the Basel Committee agreed to delay implementation of the Basel III standards and expanded the scope of assets permitted to be included in a bank's liquidity measurement. In 2014, the Basel Committee announced that it would propose additional changes to capital requirements for banks over the next few years.

U.S. regulators have elected to implement substantially all of the Basel III standards. Financial institutions will have until 2019 to fully comply with the Basel III standards, which could cause an increase in capital requirements for, and could place constraints on, the financial institutions from which we borrow.

In April 2014, U.S. regulators adopted rules requiring enhanced supplementary leverage ratio standards beginning in January 2018, which would impose capital requirements more stringent than those of the Basel III standards for the most systematically significant banking organizations in the

U.S. Adoption and implementation of the Basel III standards and the supplemental regulatory standards adopted by U.S. regulators may negatively impact our access to financing or affect the terms of our future financing arrangements.

In January 2016, the Basel Committee published its revised capital requirements for market risk, known as Fundamental Review of the Trading Book or FRTB, which are expected to generally result in higher global capital requirements for banks that could, in turn, reduce liquidity and increase financing and hedging costs. The impact of FRTB will not be known until after any resulting rules are finalized by the U.S. federal bank regulatory agencies.

**If we do not obtain and maintain the appropriate state licenses, we will not be allowed to originate or service real estate loans in some states, which could materially and adversely affect us.**

State mortgage loan finance licensing laws vary considerably. Many states and the District of Columbia impose a licensing obligation to originate or purchase real estate loans. Many of these mortgage loan licensing laws also impose a licensing obligation to service real estate loans. If we are unable to obtain the appropriate state licenses or do not qualify for an exemption, we could be materially and adversely affected.

If these licenses are obtained, state regulators impose additional ongoing obligations on licensees, such as maintaining certain minimum net worth or line of credit requirements. The minimum net worth requirements vary from state to state. Further, in limited instances, the net worth calculation may not include recourse on any contingent liabilities. If we do not meet these minimum net worth or line of credit requirements or satisfy other criteria, regulators may revoke or suspend our licenses and prevent us from continuing to originate or service real estate loans, which would materially and adversely affect us.

**Uncertainty about the financial stability of the United States, China and several countries in the European Union (EU) or a sustained U.S. Government shutdown could have a significant adverse effect on our business, financial condition and results of operations.**

Due to federal budget deficit concerns, S&P downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. Further, Moody's and Fitch had warned that they may downgrade the federal government's credit rating. Further downgrades or warnings by S&P or other rating agencies, and the U.S. Government's credit and deficit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased U.S. Government credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our financial performance and the value of our common stock. Furthermore, disagreement over the federal budget has caused the U.S. Government to shut down for periods of time. Any extended U.S. Government shutdown resulting from the failure to pass budget appropriations, adopt continuing funding resolutions or raise the debt ceiling, and other budgetary decisions limiting or delaying federal government spending, could impact the operations of certain federal agencies, including FHA, which could have a material adverse effect on the mortgage lending business of ACRE Capital and our business, financial condition and results of operations in general.

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these nations to continue to service their sovereign debt obligations. While the financial stability of many of such countries has improved significantly, risks resulting from any future debt crisis in Europe or any similar crisis could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European

financial institutions. In July and August 2015, Greece reached agreements with its international creditors for bailouts that provide aid in exchange for austerity terms that had previously been rejected by the Greek voters. Market and economic disruptions have affected, and may in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. We cannot assure you that market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not impact the global economy, and we cannot assure you that assistance packages will be available, or if available, be sufficient to stabilize countries and markets in Europe or elsewhere affected by a financial crisis. To the extent uncertainty regarding any economic recovery in Europe negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be significantly and adversely affected.

In the second quarter of 2015, stock prices in China experienced a significant drop, resulting primarily from continued sell-off of shares trading in Chinese markets. In addition, in August 2015, Chinese authorities sharply devalued China's currency. Since then, the Chinese capital markets have continued to experience periods of instability. These market and economic disruptions have affected, and may in the future affect, the U.S. capital markets, which could adversely affect our business.

In October 2014, the Federal Reserve announced that it was concluding its bond-buying program, or quantitative easing, which was designed to stimulate the economy and expand the Federal Reserve's holdings of long-term securities, suggesting that key economic indicators, such as the unemployment rate, had showed signs of improvement since the inception of the program. It is unclear what effect, if any, the conclusion of the Federal Reserve's bond-buying program will have on the value of our investments. Additionally, in December 2015, the Federal Reserve raised the federal funds rate. These developments, along with the U.S. Government's credit and deficit concerns, the European sovereign debt crisis and the economic slowdown in China, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms.

**We are highly dependent 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 is highly dependent on communications and information systems of Ares Management. Any failure or interruption of Ares Management's systems could cause delays or other problems in our business, 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 our 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 and/or damage to our business relationships, all of which could negatively impact our business, financial condition and operating 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 result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships. As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided by Ares Management and third-party service providers. Ares Management has implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these

measures, as well as our increased awareness of the nature and extent of a risk of a cyber incident, do not guarantee that a cyber incident will not occur and/or that our financial results, operations or confidential information will not be negatively impacted by such an incident.

**Ineffective internal controls could impact our business and operating results.**

Our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our financial reporting obligations.

**If we fail to comply with laws, regulations and market standards regarding the privacy, use and security of customer information, we may be subject to legal and regulatory actions and our reputation would be harmed, which would materially adversely affect us.**

We receive, maintain and store the non-public personal information of our loan applicants. The technology and other controls and processes designed to secure our customer information and to prevent, detect and remedy any unauthorized access to that information were designed to obtain reasonable, not absolute, assurance that such information is secure and that any unauthorized access is identified and addressed appropriately. Accordingly, such controls may not have detected, and may in the future fail to prevent or detect, unauthorized access to our borrower information. If this information is inappropriately accessed and used by a third party or an employee for illegal purposes, such as identity theft, we may be responsible to the affected applicant or borrower for any losses he or she may have incurred as a result of misappropriation. In such an instance, we may be liable to a governmental authority for fines or penalties associated with a lapse in the integrity and security of our customers' information, which could materially adversely affect us.

**RISKS RELATED TO SOURCES OF FINANCING AND HEDGING**

**We may incur significant debt, which may subject us to increased risk of loss and may reduce cash available for distributions to our stockholders.**

We borrow funds under the Financing Agreements. As of December 31, 2015, we had approximately \$622.6 million of outstanding borrowings under the Financing Agreements and approximately \$255.3 million aggregate principal amount of indebtedness outstanding under two securitizations. Subject to market conditions and availability, we may incur significant debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. The percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders, debt restrictions contained in those financing arrangements and the lenders' and rating agencies' estimate of the stability of our investment portfolio's cash flow. We may significantly increase the amount of leverage we utilize at any time without approval of our board of directors. In addition, we may leverage individual assets at substantially higher levels. 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, which is likely to result in (a) 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, (b) our inability to borrow unused amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements, and/or (c) 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;
- we are not able to refinance debt that matures prior to the investment it was used to finance on favorable terms, or at all; and
- as the holder of the subordinated classes of the two securitizations, we may be required to absorb losses.

There can be no assurance that our leveraging strategy will be successful.

**Our Financing Agreements impose, and any additional lending facilities will impose, restrictive covenants and other restrictions.**

We borrow funds under the Financing Agreements. The documents that govern the Financing Agreements and our securitizations contain, and any additional lending facilities would be expected to contain, customary negative covenants and other financial and operating covenants, that among other things, may affect our ability to incur additional debt, make certain investments or acquisitions, reduce liquidity below certain levels, make distributions to our stockholders, redeem debt or equity securities, make other restricted payments, impose asset concentration limits, impact our flexibility to determine our operating policies and investment strategies. For example, certain of our Financing Agreements contain negative covenants that limit, among other things, our ability to repurchase our common stock, distribute more than a certain amount of our net income to our stockholders, employ leverage beyond certain amounts, sell assets, engage in mergers or consolidations, grant liens, and enter into transactions with affiliates (including amending the Management Agreement with our Manager in a material respect). Certain of the restrictive covenants that apply to the Financing Agreements are further described in Note 6 to our consolidated financial statements included in this annual report on Form 10-K. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We are also subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. Further, these restrictions could also make it difficult for us to satisfy the qualification requirements necessary to maintain our status as a REIT.

**Interest rate fluctuations could increase our financing costs and reduce our ability to generate income on our investments, each of which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.**

We are affected by the fiscal and monetary policies of the U.S. Government and its agencies, including the policies of the Federal Reserve, which regulates the supply of money and credit in the United States. On December 16, 2015, the Federal Reserve raised its benchmark interest rate for the first time since 2006. Changes in the benchmark interest rate as well as the other policies of the Federal Reserve affect interest rates, which have a significant impact on the demand for CRE loans. Changes in fiscal and monetary policies are beyond our control, are difficult to predict and could

materially adversely affect us. Our primary interest rate exposures will relate to the yield on our investments and the financing cost of our debt. Changes in interest rates will affect our net interest margin, which is the difference between the interest income we earn on our interest-earning investments and the interest expense we incur in financing these investments. In addition, the fair value of ACRE Capital's MSR's are subject to changes in interest rates. For example, a 100 basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of ACRE Capital's MSR's outstanding as of December 31, 2015 by approximately \$2.0 million. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us. Changes in the level of interest rates also may affect our ability to invest in investments, the value of our investments and our ability to realize gains from the disposition of assets. Changes in interest rates may also affect borrower default rates.

To the extent that our financing costs will be determined by reference to floating rates, such as LIBOR or a Treasury index, plus a margin, the amount of such costs will depend on a variety of factors, including, without limitation, (a) for collateralized debt, the value and liquidity of the collateral, and for non-collateralized debt, our credit, (b) the level and movement of interest rates, and (c) general market conditions and liquidity. In a period of rising interest rates, our interest expense on floating rate debt would increase, while any additional interest income we earn on our floating rate investments may be subject to caps and may not compensate for such increase in interest expense. At the same time, the interest income we earn on our fixed rate investments would not change, the duration and weighted average life of our fixed rate investments would increase and the market value of our fixed rate investments would decrease. Similarly, in a period of declining interest rates, our interest income on floating rate investments would decrease, while any decrease in the interest we are charged on our floating rate debt may be subject to floors and not compensate for such decrease in interest income. Additionally, the interest we are charged on our fixed rate debt would not change. Any such scenario could materially and adversely affect us.

Our operating results will depend, in part, on differences between the income earned on our investments, net of credit losses, and our financing costs. For any period during which our investments are not match-funded, the income earned on such investments may respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may immediately and significantly decrease our results of operations and cash flows and the market value of our investments.

ACRE Capital also is significantly affected by the fiscal and monetary policies of the U.S. Government and its agencies. ACRE Capital is particularly affected by the policies of the Federal Reserve, which regulates the supply of money and credit in the United States. Significant fluctuations in interest rates as well as protracted periods of increases or decreases in interest rates could adversely affect the operation and income of multifamily and other commercial real estate properties, as well as the demand from investors for commercial real estate debt in the secondary market. In particular, higher interest rates tend to decrease the number of loans originated. An increase in interest rates could cause refinancing of existing loans to become less attractive and qualifying for a loan to become more difficult. Changes in fiscal and monetary policies are beyond our control, are difficult to predict and could materially adversely affect us.

**The Financing Agreements and any bank credit facilities and repurchase agreements that we may use in the future to finance our assets may require us to provide additional collateral or pay down debt.**

We borrow funds under the Financing Agreements. We anticipate that we will also utilize additional bank credit facilities or repurchase agreements (including term loans and revolving facilities) to finance our assets if they become available on acceptable terms. Such financing arrangements would involve the risk that the value of the loans or securities pledged or sold by us to the provider of the bank credit facility or repurchase agreement counterparty 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. With respect to certain facilities, subject to certain conditions, our lenders retain the sole discretion over the market value of loans or securities that serve as collateral for the borrowings under such facilities for purposes of determining whether we are required to pay margin to such lenders. We may not have the funds available to repay our 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 it, which could materially and adversely affect our financial condition and ability to implement our investment strategy. In addition, if 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 bank credit facilities and increase our cost of capital. The providers of bank credit facilities and repurchase agreement financing 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. As a result, we may not be able to leverage our assets as fully as we would choose, which could reduce our return on assets. If we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly.

In addition, if a counterparty to our repurchase transactions 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 repurchase agreement, we will likely incur a loss on our repurchase transactions.

There can be no assurance that we will be able to obtain additional bank credit facilities or repurchase agreements on favorable terms, or at all.

**Our access to sources of financing may be limited and thus our ability to grow our business and to maximize our returns may be adversely affected.**

We borrow funds under various financing arrangements and our business requires a significant amount of funding capacity on an interim basis. Subject to market conditions and availability, we may incur significant additional debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. We may also issue additional debt or equity securities to fund our growth.

Our access to sources of financing will depend upon a number of factors, over which we have little or no control, including:

- general economic or market conditions;
- the market's view of the quality of our assets;
- the market's perception of our growth potential;
- our current and potential future earnings and cash distributions; and
- the market price of the shares of our common stock.

From time to time, capital markets may experience periods of disruption and instability. For example, between 2008 and 2009, the global capital markets were unstable as evidenced by periodic disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of the U.S. Government and foreign governments, these events contributed

to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While market conditions have largely recovered from the events of 2008 and 2009, there have been continuing periods of volatility, some lasting longer than others. For example, in the latter half of 2015 and continuing through the date of this annual report on Form 10-K, economic uncertainty and market volatility in China and geopolitical unrest in the Middle East, combined with continued volatility of oil prices, among other factors, have caused disruption in the capital markets, including the markets in which we participate. There can be no assurance that adverse market conditions will not repeat themselves or worsen in the future.

We will need to periodically access the capital markets to raise cash to fund new investments in excess of our repayments. A prolonged decline in the price of our shares of common stock compared to book value could negatively affect our access to these markets. We have elected and qualified for taxation as a REIT. Among other things, in order to maintain our REIT status, we are generally required to annually distribute to our stockholders an amount equal to at least 90% of our REIT taxable income, and, as a result, such distributions will not be available to fund investment originations. We must continue to borrow from financial institutions and issue additional securities to fund the growth of our investments and to ensure that we can meet ongoing maturities of our outstanding debt. Unfavorable economic or capital market conditions may increase our funding costs, limit our access to the capital markets or could result in a decision by our potential lenders not to extend credit. An inability to successfully access the capital markets could limit our ability to grow our business and fully execute our business strategy and could decrease our earnings, if any. In addition, weakness in the capital and credit markets could adversely affect one or more private lenders and could cause one or more of our 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. No assurance can be given that we will be able to obtain any such financing (including any replacement financing for our current financing arrangements) on favorable terms or at all.

**Any warehouse facilities that we may obtain in the future may limit our ability to originate or acquire assets, and we may incur losses if the collateral is liquidated.**

We may utilize, if available, warehouse facilities pursuant to which we would accumulate mortgage loans in anticipation of a securitization financing, which assets would be pledged as collateral for such facilities until the securitization transaction is consummated. In order to borrow funds to originate or acquire assets under any future warehouse facilities, we expect that our lenders thereunder would have the right to review the potential assets for which we are seeking financing. We may be unable to obtain the consent of a lender to originate or acquire assets that we believe would be beneficial to us and we may be unable to obtain alternate financing for such assets. In addition, no assurance can be given that a securitization structure would be consummated with respect to the assets being warehoused. If the securitization is not consummated, the lender could demand repayment of the facility, and in the event that we were unable to timely repay, could liquidate the warehoused collateral and we would then have to pay any amount by which the original purchase price of the collateral assets exceeds its sale price, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the securitization is consummated, if any of the warehoused collateral is sold before the completion, we would have to bear any resulting loss on the sale.

**We have utilized and may continue to utilize in the future non-recourse long-term securitizations. Such structures may expose us to risks which could result in losses.**

We have utilized and, if available, we may utilize in the future non-recourse long-term securitizations of our investments in mortgage loans, especially loan originations, if and when they become available. Prior to any such financing, we may seek to finance these investments with relatively short-term facilities until a sufficient portfolio is accumulated. As a result, we would be subject to the risk that we would not be able to originate or acquire, during the period that any short-term facilities are available, sufficient eligible assets to maximize the efficiency of a securitization. We also would bear the risk that we would not be able to obtain new short-term facilities or would not be able to renew any short-term facilities after they expire should we need more time to seek and originate or acquire sufficient eligible assets for a securitization. In addition, conditions in the capital markets, including volatility and disruption in the capital and credit markets, may not permit a non-recourse securitization at any particular time or may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets. While we would intend to retain the unrated equity component of securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations would increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default, as we may have utilized recourse facilities to finance such investments. Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us as an entity. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

**The securitization process is subject to an evolving regulatory environment that may affect certain aspects of our current business.**

The pools of commercial loans that we may originate, securitize or acquire as asset-backed securities and for which we act as special servicer are structures commonly referred to as securitizations. As a result of the dislocation of the credit markets, and in anticipation of more extensive regulation, including regulations promulgated pursuant to the Dodd-Frank Act, the securitization industry has crafted and continues to craft changes to securitization practices, including changes to representations and warranties in securitization transaction documents, new underwriting guidelines and disclosure guidelines. Pursuant to the Dodd-Frank Act, various federal agencies, including the SEC (collectively, "the agencies") have promulgated regulations with respect to issues that affect securitizations. In August 2014, the SEC adopted amendments to Regulation AB and other rules that impose significant additional disclosure, review and reporting requirements on issuers in connection with registered offerings of asset-backed securities. These rules took effect beginning in late 2014 and throughout 2015, with some provisions scheduled to take effect in late 2016. The SEC has indicated that similar disclosure requirements for private offerings of asset-backed securities remain under consideration. In October 2014, the agencies adopted rules that require securitizers in both public and private securitization transactions to retain not less than 5% of the risk associated with the securities, subject to certain exceptions. Compliance with the rules with respect to commercial mortgage-backed securities and other asset-backed securities is required beginning in late 2016. These regulations, and other proposed regulations affecting securitization, could alter the structure of securitizations in the future, pose additional risks to our participation in future securitizations or reduce or eliminate the economic incentives for participating in future securitizations, increase the costs associated with our origination, securitization or acquisition activities, or otherwise increase the risks or costs of our doing business. In addition, the GSEs and other investors could change underwriting criteria as a result of such regulations, which could affect the volume and value of loans that ACRE Capital originates.

**We may enter into hedging transactions that could expose us to contingent liabilities in the future.**

Subject to maintaining our qualification as a REIT, part of our investment strategy will involve entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as 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.

**Hedging against interest rate or currency 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 may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates or currencies. This hedging activity may vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- due to a credit loss, the duration of the hedge may not match the duration of the related liability;
- the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Code or that are done through a TRS) to offset interest rate losses is limited by U.S. federal income tax provisions governing REITs;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

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 business. Therefore, while we may enter into such transactions seeking to reduce interest rate risks, unanticipated changes in 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.

**Hedging instruments often are not traded on regulated exchanges or guaranteed by an exchange or its clearing house, and involve risks and costs that could result in material losses.**

The cost of using hedging instruments increases as the period covered by the instrument increases and during periods of rising and volatile interest rates, we may increase our hedging activity and thus increase our hedging costs. In addition, hedging instruments involve risk since they often are not traded on regulated exchanges or guaranteed by an exchange or its clearing house. Consequently, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable statutory and commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in its default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses.

**Changes to derivatives regulation imposed by the Dodd-Frank Act could increase our costs of entering into derivative transactions, which could adversely impact our results of operations, financial condition and business.**

Through its comprehensive new regulatory regime for derivatives, the Dodd-Frank Act currently imposes, or will impose, mandatory clearing, exchange-trading, recordkeeping, reporting, disclosure, margin and other regulatory requirements on many derivatives transactions (including formerly unregulated over-the-counter derivatives) in which we may engage. The Dodd-Frank Act also creates new categories of regulated market participants, such as "swap dealers," "security-based swap dealers," "major swap participants," and "major security-based swap participants" that are and will be subject to significant new capital, margin, registration, trading, recordkeeping, reporting, disclosure, business conduct and other regulatory requirements. Certain of these requirements remain to be clarified through rulemaking or interpretations by the U.S. Commodity Futures Trading Commission, or the "CFTC," the SEC, the Federal Reserve and other regulators in a regulatory implementation process that has occurred over the past several years and remains to be completed in some areas.

Based on information available as of the date of this annual report, it remains the case that possible effects of the Dodd-Frank Act may be to increase our overall costs of entering into derivatives transactions and/or to reduce the availability of derivatives. In particular, new margin requirements, position limits and capital charges, even if not directly applicable to us, may cause an increase in the pricing of derivatives transactions sold by market participants to whom such requirements apply. Administrative costs, due to new requirements such as registration, recordkeeping, reporting and compliance, even if not directly applicable to us, may also be reflected in higher pricing of derivatives or higher costs of servicing derivatives transactions. New exchange-trading and trade reporting requirements may lead to reductions in the liquidity of derivative transactions, causing higher pricing or reduced availability of derivatives.

In addition, it is possible that we may be determined by a governmental authority to be a swap dealer, major swap participant, security-based swap dealer, major security-based swap participant or otherwise become subject to new entity or transaction level regulation as a result of the Dodd-Frank Act. This additional regulation could lead to significant new costs which could materially adversely affect our business.

On December 16, 2015, the CFTC approved a final rule governing margin requirements for uncleared swaps entered into by swap dealers ("SDs") and major swap participants ("MSP") who are not subject to regulation by the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Farm Credit Administration and the Federal Housing Finance Agency, referred to as "covered swap entities." The final rule, subject to certain thresholds and exemptions, generally imposes initial and variation margin requirements on (i) trades between covered swap entities and SDs or MSPs and (ii) trades between covered swap entities and financial end users. Initial margin requirements will be phased-in beginning September 1, 2016 and ending September 1, 2020 from the largest participants to smaller ones. Variation margin requirements are effective September 1, 2016 for the largest participants and March 1, 2017 for the rest. The newly adopted rule on margin requirements for uncleared swaps could adversely affect our business, including our ability to enter into such swaps or our available liquidity.

**We may fail to qualify for hedge accounting treatment.**

We intend to record derivative and hedging transactions in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") ASC 815, *Derivatives and Hedging* ("ASC 815"). Under these standards, we may fail to qualify for hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the FASB ASC 815 definition of a derivative (such as short sales), we fail to satisfy FASB ASC 815 hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for hedge accounting treatment, our operating results may suffer because losses on the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item.

**We may enter into derivative contracts that could expose us to contingent liabilities in the future.**

Subject to maintaining our qualification as a REIT, we may enter into derivative contracts that could require us to fund cash payments in the future under certain circumstances ( *e.g.* , the early termination of the derivative agreement 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 derivative contract). 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 may materially and adversely affect our business.

**We are currently exempt from being regulated as a commodity pool operator in part because we comply with certain restrictions regarding our use of certain derivative instruments, and failure to comply with such restrictions could subject us to additional regulation and compliance requirements which could materially adversely affect our business and financial condition.**

Recently adopted rules under the Dodd-Frank Act establish a comprehensive new regulatory framework for derivative contracts commonly referred to as "swaps." Under these recently adopted rules, any investment fund that trades in swaps may be considered a "commodity pool," which would cause its directors to be regulated as "commodity pool operators," or "CPOs." Unless an exemption is available, a CPO must register with the CFTC and become a member of the National Futures Association, or the "NFA," which requires compliance with NFA's rules, and renders such CPO subject to regulation by the CFTC, including with respect to disclosure, reporting, recordkeeping and business conduct.

We do not currently invest in any instruments that meet the definition of "swap" under the new rules, and we do not currently expect to engage in any speculative derivatives activities or other non-hedging transactions using swaps, futures or options on futures. However, we may use hedging instruments in conjunction with our investment portfolio and related borrowings to reduce or mitigate risks associated with changes in interest rates, mortgage spreads, yield curve shapes, currency

fluctuations and market volatility. These hedging instruments could include interest rate swaps, interest rate futures and options on interest rate futures, each of which is considered a "swap" under CFTC rules. We have submitted a claim for relief from any registration requirements pursuant to a no-action letter issued by the CFTC for mortgage REITs. In order to qualify for relief from registration, we are restricted to using swaps within certain specific parameters, including a limitation that our annual income derived from commodity interest trading be less than 5% of our gross annual income and that the initial margin and premiums required to establish commodity interest positions be no more than 5% of the fair market value of our total assets. If we fail to comply with the applicable restrictions, our directors may be compelled to register as CPOs, or we may be required to seek other hedging instruments or techniques at increased cost to us, or that may not be as effective as the use of swaps.

## **RISKS RELATED TO OUR INVESTMENTS**

### **We will allocate our available capital without input from our stockholders.**

You will not be able to evaluate the manner in which our available capital is invested or the economic merit of our expected investments. As a result, we may use our available capital to invest in investments with which you may not agree. Additionally, our investments will be selected by our Manager and our stockholders will not have input into such investment decisions. Both of these factors will increase the uncertainty, and thus the risk, of investing in our securities. The failure of our Manager to apply this capital effectively or find investments that meet our investment criteria in sufficient time or on acceptable terms could result in unfavorable returns, could cause a material adverse effect on our business, financial condition, liquidity, results of operations and ability to make distributions to our stockholders, and could cause the value of our common stock to decline.

Until appropriate investments can be identified, our Manager may invest our available capital in interest-bearing short-term investments, including money market accounts or funds, commercial mortgage-backed securities, or corporate bonds, which are consistent with our intention to qualify as a REIT. These investments are expected to provide a lower net return than we seek to achieve from investments in our target investments. Our Manager intends to conduct due diligence with respect to each investment and suitable investment opportunities may not be immediately available. Even if opportunities are available, there can be no assurance that our Manager's due diligence processes will uncover all relevant facts or that any investment will be successful.

We cannot assure you that we will be able to enter into definitive agreements to invest in any new investments that meet our investment objective; that we will be successful in consummating any investment opportunities we identify; or that one or more investments we may make will yield attractive risk-adjusted returns. Our inability to do any of the foregoing likely would materially and adversely affect our business and our ability to make distributions to our stockholders.

### **The lack of liquidity in our investments may adversely affect our business.**

The illiquidity of our target investments may make it difficult for us to sell such investments if the need or desire arises. Certain target investments such as senior mortgage loans, subordinated debt, preferred equity, mezzanine loans and other CRE investments are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty of recovery in the event of a borrower's default. In addition, many of the loans and securities we invest in will not be registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. As a result, we expect many of our investments will be 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 investments. Further, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or

our Manager has or could be attributed as having 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.

**Our portfolio is concentrated in a limited number of loans, which subjects us to a risk of significant loss if any of these loans default.**

As of December 31, 2015 and 2014, we were invested in 38 and 46 loans, respectively, in our principal lending business. The number of loans we are invested in may be higher or lower depending on the amount of our assets under management at any given time, market conditions and the extent to which we employ leverage, and will likely fluctuate over time. A consequence of this limited number of investments is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly, if we need to write down the value of any one investment or if an investment is repaid prior to maturity and we are not able to promptly redeploy the proceeds. We do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few loans.

While we intend to continue to diversify our portfolio of investments in the manner described in our filings with the SEC, we do not have fixed guidelines for diversification. As a result, our investments could be concentrated in relatively few loans and/or relatively few property types. If our portfolio of target investments is 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, downturns relating generally to such region or type of asset may result in defaults on a number of our investments 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.

**A prolonged economic slowdown, a lengthy or severe recession or further declines in real estate values could impair our investments and ACRE Capital's MSR's 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. For example, the severe economic downturn that occurred from 2008 through 2009 limited the availability of debt financing in the overall marketplace and generally made leveraged acquisitions and refinancing more difficult. Consequently, our investment model may be adversely affected by prolonged economic downturns or recessions where declining real estate values would 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. In addition, the number of borrowers who become delinquent, become subject to bankruptcy laws or default on their loans could increase, resulting in a decrease in the value of ACRE Capital's MSR's and servicer advances and higher levels of loss on ACRE Capital's Fannie Mae loans for which it shares risk of loss. 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 investments are subject to risks particular to real property. These risks may result in a reduction or elimination of, or return from, a loan secured by a particular property.**

We may own CRE directly in the future as a result of a default of mortgage or other real estate related loans. Real estate investments are 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, including local markets with a significant exposure to the energy sector, which may be affected by the current low prices of oil and related gas that could adversely affect the success of tenants in that industry;
- changes in governmental laws and regulations (including their interpretations), 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 services and reduce or eliminate our ability to pay dividends to our stockholders.

**The senior CRE loans we originate and the mortgage loans underlying any commercial mortgage-backed securities investments that we may make will be subject to the ability of the commercial property owner to generate net income from operating the property, as well as the risks of delinquency and foreclosure.**

Our senior CRE loans are secured by commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. 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. Net operating income of an income-producing property can be adversely affected by, among other things,

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions and/or specific industry segments, including the credit and securitization markets;
- 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;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

In the event of any default under a mortgage 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 mortgage loan, which could have a material adverse effect on our cash flow from operations and limit amounts available for distribution to our stockholders. In the event of the bankruptcy of a mortgage loan borrower, the mortgage 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 mortgage 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 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.

**Prepayment rates may adversely affect the value of our portfolio of assets.**

Our net income and earnings may be affected by prepayment rates on our existing CRE loans. In periods of declining interest rates and/or credit spreads, prepayment rates on loans generally increase. If general interest rates or credit spreads decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the value of our assets may be affected by prepayment rates on loans. If we originate CRE loans, we expect borrowers will prepay at a projected rate generating an expected yield. When borrowers prepay their loans faster than expected, the corresponding prepayments on the CRE loans may reduce the expected yield on such loans.

Prepayment rates on loans may be affected by a number of factors including, but not limited to, the then-current level of interest rates and credit spreads, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the loans, possible changes in tax laws, other opportunities for investment, and other economic, social, geographic, demographic and legal factors and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks.

In addition, principal repayments from mortgage loans in commercial mortgage-backed securities and collateralized loan obligations are applied sequentially, first going to pay down the senior commercial mortgage-backed securities and collateralized loan obligations. Accordingly, we will not receive any proceeds from repayment of loans in commercial mortgage-backed securities or collateralized loan obligations until all senior notes are repaid in full, which could materially and adversely impact our liquidity, capital resources and financial condition.

**We operate in a competitive market for investment opportunities and loan originations and competition may limit our ability to originate or acquire desirable investments in our target investments.**

A number of entities compete with us to make the types of investments that we seek to make and originate the types of loans that we seek to originate. Our profitability depends, in large part, on our

ability to originate or acquire our target investments on attractive terms. In originating or acquiring our target investments, we compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by Ares Management), commercial and investment banks, commercial real estate service providers, commercial finance and insurance companies and other financial institutions. Several other REITs have raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Many of our anticipated competitors are significantly larger than we are and have considerably greater financial, technical, marketing and other resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as the U.S. Government. In addition, future changes in laws, regulations and Fannie Mae or HUD program requirements could lead to the entry of more competitors. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the 1940 Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, deploy more aggressive pricing and establish more relationships than us. Furthermore, competition for originations of and investments in our target investments may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you 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, desirable investments in our target investments may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

**If our Manager overestimates the yields or incorrectly prices the risks of our investments, we may experience losses.**

Our Manager values our potential investments based on yields and risks, taking into account estimated future losses on the mortgage loans and the collateral underlying our mortgage loans and included in securitization pools, and the estimated impact of these losses on expected future cash flows and returns. Our Manager's loss estimates may not prove accurate, as actual results may vary from estimates. If our Manager underestimates the asset-level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

**Loans on properties in transition will involve a greater risk of loss than traditional investment-grade mortgage loans with fully insured borrowers.**

We may originate transitional loans secured by first lien mortgages on a property to borrowers who are typically seeking short-term capital to be used in an acquisition or rehabilitation of a property. The typical borrower under a transitional loan has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and we bear the risk that we may not recover some or all of our investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a transitional loan. Transitional loans therefore are subject to risks of a borrower's inability to obtain permanent financing to repay the transitional loan. Transitional loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under transitional loans that may be held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the

mortgage collateral and the principal amount and unpaid interest of the transitional loan. To the extent we suffer such losses with respect to these transitional loans, our net income and the value of our common stock may be adversely affected.

**Risks of cost overruns and noncompletion of renovation of the properties underlying short term senior loans on properties in transition may result in significant losses.**

The renovation, refurbishment or expansion by a borrower under a mortgaged property involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment, which could result in significant losses.

**Investments in non-investment grade rated commercial real estate loans or securities involve increased risk of loss.**

Many of our investments will not be rated or will be rated as non-investment grade by the rating agencies. The non-investment grade ratings for these assets typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the underlying properties' cash flow or other factors. As a result, these investments should be expected to have a higher risk of default and loss than investment grade rated assets. Any loss we incur may be significant and may reduce distributions to our stockholders and adversely affect the market value of our common stock. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

**The B-Notes that we have originated or may originate or acquire in the future may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in losses to us.**

We have originated and may continue to originate or acquire B-Notes. A B-Note is a mortgage loan typically (a) secured by a first mortgage on a single large commercial property or group of related properties and (b) subordinated to an A-Note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-Note holders after payment to the A-Note holders. Because 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 vary from transaction to transaction. Further, B-Notes typically are secured by a single property and accordingly reflect the risks associated with significant concentration. Significant losses related to our B-Notes would result in operating losses for us and may limit our ability to make distributions to our stockholders.

**Our mezzanine loan assets involve greater risks of loss than senior loans secured by income-producing properties.**

We have originated and may continue to originate or acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income producing real property, because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests

as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our initial expenditure. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

**Investments in preferred equity involve a greater risk of loss than traditional debt financing.**

We invest in and may continue to invest in real estate preferred equity, 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 investments are subordinate to first mortgage loans and are not collateralized by property underlying the investment. Unlike mezzanine loans, preferred equity investments generally do not have a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. Although as a holder of preferred equity we may enhance our position with covenants that limit the activities of the entity in which we hold 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 investment, we would only be able to proceed against the entity in which we hold an interest, and not the property owned by such entity and underlying our investment. As a result, we may not recover some or all of our investment.

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

Some of our investments may be rated by rating agencies such as Moody's Investors Service, Fitch Ratings, Standard & Poor's, DBRS, Inc. or Realpoint LLC. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not 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 our investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us.

**We may experience a decline in the fair value of our assets.**

A decline in the fair market value of our assets may require us to recognize an "other-than-temporary" impairment against such assets under GAAP, if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the original acquisition cost of such assets. If such a determination were to be made, we will record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we experience a decline in the fair value of our assets, our results of operations, financial condition and our ability to make distributions to our stockholders could be materially and adversely affected.

**Some of our portfolio investments may be recorded at fair value and, as a result, there will be uncertainty as to the value of these investments.**

Some of our portfolio investments may be in the form of positions or securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. Currently, the financial instruments recorded at fair value on a recurring basis in our consolidated financial statements are MSRs, MSR purchase commitments, loan commitments, forward sale commitments and loans held for sale. We have not elected the fair value option for the remaining financial instruments, including loans held for investment, the Financing Agreements and securitization debt. Such financial instruments are carried at cost. For loans held for investment that are evaluated for impairment at least quarterly, we estimate the fair value of the instrument, which may include unobservable inputs. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Additionally, our results of operations for a given period could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

**If we invest in commercial mortgage-backed securities, such investments would pose additional risks, including the risks of the securitization process and the risk that the special servicer may take actions that could adversely affect our interests.**

We may acquire existing commercial mortgage-backed securities, including in the most subordinated classes of such commercial mortgage-backed securities. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated stockholder and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral value is available to satisfy interest and principal payments due on the related mortgage-backed securities. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

With respect to the commercial mortgage-backed securities in which we may invest, overall control over the special servicing of the related underlying mortgage loans will be held by a "directing certificateholder" or a "controlling class representative," which is appointed by the holders of the most subordinated class of commercial mortgage-backed securities in such series. Unless we acquire the subordinate classes of existing series of commercial mortgage-backed securities, we will not have the right to appoint the directing certificateholder. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificateholder, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests.

**Insurance on mortgage loans and real estate securities collateral may not cover all losses.**

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, which may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including

terrorism or acts of war, also might result in insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received with respect to a property relating one of our investments might not be adequate to restore our economic position with respect to our investment. Any uninsured loss could result in the loss of cash flow from, and the asset value of, the affected property and the value of our investment related to such property.

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

To the extent we foreclose on properties with respect to which we have extended mortgage loans, we may be subject to environmental liabilities arising from such foreclosed properties. 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 our ability to make distributions to our stockholders.

If we foreclose on any properties underlying our investments, 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.

**Construction loans involve an increased risk of loss.**

We invest in and may continue to invest in construction loans. If we fail to fund our entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including, but not limited to: a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete it from other sources; a borrower claim against us for failure to perform under the loan documents; increased costs to the borrower that the borrower is unable to pay; a bankruptcy filing by the borrower; and abandonment by the borrower of the collateral for the loan.

**Our investments may be concentrated and could be 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. Therefore, our investments in our target 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 investment 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 investments 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.

## RISKS RELATED TO OUR MORTGAGE BANKING BUSINESS

**The loss of or changes to ACRE Capital's relationships with Fannie Mae, Freddie Mac and HUD and institutional investors would adversely affect its ability to originate CRE loans through Fannie Mae, Freddie Mac and HUD programs, which would materially adversely affect us.**

Currently, ACRE Capital originates and services its loans for sale through Fannie Mae, Freddie Mac or HUD programs. ACRE Capital is approved as a Fannie Mae DUS lender, Freddie Mac Program Plus® Seller/Servicer, Ginnie Mae issuer and FHA (including MAP and LEAN) lender. ACRE Capital's status as an approved seller/servicer and issuer under these programs affords ACRE Capital a number of advantages and may be terminated by the applicable agency at any time. The loss of such status would, or changes in ACRE Capital's relationships could, prevent ACRE Capital from being able to originate and service CRE loans for sale through Fannie Mae, Freddie Mac or HUD, which would materially adversely affect us. It could also result in ACRE Capital's loss of similar approvals from other agencies.

**ACRE Capital may not be able to hire and retain qualified loan originators, and if it is unable to do so, its ability to implement its business and growth strategies could be limited.**

ACRE Capital depends on its loan originators to generate borrower clients by, among other things, developing relationships with commercial property owners, real estate agents and brokers, developers and others, which ACRE Capital believes leads to repeat and referral business. Accordingly, ACRE Capital must be able to attract, motivate and retain skilled loan originators. As of December 31, 2015, ACRE Capital employed approximately 16 loan originators throughout its seven locations. The market for loan originators is highly competitive and may lead to increased costs to hire and retain them. ACRE Capital cannot guarantee that it will be able to attract or retain qualified loan originators. If it cannot attract, motivate or retain a sufficient number of skilled loan originators, or even if it can motivate or retain them but at higher costs, we could be materially adversely affected.

**ACRE Capital is subject to risk of loss in connection with defaults on loans sold under the Fannie Mae DUS program that could materially adversely affect our results of operations and liquidity.**

Under the Fannie Mae DUS program, ACRE Capital originates and services multifamily loans for Fannie Mae without having to obtain Fannie Mae's prior approval for certain loans, as long as the loans meet the underwriting guidelines set forth by Fannie Mae. In return for the delegated authority to make loans and the commitment to purchase loans by Fannie Mae, ACRE Capital must maintain minimum collateral and is generally required to share the risk of loss on loans sold through Fannie Mae. Under the *pari passu* risk-sharing formula, ACRE Capital is required to share the loss with Fannie Mae, with its maximum loss capped at one-third of the original principal balance of a loan. ACRE Capital's risk-sharing obligations have been modified and reduced on some Fannie Mae DUS loans. In addition, Fannie Mae can significantly increase ACRE Capital's risk-sharing obligations if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae or if Fannie Mae determines that there was fraud, material misrepresentation or gross negligence by ACRE Capital in its underwriting, closing, delivery or servicing of the loan. As of December 31, 2015, ACRE Capital had pledged securities and cash of \$14.5 million as collateral against future losses on \$3.2 billion of loans outstanding that are subject to risk-sharing obligations, of which \$1.1 billion represents ACRE Capital's "at risk balance."

ACRE Capital's DUS lender contract with Fannie Mae gives Fannie Mae the ability to increase the amounts required to be held in reserve as operational liquidity or restricted reserves for a number of reasons in order to protect its interests. In this regard, Fannie Mae had previously required ACRE Capital to bolster its operational and restricted liquidity positions by increasing its total acceptable operational liquidity by \$6.0 million and also increasing its restricted reserve liquidity by \$2.5 million. In



August of 2012, Fannie Mae agreed to allow ACRE Capital to use the \$6.0 million of additional operational liquidity to make advances on defaulted Fannie Mae loans and/or to meet future loss sharing obligations on Fannie Mae loans. Upon the consummation of our acquisition of ACRE Capital, Fannie Mae agreed to lift the requirement that ACRE Capital maintain the additional restricted reserve of \$2.5 million and the \$6.0 million of additional operational liquidity. If Fannie Mae deems it necessary and appropriate, it may raise these collateral requirements again in the future, which would limit ACRE Capital's ability to utilize those funds. As of December 31, 2015, ACRE Capital's allowance for risk-sharing as a percentage of the at-risk balance was 0.8%, or \$9.0 million, and reflects ACRE Capital's current estimate of its future payouts under its risk-sharing obligations. We cannot assure you that ACRE Capital's estimate will be sufficient to cover future write offs.

While ACRE Capital originates loans that meet the underwriting guidelines defined by Fannie Mae, in addition to its own internal underwriting guidelines, underwriting criteria may not always protect against loan defaults. In addition, recent periods of financial uncertainty have coincided with declines in commercial real estate values, in some cases to levels below the current outstanding principal balance of the loan. Also, underwriting standards, including loan-to-value ratios, have become stricter. These factors create a risk that some older loans may not be able to be refinanced at maturity and thus may experience maturity defaults. Other factors may also affect a borrower's decision to default on a loan, such as property cash flow, occupancy, maintenance needs, and other financing obligations. As of December 31, 2015, there were four assets in ACRE Capital's 60+ days delinquency rate segment. If loan defaults increase, actual risk-sharing obligation payments under the Fannie Mae DUS program may increase, and such defaults and payments could have a material adverse effect on our results of operations and liquidity. In addition, any failure by ACRE Capital to pay its share of losses under the Fannie Mae DUS program could result in the revocation of its license from Fannie Mae and the exercise of various remedies available to Fannie Mae under the Fannie Mae DUS program.

**If ACRE Capital fails to act proactively with delinquent borrowers in an effort to avoid a default, its number of delinquent loans could increase, which could have a material adverse effect on us.**

As a loan servicer, ACRE Capital maintains the primary contact with the borrower throughout the life of the loan and is responsible, pursuant to its servicing agreements with Fannie Mae, Freddie Mac, HUD and institutional investors, for asset management. ACRE Capital is also responsible, together with Fannie Mae, Freddie Mac, HUD and institutional investors, for taking actions to mitigate losses. We believe that ACRE Capital has developed an extensive asset management process for tracking each loan that it services. However, ACRE Capital may be unsuccessful in identifying loans that are in danger of underperforming or defaulting or in taking appropriate action once those loans are identified. While ACRE Capital can recommend a loss mitigation strategy for Fannie Mae, Freddie Mac and HUD, decisions regarding loss mitigation are within the control of Fannie Mae, Freddie Mac and HUD. Recent turmoil in the real estate, credit and capital markets have made this process even more difficult and unpredictable. When loans become delinquent, ACRE Capital incurs additional expenses in servicing and asset managing the loan, it is typically required to advance principal and interest payments and tax and insurance escrow amounts, it could be subject to a loss of its contractual servicing fee and it could suffer losses of up to 33.33% (or more for loans that do not meet specific underwriting criteria or default within 12 months of their sale to Fannie Mae) of the original principal balance of a Fannie Mae DUS loan with Level I *pari passu* risk-sharing, as well as potential losses on Fannie Mae DUS loans with modified risk-sharing. These items could have a negative impact on its cash flows and a negative effect on the net carrying value of the MSR on its balance sheet and could result in a charge to its earnings. As a result of the foregoing, a continuing rise in ACRE Capital's delinquencies could have a material adverse effect on us.

**A reduction in the prices paid for ACRE Capital's loans and services or an increase in loan or security interest rates by investors could materially adversely affect our results of operations and liquidity.**

Our results of operations and liquidity could be materially adversely affected if Fannie Mae, Freddie Mac, HUD and institutional investors lower the price they are willing to pay to ACRE Capital for ACRE Capital's loans or services or adversely change the material terms of their loan purchases or service arrangements with ACRE Capital. A number of factors determine the price ACRE Capital receives for its loans. With respect to Fannie Mae-related originations, ACRE Capital's loans are generally sold as Fannie Mae-insured securities to third-party investors. With respect to HUD-related originations, ACRE Capital's loans are generally sold as Ginnie Mae securities to third-party investors. In both cases, the price paid to ACRE Capital reflects, in part, the competitive market bidding process for these securities.

ACRE Capital sells loans directly to Freddie Mac. Freddie Mac may choose to hold, sell or later securitize such loans. ACRE Capital believes terms set by Freddie Mac are influenced by similar market factors as those that impact the price of Fannie Mae-insured or Ginnie Mae securities, although the pricing process differs.

Loan servicing fees are based, in part, on the risk-sharing obligations associated with the loan and the market pricing of credit risk. The credit risk premium offered by Fannie Mae for new loans can change periodically, but remains fixed once ACRE Capital enters into a commitment to sell the loan. Over the past several years, Fannie Mae loan servicing fees have been higher due to the market pricing of credit risk. There can be no assurance that such fees will continue to remain at such levels or that such levels will be sufficient if delinquencies occur.

Servicing fees for loans placed with institutional investors are negotiated with each institutional investor pursuant to agreements that ACRE Capital has with them. In addition, ACRE Capital may service loans on behalf of ACRE and third party accounts pursuant to agreements that are entered into by ACRE Capital. These fees for new loans may vary over time and may be materially adversely affected by a number of factors, including competitors that may be willing to provide similar services at better rates.

**Over the past few years, ACRE Capital has originated multifamily real estate loans that are eligible for sale through Fannie Mae programs. In 2013, ACRE Capital was approved to originate loans that are eligible to be insured by FHA and securitized through Ginnie Mae. In 2014, ACRE Capital was approved and granted a license by Freddie Mac as a Program Plus® Seller/Servicer for multifamily loans. This focus may expose ACRE Capital to greater risk if the commercial mortgage-backed securities market continues its recovery or alternative sources of liquidity become more readily available to the commercial real estate finance market.**

ACRE Capital originates multifamily real estate loans that are eligible for sale through Fannie Mae and Freddie Mac programs or are eligible to be insured by FHA and securitized through Ginnie Mae. Over the past few years, the number of multifamily loans financed by Fannie Mae, Freddie Mac and HUD programs has represented a significantly greater percentage of overall multifamily loan origination volume than in prior years. ACRE Capital believes that this increase is the result, in part, of market dislocation and illiquidity in the secondary markets for non-GSE or HUD loans. The commercial mortgage-backed securities market continues to show signs of a recovery over the past few years, growing in each of 2012, 2013, 2014 and 2015. To the extent the commercial mortgage-backed securities market continues its recovery or liquidity in the commercial real estate finance market significantly increases, there may be less demand for loans that are eligible for sale through Fannie Mae or Freddie Mac programs or eligible to be insured by FHA and securitized through Ginnie Mae, and ACRE Capital's loan origination volume may be adversely impacted, which could materially adversely affect us.

**A significant portion of ACRE Capital's revenue is derived from loan servicing fees, and declines in or terminations of servicing engagements or breaches of servicing agreements, including as a result of non-performance by third parties that ACRE Capital engages for back-office loan servicing functions and loan origination, could have a material adverse effect on us.**

We expect that loan servicing fees will continue to constitute a significant portion of ACRE Capital's revenues for the foreseeable future. Nearly all of these fees are derived from loans that ACRE Capital originates and sells through Fannie Mae, Freddie Mac or HUD programs or places with institutional investors. A decline in the number or value of loans that ACRE Capital originates for these investors or terminations of its servicing engagements will decrease these fees. HUD has the right to terminate ACRE Capital's current servicing engagements for cause. In addition to termination for cause, Fannie Mae and Freddie Mac may terminate ACRE Capital's servicing arrangement without cause. ACRE Capital is also subject to losses that may arise as a result of servicing errors, such as errors in the timeliness or accuracy of reporting, a failure to maintain insurance, pay taxes or provide notices. In addition, ACRE Capital contracts with a third-party to perform certain routine back-office aspects of loan servicing. If ACRE Capital or such third-party fails to perform, or ACRE Capital breaches or such third-party causes ACRE Capital to breach its servicing obligations to Fannie Mae, Freddie Mac or HUD, ACRE Capital's servicing engagements may be terminated. Declines or terminations of servicing engagements or breaches of such obligations could materially adversely affect us.

**Mortgage loan servicing is an increasingly regulated business.**

The mortgage loan servicing activities of ACRE Capital are subject to a still evolving set of regulations, including regulations being promulgated under the Dodd-Frank Act. In addition, various governmental authorities have recently increased their investigative focus on the activities of mortgage loan servicers. As a result, we may have to spend additional resources and devote additional management time to address any regulatory concerns, which may reduce the resources available to grow our business. In addition, if ACRE Capital fails its servicing activities in compliance with existing and future regulations, our business, reputation, financial condition or results of operations could be materially and adversely affected.

**ACRE Capital is subject to the risk of loans failing to close after entering into a commitment agreement to make a loan with a borrower.**

We recognize certain income and expense items when ACRE Capital enters into a commitment agreement to make a loan with a borrower. Loans could fail to close after a commitment due to the borrower choosing not to close the loan or a failure of performance by either the borrower or by ACRE Capital. Any failure to close a significant loan commitment could have a material adverse effect on our business, financial condition or results of operations.

**ACRE Capital is subject to the risk of failed loan deliveries.**

ACRE Capital bears the risk that the investor will choose not to purchase the loan ("failed loan delivery"), including because a catastrophic change in the condition of a property occurs after ACRE Capital funds the loan and prior to the investor purchase date. ACRE Capital also has the risk that serious errors in loan documentation may prevent timely delivery of the loan prior to the investor purchase date. A failure to deliver a loan could be a default under the warehouse line used to finance the loan. There can be no assurance that ACRE Capital will not experience failed loan deliveries or that any losses in connection therewith will not be material or will be mitigated through property insurance or payment protections, if applicable. Any significant failed loan deliveries could have a material adverse effect on our business, financial condition or results of operations.

**ACRE Capital may be required to repurchase a loan or to indemnify the investor if it breaches a representation or warranty made by it in connection with the sale of the loan through Fannie Mae, Freddie Mac or HUD/Ginnie Mae programs, any of which could have a material adverse effect on ACRE Capital.**

ACRE Capital must make certain representations, warranties and certifications concerning each loan originated by it for Fannie Mae, Freddie Mac or HUD/Ginnie Mae programs. The representations and warranties relate to ACRE Capital's practices in the origination and servicing of the loans and the accuracy of the information being provided by it. For example, ACRE Capital is generally required to provide the following representations and warranties, among others: it is authorized to do business and to sell or assign the loan; the loan conforms to the requirements of Fannie Mae, Freddie Mac, HUD and certain laws and regulations; the underlying mortgage represents a valid lien on the property and there are no other liens on the property; the loan documents are valid and enforceable; taxes, assessments, insurance premiums, rents and similar other payments have been paid or escrowed; the property is insured, conforms to zoning laws and remains intact; and it does not know of any issues regarding the loan that are reasonably expected to cause the loan to be delinquent or unacceptable for investment or adversely affect its value. ACRE Capital is permitted to satisfy certain of these representations and warranties by furnishing a title insurance policy.

In the event of a breach of any representation or warranty, investors could, among other things, increase the level of risk-sharing on the Fannie Mae DUS loan or require ACRE Capital to repurchase the full amount of the loan and seek indemnification for losses from ACRE Capital. ACRE Capital's obligation to repurchase the loan is independent of its risk-sharing obligations. Fannie Mae, Freddie Mac or HUD could require ACRE Capital to repurchase the loan if representations and warranties are breached, even if the loan is not in default. Because the accuracy of many such representations and warranties generally is based on ACRE Capital's actions or on third-party reports, such as title reports and environmental reports, ACRE Capital may not receive similar representations and warranties from other parties that would serve as a claim against them. Even if ACRE Capital receives representations and warranties from third parties and has a claim against them in the event of a breach, its ability to recover on any such claim may be limited. ACRE Capital's ability to recover against a borrower that breaches its representations and warranties to it may be similarly limited. ACRE Capital's ability to recover on a claim against any party would also be dependent, in part, upon the financial condition and liquidity of such party. Although we believe that ACRE Capital has capable personnel at all levels, uses qualified third parties and has established controls to ensure that all loans are originated pursuant to requirements established by Fannie Mae, Freddie Mac and HUD, in addition to its own internal requirements, there can be no assurance that ACRE Capital, its employees or third parties will not make mistakes. Any significant repurchase or indemnification obligations imposed on ACRE Capital could have a material adverse effect on us.

**ACRE Capital expects to offer additional new loan products to meet evolving borrower demand, including new types of loans. Because it is not as experienced with such loan products, it may not be successful or profitable in offering such products.**

In August 2014, ACRE Capital was approved and granted a license by Freddie Mac as a Program Plus® Seller/Servicer for multifamily loans. In the future, ACRE Capital expects to offer additional new loan products to meet evolving borrower demands. ACRE Capital may initiate new loan product and service offerings or acquire them through acquisitions of operating businesses. Because ACRE Capital may not be as experienced with new loan products or services, it may require additional time and resources for offering and managing such products and services effectively or may be unsuccessful in offering such new products and services at a profit.

**For most loans that ACRE Capital services under the Fannie Mae and HUD programs, ACRE Capital is required to advance payments due to investors if the borrower is delinquent in making such payments, which requirement could adversely impact our liquidity and harm our results of operations.**

For most loans ACRE Capital services under the Fannie Mae DUS program, ACRE Capital is currently required to advance the principal and interest payments and tax and insurance escrow amounts if the borrower is delinquent in making loan payments. After four continuous months of making advances on behalf of the borrower, ACRE Capital can submit a reimbursement claim to Fannie Mae, which Fannie Mae may approve at its discretion. ACRE Capital is reimbursed by Fannie Mae for these advances in the event the loan is brought current. In the event of a default, any advances made by ACRE Capital in accordance with Fannie Mae requirements are used to reduce the proceeds required to settle any loss, if not previously reimbursed.

Under the HUD program, ACRE Capital is obligated to continue to advance principal and interest payments and tax and insurance escrow amounts on Ginnie Mae securities until the FHA mortgage insurance claim and the Ginnie Mae security have been fully paid. In the event of a default on an FHA insured loan, FHA will reimburse 99% of any losses of principal, plus generally most tax, insurance, and interest (at the federal debenture rate) advanced on the loan. If the loan default occurred while pooled with Ginnie Mae, that agency will reimburse 1% of principal and generally 85% of any interest slippage between the federal debenture and security rates of interest.

Although ACRE Capital has funded all required advances from operating cash flow in the past, there can be no assurance that it will be able to do so in the future. If ACRE Capital does not have sufficient operating cash flows to fund such advances, it would need to finance such amounts. Such financing could be costly and could prevent us from pursuing our business and growth strategies.

**A change to the conservatorship of Fannie Mae or Freddie Mac and related actions, along with any changes in laws and regulations affecting the relationship between Fannie Mae or Freddie Mac and the U.S. Government, could materially adversely affect ACRE Capital's business.**

There continues to be substantial uncertainty regarding the future of each of Fannie Mae and Freddie Mac, including the length of time for which they may continue to exist and in what form they may operate during that period. Fannie Mae and Freddie Mac are presently under federal conservatorship as the U.S. Government continues to evaluate the future of these entities and what role the U.S. Government should continue to play in the housing markets. Although the U.S. Government has described some specific steps that it intends to take as part of the conservatorship process, efforts to stabilize these entities may not be successful and the outcome and impact of these events remain highly uncertain. Under the statute providing the framework for the conservatorship, each of Fannie Mae and Freddie Mac could also be placed into receivership under certain circumstances. On March 4, 2013, the Federal Housing Finance Agency ("FHFA") released its 2013 Conservatorship Scorecard for Fannie Mae and Freddie Mac. As part of the scorecard, the FHFA directed that the GSEs to contract their presence in the marketplace while simplifying and shrinking certain operations by lines of business. Specifically, the FHFA directed each GSE to reduce the unpaid principal balance amount of new multifamily business relative to 2012 by at least ten percent by tightening underwriting, adjusting pricing, and limiting product offerings, while not increasing the proportion of their retained risk. On May 13, 2014, the FHFA released a strategic plan relating to the conservatorships of Fannie Mae and Freddie Mac. The 2014 plan no longer involves specific steps to contract the market presence of the GSEs, but retains a goal focused on ways to bring additional private capital into the system in order to reduce taxpayer risk. Reductions to the GSEs' volumes and caps for new multifamily originations, or additional restrictions on the GSEs' multifamily business imposed by the FHFA could adversely impact the volume of loans that ACRE Capital originates with Fannie Mae and Freddie Mac. These restrictions or reductions could have a material impact on our financial results in future periods. In addition, over the past few years, various draft bills and other

plans have been proposed by U.S. legislators to wind down or replace Fannie Mae and Freddie Mac. Currently, it remains unclear whether these or any other proposals will become law and how these or other proposals to reform Fannie Mae and Freddie Mac would impact housing finance and our business. ACRE Capital originates a substantial majority of its loans for sale through Fannie Mae and Freddie Mac programs. Furthermore, a substantial majority of its servicing rights are derived from loans ACRE Capital sells through Fannie Mae and Freddie Mac programs. Changes in the business charter, structure or existence of Fannie Mae or Freddie Mac could eliminate or substantially reduce the number of loans ACRE Capital originates, which would have a material adverse effect on us.

**If ACRE Capital fails to comply with the numerous government regulations and program requirements of Fannie Mae, Freddie Mac or HUD, it may lose its approved lender status and fail to gain additional approvals or licenses for its business. ACRE Capital is also subject to changes in laws, regulations and existing Fannie Mae, Freddie Mac and HUD program requirements, including potential increases in reserve and risk retention requirements that could increase its costs and affect the way it conducts its business, which could materially adversely affect ACRE Capital.**

ACRE Capital's operations are subject to regulation by federal, state and local government authorities, various laws and judicial and administrative decisions, and regulations and policies of Fannie Mae, Freddie Mac and HUD. These laws, regulations, rules and policies impose, among other things, minimum net worth, operational liquidity and collateral requirements. Fannie Mae requires ACRE Capital to maintain operational liquidity based on a formula that considers the balance of the loan and the level of credit loss exposure ("level of risk-sharing"). Fannie Mae requires Fannie Mae DUS lenders to maintain collateral, which may include pledged securities, for ACRE Capital's risk-sharing obligations. The amount of collateral required under the Fannie Mae DUS program is calculated at the loan level and is based on the balance of the loan, the level of risk-sharing, the seasoning of the loans and the rating of the Fannie Mae DUS lender.

Regulatory authorities also require ACRE Capital to submit financial reports and to maintain a quality control plan for the underwriting, origination and servicing of loans. Numerous laws and regulations also impose qualification and licensing obligations on ACRE Capital and impose requirements and restrictions affecting, among other things: ACRE Capital's loan originations; maximum interest rates, finance charges and other fees that ACRE Capital may charge; disclosures to consumers; the terms of secured transactions; collection, repossession and claims handling procedures; personnel qualifications; and other trade practices. ACRE Capital is also subject to inspection by Fannie Mae, Freddie Mac, HUD and regulatory authorities and lender qualification and monitoring by HUD. ACRE Capital's failure to comply with these requirements could lead to, among other things, the loss of a license as an approved Fannie Mae, Freddie Mac or HUD lender, the inability to gain additional approvals or licenses, the termination of contractual rights without compensation, demands for indemnification or loan repurchases, class action lawsuits and administrative enforcement actions.

Regulatory and legal requirements are subject to change. For example, in March of 2013, Fannie Mae notified all DUS lenders that collateral requirements on certain existing mortgage loans were increasing. As of December 31, 2015, ACRE Capital had 864 loans, with a collective unpaid principal balance of \$3.2 billion, in its portfolio that were affected by the announced collateral changes and we do not expect it will have a material impact on ACRE Capital's future operations; however, Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future, which may adversely impact us.

**ACRE Capital is dependent upon the success of the multifamily real estate sector and conditions that negatively impact the multifamily sector may reduce demand for ACRE Capital's products and services and materially adversely affect us.**

ACRE Capital provides commercial real estate financial products and services primarily to developers and owners of multifamily properties. Accordingly, the success of its business is closely tied to the overall success of the multifamily real estate market. Various changes in real estate conditions may impact the multifamily sector. Any negative trends in such real estate conditions may reduce demand for ACRE Capital's products and services and, as a result, adversely affect our results of operations. These conditions include:

- oversupply of, or a reduction in demand for, multifamily housing;
- a favorable interest rate environment that may result in a significant number of potential residents of multifamily properties deciding to purchase homes instead of renting;
- rent control or stabilization laws, or other laws regulating multifamily housing, which could affect the profitability of multifamily developments;
- the inability of residents and tenants to pay rent;
- increased competition in the multifamily sector based on considerations such as the attractiveness, location, rental rates, amenities and safety record of various properties; and
- increased operating costs, including increased real property taxes, maintenance, insurance and utilities costs.

Moreover, other factors may adversely affect the multifamily sector, including changes in government regulations and other laws, rules and regulations governing real estate, zoning or taxes, changes in interest rate levels, the potential liability under environmental and other laws and other unforeseen events. Any or all of these factors could negatively impact the multifamily sector and, as a result, reduce the demand for ACRE Capital's products and services. Any such reduction could materially adversely affect us.

**Increased interest rates and changes in secondary mortgage market conditions could impact ACRE Capital's mortgage banking operations.**

ACRE Capital's mortgage banking operations have historically provided a significant portion of our non-interest income. ACRE Capital's mortgage banking income varies with movements in interest rates, and increases in interest rates could negatively affect ACRE Capital's ability to originate loans in the same volume as in recent years. On December 16, 2015, the Federal Reserve raised its benchmark interest rate for the first time since 2006. In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for mortgage loans and increased investor yield requirements for such loans. These conditions may fluctuate or worsen in the future. As a result, a prolonged period of secondary market illiquidity may reduce ACRE Capital's mortgage loan production volume and could have a material adverse effect on ACRE Capital's financial condition and results of operations. See "Risks Related to Sources of Financing and Hedging—Interest rate fluctuations could increase our financing costs and reduce our ability to generate income on our investments, each of which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments" above.

## RISKS RELATED TO OUR COMMON STOCK

### **The market price of our common stock may fluctuate significantly.**

Our common stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol "ACRE." Recently, the global capital and credit markets have been in an extended period of volatility and disruption. The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance.

Some of the factors that could negatively affect the market price of our common stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;
- actual or perceived conflicts of interest with our Manager or Ares Management and individuals, including our executives;
- equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;
- loss of a major funding source;
- actual or anticipated accounting problems;
- publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions to or departures of our Manager's or Ares Management's key personnel;
- speculation in the press or investment community;
- increases in market interest rates, which may lead investors to demand a higher distribution yield for our common stock and would result in increased interest expenses on our debt;
- failure to maintain our REIT qualification or exemption from the 1940 Act;
- price and volume fluctuations in the overall stock market from time to time;
- general market and economic conditions, and trends including inflationary concerns, the current state of the credit and capital markets;
- significant volatility in the market price and trading volume of securities of publicly traded REITs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- changes in law, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to REITs;
- changes in the value of our portfolio;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- operating performance of companies comparable to us;
- short-selling pressure with respect to shares of our common stock or REITs generally;
- uncertainty surrounding the strength of the U.S. economic recovery particularly in light of the downgrade of the U.S. Government's credit rating;



- concerns regarding European sovereign debt; and
- concerns regarding volatility in the Chinese stock market and currency.

As noted above, market factors unrelated to our performance could also negatively impact the market price of our common stock. One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution rate as a percentage of our stock price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution rate or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and conditions in the capital markets can affect the market value of our common stock. For instance, if interest rates rise, it is likely that the market price of our common stock will decrease as market rates on interest-bearing securities increase.

**Common stock eligible for future sale may have adverse effects on our share price.**

As of December 31, 2015 and 2014, we had 28,609,650 and 28,586,915 shares of common stock outstanding, respectively, on a fully diluted basis.

We cannot predict the effect, if any, of future sales of our common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock or the perception that such sales could occur may adversely affect the prevailing market price for our common stock.

We may issue additional restricted common stock and other equity-based awards under our 2012 Equity Incentive Plan. We may continue to issue additional shares in subsequent public offerings or private placements to make new investments or for other purposes. We are not required to offer any such shares to existing stockholders on a preemptive basis. Therefore, it may not be possible for existing stockholders to participate in such future share issuances, which may dilute the existing stockholders' interests in us.

**We have not established a minimum distribution payment level and we may be unable to generate sufficient cash flows from our operations to make distributions to our stockholders at any time in the future.**

We are generally required to annually distribute to our stockholders at least 90% of our REIT taxable income (which does not equal net income, as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gains, for us to qualify as a REIT, which requirement we currently intend to satisfy through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. We have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this annual report. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We believe that a change in any one of the following factors could adversely affect our results of operations and impair our ability to pay distributions to our stockholders:

- our ability to make profitable investments;
- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that we will be able to make distributions to our stockholders at any time in the future or that the level of any distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect us.

In addition, distributions that we make to our stockholders out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), and not designated by us as capital gain dividends or qualified dividend income, generally will be taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as capital gain dividends and generally will be taxable to our stockholders as long-term capital gain to the extent that such distributions do not exceed our actual net capital gain for the taxable year, without regard to the period for which the stockholder that receives such distribution has held its stock. Distributions in excess of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, and not designated by us as capital gain dividends or qualified dividend income, may constitute a return of capital. A return of capital is not taxable, but has the effect of reducing the basis of a stockholder's investment in our common stock, but not below zero.

**Our distributions may exceed our cash flow from our operations and our earnings.**

We intend to make regular quarterly distributions to holders of our common stock. The regular quarterly cash distributions we pay are expected to be principally sourced by cash flow from operating activities. However, there can be no assurance that our earnings or cash flow from operating activities will be sufficient to cover our future distributions, and we may use other sources of funds, such as from offering proceeds, borrowings and asset sales, to fund portions of our future distributions. Our distributions for the year ended December 31, 2014 exceeded, and future distributions may exceed, our cash flow from operating activities and earnings primarily because we have been in the initial stages of building our investment portfolio and as a result our earnings have been highly sensitive to a number of variables, including the pace and timing of new originations and our level of operating expenses. Such distributions reduce the amount of cash we have available for investing and other purposes and could be dilutive to our financial results.

**Investing in our common stock may involve a high degree of risk.**

The investments that we make in accordance with our investment objectives may result in a high amount of risk when compared to alternative investment options and volatility or loss of principal. Our investments may be highly speculative and aggressive, and therefore an investment in our common stock may not be suitable for someone with lower risk tolerance.

**Future offerings of securities may adversely affect the market price of our common stock.**

If we decide to issue securities that are senior to, convertible into or exchangeable for our common stock, such securities may have rights, preferences and privileges more favorable than those of our common stock and may result in dilution to holders of our common stock. We and, indirectly, our stockholders, will bear the cost of issuing and servicing such securities. Because our decision to issue such securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus holders of our common stock will bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

**We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.**

We are an "emerging growth company," as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

## **RISKS RELATED TO OUR ORGANIZATION AND STRUCTURE**

**The Maryland General Corporation Law, or the "MGCL," prohibits certain business combinations, which may make it more difficult for us to be acquired.**

Under the MGCL, "business combinations" between a Maryland corporation and an "interested stockholder" or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as: (a) any person who beneficially owns 10% or more of the voting power of the then-outstanding voting stock of the corporation; or (b) 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 stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, 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 the board of directors.

After the expiration of the five-year period described above, any business combination between the Maryland corporation and an interested stockholder must generally be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of the then-outstanding shares of voting stock of the corporation; and
- 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.

These supermajority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under the MGCL, 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. The MGCL also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has adopted a resolution exempting any business combination with Ares Investments or any of its affiliates. Consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations

between us and Ares Investments or any of its affiliates. As a result, Ares Investments or any of its affiliates 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 the 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.

**Stockholders have limited control over changes in our policies and operations.**

Our board of directors determines our major policies, including with regard to financing, growth, debt capitalization, REIT qualification and distributions. Our board of directors may amend or revise these and other policies without a vote of the stockholders. Under our charter and the MGCL, our stockholders generally have a right to vote only on the following matters:

- the election or removal of directors;
- the amendment of our charter, except that our board of directors may amend our charter without stockholder approval to:
- change our name;
- change the name or other designation or the par value of any class or series of stock and the aggregate par value of our stock;
- increase or decrease the aggregate number of shares of stock that we have the authority to issue;
- increase or decrease the number of shares of any class or series of stock that we have the authority to issue; and
- effect certain reverse stock splits;
- our liquidation and dissolution; and
- our being a party to a merger, consolidation, sale or other disposition of all or substantially all of our assets or statutory share exchange.

All other matters are subject to the discretion of our board of directors.

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

Our charter authorizes us to issue up to 450,000,000 shares of common stock and 50,000,000 shares of preferred stock without stockholder approval. In addition, our board of directors may, without stockholder approval, amend our charter from time to time to increase or decrease the aggregate number of shares of our stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock into other classes or series of stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of shares of common or preferred stock that could delay or prevent a merger, third-party tender offer or similar transaction or a change in incumbent management that might involve a premium price for shares of our common stock or otherwise be in the best interest of our stockholders.

**Maintenance of our exemption from registration under the 1940 Act imposes significant limits on our operations. Your investment return may be reduced if we are required to register as an investment company under the 1940 Act.**

We conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act. In order to maintain our exemption from registration under the 1940 Act, the assets in our portfolio are subject to certain restrictions that meaningfully limit

our operations. Section 3(a)(1)(A) of the 1940 Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the 1940 Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis, or the "40% test."

We are organized as a holding company that conducts its businesses primarily through wholly owned subsidiaries. We conduct our operations in a manner designed so that we do not come within the definition of an investment company because less than 40% of the value of our adjusted total assets on an unconsolidated basis consist of "investment securities." As such, the securities issued by our wholly owned or majority-owned subsidiaries that are exempted from the definition of "investment company" based on Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we may own, may not have a value in excess of 40% of the value of our adjusted total assets on an unconsolidated basis. This requirement limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may originate or acquire are limited by the provisions of the 1940 Act and the rules and regulations promulgated under the 1940 Act, which may adversely affect our business. We monitor our holdings to ensure continuing and ongoing compliance with this test. In addition, we believe we are not considered an investment company under Section 3(a)(1)(A) of the 1940 Act because we do not engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through our wholly owned subsidiaries, we are primarily engaged in the non-investment company businesses of these subsidiaries.

If the value of securities issued by our subsidiaries that are exempted from the definition of "investment company" by Section 3(c)(1) or 3(c)(7) of the 1940 Act, together with any other investment securities we own, exceeds 40% of our adjusted total assets on an unconsolidated basis, or if one or more of such subsidiaries fail to maintain an exemption from the 1940 Act, we could, among other things, be required to (a) substantially 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 our shares of common stock.

Failure to maintain an exemption would require us to significantly restructure our investment strategy. For example, because affiliate transactions are generally prohibited under the 1940 Act, we would not be able to enter into transactions with any of our affiliates if we are required to register as an investment company, and we might be required to terminate our Management Agreement and any other agreements with affiliates, which could have a material adverse effect on our ability to operate our business and pay distributions. If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Certain of our subsidiaries rely upon the exemption from registration as an investment company under the 1940 Act pursuant to Section 3(c)(5)(C) of the 1940 Act, which is available for entities "primarily engaged" in the business of "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." This exemption generally requires that at least 55% of these subsidiaries' assets comprise qualifying real estate assets and that at least 80% of each of their portfolios must comprise qualifying real estate assets and real estate-related assets under the 1940 Act. Specifically, we expect each of our subsidiaries relying on Section 3(c)(5)(C) to invest at least 55% of its assets in

mortgage loans, certain mezzanine loans and B-Notes and other interests in real estate that constitute qualifying real estate assets in accordance with SEC staff guidance, and approximately an additional 25% of its assets in other types of mortgages, securities of REITs and other real estate-related assets. We expect each of our subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or on our analyses of guidance published with respect to other types of assets to determine which assets are qualifying real estate assets and real estate-related assets.

The SEC staff, according to published guidance, takes the view that certain mezzanine loans and B-Notes are qualifying real estate assets. Thus, we intend to treat certain mezzanine loans and B-Notes as qualifying real estate assets. The SEC has not published guidance with respect to the treatment of some of our other target assets, including commercial mortgage-backed securities, for purposes of the Section 3(c)(5)(C) exemption. For assets for which the SEC has not published guidance, we intend to rely on our own analysis. For example, unless we receive further guidance from the SEC or its staff with respect to commercial mortgage-backed securities, we intend to treat commercial mortgage-backed securities in which we hold 100% of the "controlling class" of securities as qualifying real estate assets, and our other holdings in commercial mortgage-backed securities as real estate-related assets. We also intend to treat debt and equity securities of companies primarily engaged in real estate businesses as real estate-related assets. The SEC may in the future take a view different than or contrary to our analysis with respect to the types of assets we have determined to be qualifying real estate assets or real estate-related assets. 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. If we are required to re-classify our assets, we may no longer be in compliance with the exclusion from the definition of an "investment company" provided by Section 3(c)(5)(C) of the 1940 Act. 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.

Certain of our subsidiaries may rely on the exemption provided by Section 3(c)(6) to the extent that they hold mortgage assets through majority-owned subsidiaries that rely on the exemption provided by Section 3(c)(5)(C). The SEC staff has issued little interpretive guidance with respect to Section 3(c)(6) and any guidance published by the staff could require us to adjust our strategy accordingly.

We determine whether an entity is one of our majority-owned subsidiaries. The 1940 Act defines a majority-owned subsidiary of a person as a company 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 companies 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 to approve our treatment of any company as a majority-owned subsidiary and the SEC has not done so. If the SEC were to disagree with our treatment of one or more companies 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.

On August 31, 2011, the SEC issued a concept release titled "Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments" (SEC Release No. IC-29778). Under the concept release, the SEC is reviewing interpretive issues relating to Section 3(c)(5)(C) of the 1940 Act, including the nature of the assets that qualify for purposes of the exemption and whether mortgage REITs should be regulated in a manner similar to investment companies, and solicited public comment.

To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon the exemptions we and our subsidiaries rely on from the 1940 Act, we may be required to adjust our strategy accordingly. 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. There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, including the SEC or its staff providing more specific or different guidance regarding these exemptions, will not change in a manner that adversely affects our operations. Although we monitor our portfolio periodically and prior to each investment origination or acquisition, there can be no assurance that we will be able to maintain this exemption from registration for these subsidiaries.

**Rapid and steep declines in the values of our CRE finance-related investments may make it more difficult for us to maintain our qualification as a REIT or exemption from the 1940 Act.**

If the market value or income potential of real estate-related investments declines as a result of increased interest rates or other factors, we may need to increase our real estate investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exemption from the 1940 Act. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets that we may own. We may have to make investment decisions that we otherwise would not make absent the REIT and 1940 Act considerations.

**Our rights and the rights of our stockholders to recover on claims against our directors and officers are limited, which could reduce our stockholders and our recovery against them if they negligently cause us to incur losses.**

The MGCL provides that a director has no liability in such capacity if he performs his duties in good faith, in a manner he reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. A director who performs his or her duties in accordance with the foregoing standards should not be liable to us or any other person for failure to discharge his or her obligations as a director.

In addition, our charter provides that our directors and officers will not be liable to us or our stockholders for monetary damages unless the director or officer actually received an improper benefit or profit in money, property or services, or is adjudged to be liable to us or our stockholders based on a finding that his or her action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. Our bylaws require us, to the maximum extent permitted by Maryland law, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to any individual who is a present or former director or officer and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity or any individual who, while a director or officer and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, REIT, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity. With the approval of our board of directors, we may provide such indemnification and advance for expenses to any individual who served a predecessor of ours in any of the capacities described above and any employee or agent of ours or a predecessor of ours, including our Manager and its affiliates.

We also are permitted to purchase and maintain insurance or provide similar protection on behalf of any directors, officers, employees and agents, including our Manager and its affiliates, against any liability asserted which was incurred in any such capacity with us or arising out of such status. This may

result in us having to expend significant funds, which will reduce the available cash for distribution to our stockholders.

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

Our charter provides that a director may only be removed for cause upon the affirmative vote of holders of 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, and any director elected to fill a vacancy will hold office for the remainder of the full term of the class of directors in which the vacancy occurred and until a successor is elected and qualifies. These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in control that is in the best interests of our stockholders. Pursuant to our charter, our board of directors is divided into three classes of directors serving staggered three year terms. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our 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 maintain our qualification as a REIT, commencing with our taxable year ended December 31, 2012, 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 each taxable year after 2012. "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 (except Ares Investments which is subject to a 22% excepted holder limit) from directly or indirectly owning more than 9.8% in value 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 any class or series of our stock. This ownership limitation 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.

**As a result of the death of Michael H. Diamond, who was an independent director, we are not in compliance with certain NYSE listing requirements.**

Michael H. Diamond, who was an independent member of our board of directors, passed away on January 9, 2016. As a result of Mr. Diamond's death, we are no longer in compliance with the requirements of Section 303A.01 of the NYSE Listed Company Manual, which requires each NYSE listed company to have a majority of independent directors. Because the non-compliance resulted from the death of a director, the NYSE has advised us that we have until July 9, 2016 to resolve the non-compliance before the NYSE will publicly disseminate a below compliance indicator or include us on the NYSE's list of non-compliant issuers.

**U.S. FEDERAL INCOME TAX RISKS**

**Our failure to remain qualified as a REIT would subject us to U.S. federal income tax and potentially state and local tax, and would adversely affect our operations and the market price of our common stock.**

We have elected and qualified to be taxed as a REIT commencing with our taxable year ended December 31, 2012. However, we may terminate our REIT qualification, if our board of directors



determines that not qualifying as a REIT is in the best interests of our stockholders, or inadvertently. Our qualification as a REIT depends upon our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. We have structured and intend to continue structuring our activities in a manner designed to satisfy all the requirements for qualification as a REIT. The REIT qualification requirements are extremely complex and interpretation of the U.S. federal income tax laws governing qualification as a REIT is limited. Accordingly, we cannot be certain that we will be successful in operating so we can qualify or remain qualified as a REIT. Our ability to satisfy the asset tests depends on 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 or quarterly asset requirements also depends on our ability to successfully manage the composition of our income and assets on an ongoing basis. Accordingly, if certain of our operations were to be recharacterized by the Internal Revenue Service (the "IRS") such recharacterization could jeopardize our ability to satisfy all the requirements for qualification as a REIT. Furthermore, future legislative, judicial or administrative changes to the U.S. federal income tax laws could be applied retroactively, which could result in our disqualification as a REIT.

If we fail to maintain our qualification as a REIT for any taxable year, and we do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax on our taxable income at corporate rates. In addition, we would generally be disqualified from treatment as a REIT for the four taxable years following the year of losing our REIT qualification. Losing our REIT qualification would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer qualify for the dividends paid deduction, and we would no longer be required to make distributions. If this occurs, we might be required to borrow funds or liquidate some investments in order to pay the applicable tax.

Furthermore, as a result of our investment in ACRC KA Investor LLC ("ACRC KA"), our joint venture with a third party institutional investor which made a preferred equity investment in a REIT, we are treated as owning an interest in a subsidiary REIT. The subsidiary REIT is independently subject to, and must comply with, the same REIT requirements that we must satisfy in order to qualify as a REIT, together with all other rules applicable to REITs. If the subsidiary REIT fails to qualify as a REIT and certain statutory relief provisions do not apply, then (a) the subsidiary REIT would become subject to U.S. federal income tax, (b) the subsidiary REIT will be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost, (c) our investment in the subsidiary REIT will cease to be a qualifying asset for purposes of the asset tests applicable to REITs and any dividend income or gains derived by us from such subsidiary REIT may cease to be treated as income that qualifies for purposes of the 75% gross income test, and (d) we may fail certain of the asset tests applicable to REITs, in which event we will fail to qualify as a REIT unless we are able to avail ourselves of certain statutory relief provisions.

**REITs, in certain circumstances, may incur tax liabilities that would reduce the cash available for distribution to our stockholders.**

Even if we maintain our status as a REIT, we may be subject to U.S. federal income taxes and related state and local taxes. For example, net income from the sale of properties that are "dealer" properties sold by a REIT (a "prohibited transaction" under the Code) will be subject to a 100% tax. We may not make sufficient distributions to avoid excise taxes applicable to REITs. Similarly, if we were to fail an income test (and did not lose our REIT status because such failure was due to reasonable cause and not willful neglect) we would be subject to tax on the income that does not meet the income test requirements. We also may decide to retain net capital gain we earn from the sale or other disposition of our property and pay U.S. federal income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly.

However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability unless they file U.S. federal income tax returns and thereon seek a refund of such tax. We also will be subject to corporate tax on any undistributed REIT taxable income. We also may be subject to state and local taxes on our income or property, including franchise, payroll, mortgage recording and transfer taxes, either directly or at the level of the other companies through which we indirectly own our assets, such as our TRSs, which are subject to full U.S. federal, state, local and foreign corporate-level income taxes. Any taxes we pay directly or indirectly will reduce our cash available for distribution to you.

**To qualify as a REIT, we must meet annual distribution requirements, which may force us to forgo otherwise attractive opportunities or borrow funds during unfavorable market conditions. This could delay or hinder our ability to meet our investment objectives and reduce your overall return.**

In order to maintain our status as a REIT, we must annually distribute to our stockholders at least 90% of our REIT taxable income (which does not equal net income, as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. We will be subject to U.S. federal income tax on our undistributed REIT taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (a) 85% of our ordinary income, (b) 95% of our capital gain net income and (c) 100% of our undistributed income from prior years. These requirements could cause us to distribute amounts that otherwise would be spent on investments in real estate assets and it is possible that we might be required to borrow funds, possibly at unfavorable rates, or sell assets to fund these distributions. Although we intend to make distributions sufficient to meet the annual distribution requirements and to avoid U.S. federal income and excise taxes on our earnings while we qualify as a REIT, it is possible that we might not always be able to do so.

**Certain of our business activities are potentially subject to the prohibited transaction tax, which could reduce the return on your investment.**

For so long as we qualify as a REIT, our ability to dispose of property during the first few years following acquisition may be restricted to a substantial extent as a result of our REIT qualification. Under applicable provisions of the Code regarding prohibited transactions by REITs, while we qualify as a REIT, we will be subject to a 100% penalty tax on any gain recognized on the sale or other disposition of any property (other than foreclosure property) that we own, directly or through any subsidiary entity, but generally excluding TRSs, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of a trade or business. Whether property is inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances surrounding each property. While we qualify as a REIT, we will avoid the 100% prohibited transaction tax by (a) conducting activities that may otherwise be considered prohibited transactions through a TRS (but such TRS will incur corporate rate income taxes with respect to any income or gain recognized by it), (b) conducting our operations in such a manner so that no sale or other disposition of an asset we own, directly or through any subsidiary, will be treated as a prohibited transaction, or (c) structuring certain dispositions of our properties to comply with a prohibited transaction safe harbor available under the Code for properties that, among other requirements, have been held for at least two years. However, no assurance can be given that any particular property we own, directly or through any subsidiary entity, but generally excluding TRSs, will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business.

**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.

**TRSs are subject to corporate-level taxes and dealings with TRSs may be subject to 100% excise tax.**

A REIT may own up to 100% of the stock of one or more TRS. 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 25% (20% for taxable years beginning after December 31, 2017) of the gross 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.

TRS Holdings, ACRC W TRS, ACRC U TRS and other 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. 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 25% (20% for taxable years beginning after December 31, 2017) 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.

**Our investments in certain debt instruments may cause us to recognize income for U.S. federal income tax purposes even though no cash payments have been received on the debt instruments, and certain modifications of such debt by us could cause the modified debt to not qualify as a good REIT asset, thereby jeopardizing our REIT qualification.**

Our taxable income may substantially exceed our net income as determined based on GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may acquire assets, including debt securities requiring us to accrue OID or recognize market discount income, that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. In addition, if a borrower with respect to a particular debt instrument encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to accrue and recognize the unpaid interest as taxable income 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 (a) sell assets in adverse market conditions, (b) borrow on unfavorable terms, (c) distribute amounts that would otherwise be used for future acquisitions or used to repay debt, or (d) make a taxable distribution of our shares of common

stock as part of a distribution in which stockholders may elect to receive shares of common stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements.

Moreover, we may acquire distressed debt investments that require subsequent modification by agreement with the borrower. If the amendments to the outstanding debt are "significant modifications" under the applicable Treasury Regulations, the modified debt may be considered to have been reissued to us in a debt-for-debt taxable exchange with the borrower. This deemed reissuance may prevent the modified debt from qualifying as a good REIT asset if the underlying security has declined in value and would cause us to recognize income to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt.

**The failure of mortgage loans subject to a repurchase agreement to qualify as a real estate asset would adversely affect our ability to qualify as a REIT.**

We have entered into repurchase agreements under which 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 repurchase agreement, in which case we could fail to qualify as a REIT if our remaining assets do not satisfy the asset tests or if our income does not satisfy the gross income tests.

**The failure of mezzanine loans to qualify as a real estate asset would adversely affect our ability to qualify as a REIT.**

In order for a loan to be treated as a qualifying real estate asset producing qualifying income for purposes of the REIT asset and income tests, generally the loan must be secured by real property or an interest in real property. We may originate or acquire mezzanine loans that are not directly secured by real property or an interest in real property but instead are secured by equity interests in a partnership or limited liability company that directly or indirectly owns real property or an interest in real property. In Revenue Procedure 2003-65, the IRS provided a safe harbor pursuant to which a mezzanine loan that is not secured by real estate would, if it meets each of the requirements contained in the Revenue Procedure, be treated by the IRS as a qualifying real estate asset. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law and in many cases it may not be possible for us to meet all the requirements of the safe harbor. We cannot provide assurance that any mezzanine loan in which we invest would be treated as a qualifying asset producing qualifying income for REIT qualification purposes. If any such loan fails either the REIT income or asset tests, we may be disqualified as a REIT.

**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 real estate assets for purposes of the asset tests and produce qualifying income for purposes of the 75% 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.

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

Our CLO securitization resulted in the creation of a TMP for federal income tax purposes. Future securitizations by us or our subsidiaries could result in the creation of additional TMPs 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 the case of a stockholder that is a REIT, regulated investment company ("RIC") common trust fund or other pass-through entity, our allocable share of our excess inclusion income could be considered excess inclusion income of such entity. 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. Because this tax generally would be imposed on us, all of our stockholders, including stockholders that are not disqualified organizations, generally will bear a portion of the tax cost associated with the classification of us or a portion of our assets as a TMP. A RIC or other pass-through entity owning our common stock in record name will be subject to tax at the highest U.S. federal corporate tax rate on any excess inclusion income allocated to their owners that are disqualified organizations. The manner in which excess inclusion income is calculated is not clear under current law. As required by IRS guidance, we intend to make such determinations based on what we believe to be a reasonable method. However, there can be no assurance that the IRS will not challenge our method of making any such determinations. If the IRS were to disagree with any such determinations made or with the method used by us, the amount of any excess inclusion income required to be taken into account by one or more stockholders, including tax-exempt stockholders, non-U.S. stockholders and stockholders with net operating losses, could be significantly increased. 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. Finally, if we were to fail to qualify as a REIT, any TMP securitizations would be treated as separate taxable corporations for U.S. federal income tax purposes that could not be included in any consolidated U.S. federal corporate income tax return. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

**We may choose to make distributions in our own stock, in which case you may be required to pay income taxes in excess of the cash dividends you receive.**

In connection with our qualification as a REIT, we are required to annually distribute to our stockholders at least 90% of our REIT taxable income (which does not equal net income, as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. In order to satisfy this requirement, we may make distributions that are payable in cash and/or shares of our common stock (which could account for up to 80% of the aggregate amount of such distributions) at the election of each stockholder. Taxable stockholders receiving such distributions will be required to include the full amount of such distributions as ordinary dividend income to the extent of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. As a result, U.S. stockholders may be required to pay income taxes with respect to such distributions in excess of the cash portion of the distribution received. Accordingly, U.S. stockholders receiving a distribution of our shares may be required to sell shares received in such

distribution or may be required to sell other stock or assets owned by them, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a U.S. stockholder sells the stock that it receives as part of the distribution in order to pay this tax, the sales proceeds may be less than the amount it must include in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such distribution, including in respect of all or a portion of such distribution that is payable in stock, by withholding or disposing of part of the shares included in such distribution and using the proceeds of such disposition to satisfy the withholding tax imposed. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividend income, such sale may put downward pressure on the market price of our common stock.

Various tax aspects of such a taxable cash/stock distribution are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose requirements in the future with respect to taxable cash/stock distributions, including on a retroactive basis, or assert that the requirements for such taxable cash/stock distributions have not been met.

**Dividends payable by REITs generally do not qualify for the reduced tax rates available for some dividends.**

Currently, the maximum tax rate applicable to qualified dividend income payable to U.S. stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, generally are not eligible for this reduced rate. Although this does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock. Tax rates could be changed in future legislation.

**Complying with REIT requirements may limit our ability to hedge our liabilities effectively and may cause us to incur tax liabilities.**

The REIT provisions of the Code may limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes, price changes or currency fluctuations with respect to borrowings made or to be made to acquire or carry real estate assets or in certain cases to hedge previously acquired hedges entered into to manage risks associated with property that has been disposed of or liabilities that have been extinguished, if properly identified under applicable Treasury Regulations, does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions will likely be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may need to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRSs are subject to tax on gains and may expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in a TRS generally will not provide any tax benefit, except for being carried forward against future taxable income of such TRS.

**Complying with REIT requirements may force us to forgo and/or liquidate otherwise attractive investment opportunities.**

To maintain our qualification as a REIT, we must ensure that we meet the REIT gross income tests 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 and qualified REIT real estate assets, including

certain mortgage loans and certain kinds of mortgage-related securities. The remainder of our investment in securities (other than government securities and 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 qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% (20% for taxable years beginning after December 31, 2017) of the value of our total assets can be represented by securities of one or more TRSs. 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 assets from our portfolio or not make otherwise attractive investments in order to maintain our qualification as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

**We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the price of our common stock.**

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of U.S. federal income tax laws applicable to investments similar to an investment in shares of our common stock. Additional changes to the tax laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your tax advisor with respect to the impact of recent legislation on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. You also should note that our counsel's tax opinion is based upon existing law, applicable as of the date of its opinion, all of which will be subject to change, either prospectively or retroactively.

Although REITs generally receive better tax treatment than entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has fiduciary duties to us and our stockholders and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our stockholders.

**Potential characterization of distributions or gain on sale may be treated as unrelated business taxable income to tax-exempt investors.**

If (a) we are a "pension-held REIT," (b) a tax-exempt stockholder has incurred (or is deemed to have incurred) debt to purchase or hold our common stock or (c) a holder of common stock is a certain type of tax-exempt stockholder, dividends on, and gains recognized on the sale of, common stock by such tax-exempt stockholder may be subject to U.S. federal income tax as unrelated business taxable income under the Code.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We do not own any real estate or other physical properties materially important to our operation. Our principal executive offices are located at 245 Park Avenue, 42nd Floor, New York, NY 10167. Our principal executive and certain of our other offices are leased by our Manager or one of its affiliates from third parties and pursuant to the terms of our Management Agreement, we reimburse our Manager (or its affiliate, as applicable) for our pro rata portion of such offices' rent. Additionally, we currently maintain operating leases for offices related to our subsidiary, ACRE Capital.

**Item 3. Legal Proceedings**

In the normal course of business, we may be subject to various legal proceedings from time to time. Furthermore, third parties may try to seek to impose liability on us in connection with our loans. As of December 31, 2015, we were not subject to any material pending legal proceedings.

**Item 4. Mine Safety Disclosures**

Not applicable.



**PART II****Item 5. Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities****PRICE RANGE OF COMMON STOCK AND DIVIDEND PAYMENTS**

Our common stock is listed for trading on the NYSE under the symbol "ACRE." On February 26, 2016, the closing price of our common stock, as reported on the NYSE, was \$9.69 per share. The following table sets forth, for the periods indicated, the high and low closing sales prices per share for our common stock, and the dividends paid with respect to such shares for each fiscal quarter for the years ended December 31, 2015 and 2014.

	<u>High</u>	<u>Low</u>	<u>Cash Dividends Declared Per Share of Common Stock</u>
<b>Year ended December 31, 2015</b>			
First quarter	\$ 12.35	\$ 11.05	\$ 0.25(1)
Second quarter	\$ 11.91	\$ 11.02	\$ 0.25(2)
Third quarter	\$ 13.08	\$ 11.41	\$ 0.25(3)
Fourth quarter	\$ 13.00	\$ 11.44	\$ 0.25(4)

	<u>High</u>	<u>Low</u>	<u>Cash Dividends Declared Per Share of Common Stock</u>
<b>Year ended December 31, 2014</b>			
First quarter	\$ 13.89	\$ 13.07	\$ 0.25(5)
Second quarter	\$ 13.29	\$ 12.29	\$ 0.25(6)
Third quarter	\$ 12.74	\$ 11.69	\$ 0.25(7)
Fourth quarter	\$ 12.21	\$ 11.48	\$ 0.25(8)

- (1) On March 5, 2015, we declared a cash dividend of \$0.25 per common share of our common stock, payable on April 15, 2015 to our common stockholders of record as of March 31, 2015.
- (2) On May 7, 2015, we declared a cash dividend of \$0.25 per share of our common stock, payable on July 15, 2015 to our common stockholders of record as of June 30, 2015.
- (3) On July 30, 2015, we declared a cash dividend of \$0.25 per share of our common stock, payable on October 15, 2015 to our common stockholders of record as of September 30, 2015.
- (4) On November 5, 2015, we declared a cash dividend of \$0.25 per share of our common stock, payable on January 19, 2016 to our common stockholders of record as of December 31, 2015.
- (5) On March 17, 2014, we declared a cash dividend of \$0.25 per common share of our common stock, payable on April 16, 2014 to our common stockholders of record as of March 31, 2014.
- (6) On May 7, 2014, we declared a cash dividend of \$0.25 per share of our common stock, payable on July 16, 2014 to our common stockholders of record as of June 30, 2014.
- (7) On August 6, 2014, we declared a cash dividend of \$0.25 per share of our common stock, payable on October 15, 2014 to our common stockholders of record as of September 30, 2014.

- (8) On November 10, 2014, we declared a cash dividend of \$0.25 per share of our common stock, payable on January 15, 2015 to our common stockholders of record as of December 31, 2014.

## HOLDERS

As of February 26, 2016, there were 25 holders of record of our common stock, including Cede & Co, which holds shares as nominee for the Depository Trust Company, which itself holds shares on behalf of the beneficial owners of shares of our common stock. This number does not include beneficial owners who hold shares of our common stock in nominee name. Such information was obtained through our registrar and transfer agent, based on the results of a broker search.

## DISTRIBUTION POLICY

We intend to make regular quarterly distributions to holders of our common stock (including holders of our restricted common stock). U.S. federal income tax law generally requires that a REIT annually distribute at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, and to the extent that it distributes less than 100% of its net taxable income in any taxable year, that it pay tax at regular corporate rates on that undistributed portion. We intend to make regular quarterly distributions to our stockholders in an amount equal to or greater than our net taxable income, if and to the extent authorized by our board of directors.

We cannot assure our stockholders, however, that the current level of distributions will be sustained, as any distributions that we pay in the future will depend upon our actual results of operations, economic conditions and other factors that could materially alter our expectations. Before we make any distributions, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on the Financing Agreements and other debt payable. 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.

Any distributions we make to our stockholders will be at the discretion of our board of directors and will depend upon our earnings, financial condition, liquidity, debt covenants, funding or margin requirements under securitizations, warehouse facilities or other secured and unsecured borrowing agreements, maintenance of our REIT qualification, applicable provisions of the Maryland General Corporation Law, and such other factors as our board of directors deems relevant. The Financing Agreements provide that in an event of default, we may make distributions only to the extent necessary to maintain our status as a REIT. Our earnings, financial condition and liquidity will be affected by various factors, including the net interest and other income from our portfolio, our operating expenses and any other expenditures. See "Risk Factors" included in this annual report on Form 10-K.

Distributions that stockholders receive (not designated as capital gain dividends or qualified dividend income) will be taxed as ordinary income to the extent they are paid from our earnings and profits (as determined for U.S. federal income tax purposes). However, distributions that we designate as capital gain dividends generally will be taxable as long-term capital gain to our stockholders to the extent that they do not exceed our actual net capital gain for the taxable year. Some portion of these distributions may not be subject to tax in the year in which they are received because depreciation expense reduces the amount of taxable income, but does not reduce cash available for distribution. The portion of our stockholders distribution that is not designated as a capital gain dividend and is in excess of our current and accumulated earnings and profits is considered a return of capital for U.S. federal income tax purposes and will reduce the adjusted tax basis of their investment, but not below zero, deferring such portion of their tax until their investment is sold or our company is liquidated, at which

time they will be taxed at capital gain rates (subject to certain exceptions for corporate stockholders). To the extent such portion of our stockholders distribution exceeds the adjusted tax basis of their investment, such excess will be treated as capital gain if they hold their shares of common stock as a capital asset for U.S. federal income tax purposes. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income for distribution in the following year, and pay any applicable excise tax. We will furnish annually to each of our stockholders a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, return of capital, qualified dividend income or capital gain. Please note that each stockholder's tax considerations are different, therefore, our stockholders should consult with their own tax advisors and financial planners prior to making an investment in our shares.

#### **RECENT SALES OF UNREGISTERED EQUITY SECURITIES**

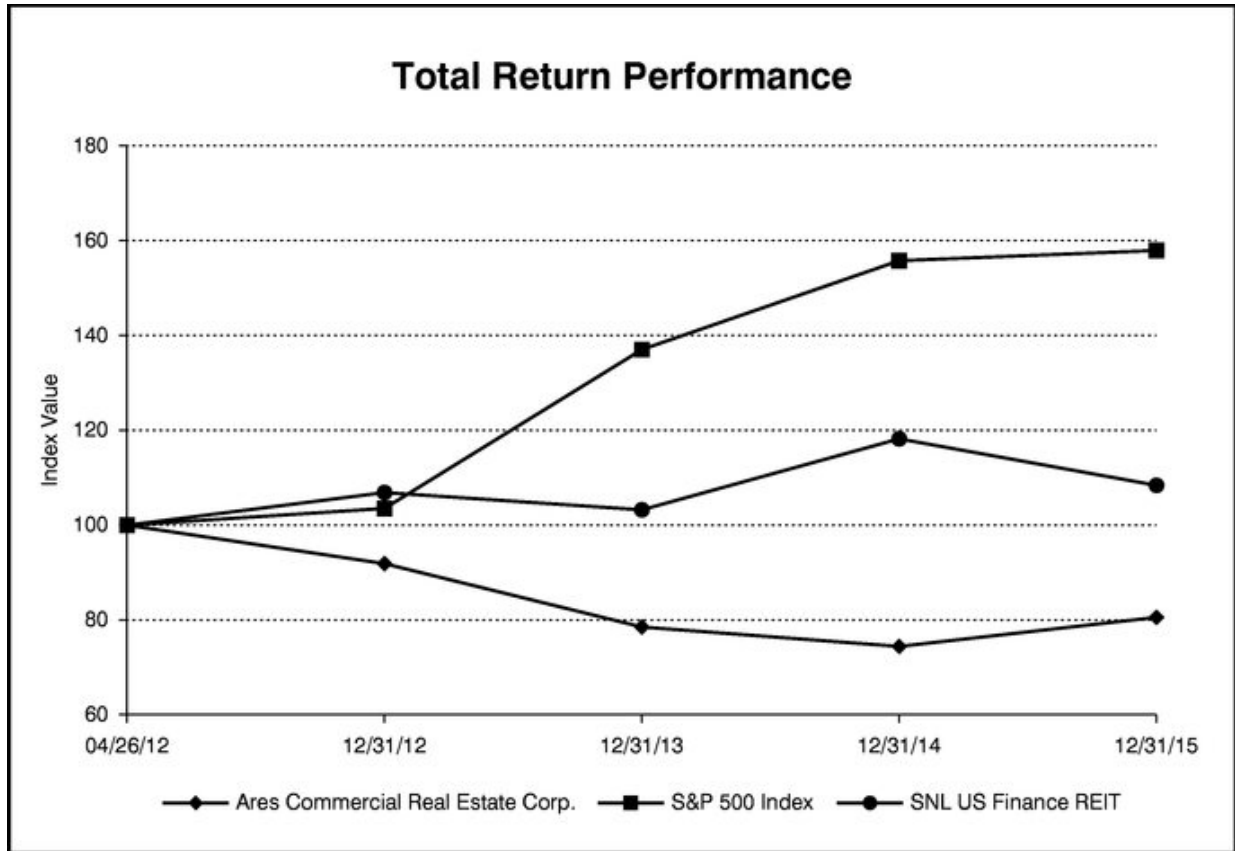
None.

#### **ISSUER PURCHASES OF EQUITY SECURITIES**

In May 2015, we announced that our board of directors authorized us to repurchase up to \$20 million of our outstanding common stock over a period of one year. In February 2016, the Board of Directors increased the size of our existing \$20 million stock repurchase program to \$30 million and extended the stock repurchase program through March 31, 2017. Purchases made pursuant to the program may be made in either the open market or in privately negotiated transactions, from time to time and as permitted by federal securities laws and other legal requirements. Repurchases may be suspended or discontinued at any time. We did not repurchase any shares of our common stock during the year ended December 31, 2015.

**STOCK PERFORMANCE GRAPH**

**Comparison of Cumulative Total Return**



SOURCE: SNL Financial LC and Standard & Poor's Institutional Services

NOTES: Assumes \$100 invested on April 26, 2012 (the date ACRE's shares began trading in connection with the IPO) in ACRE, the S&P 500 Index and the SNL US Finance REIT. Assumes all dividends are reinvested on the respective dividend payment dates without commissions.

	4/26/12	12/31/12	12/31/13	12/31/14	12/31/15
ACRE	100.00	91.88	78.51	74.41	80.55
S&P 500 Index	100.00	103.54	137.07	155.83	157.99
SNL US Finance REIT	100.00	106.89	103.24	118.23	108.41

The stock performance graph and the table furnished above shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

On April 23, 2012, we adopted, and our stockholders approved, our 2012 Equity Incentive Plan. Pursuant to our 2012 Equity Incentive Plan, we may grant awards consisting of restricted shares of our common stock, restricted stock units and/or other equity-based awards to our outside directors, our Manager and its personnel and other eligible awardees under the plan, subject to an aggregate

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limitation of 690,000 shares of common stock (7.5% of the issued and outstanding shares of our common stock immediately after giving effect to the issuance of the shares sold in the IPO). As of December 31, 2015, 31.9% of the shares reserved under our 2012 Equity Incentive Plan, or a total of 219,825 restricted shares of our common stock, had been granted and 68.1% of the shares reserved, or 470,175 shares remained available for future issuance under our 2012 Equity Incentive Plan. Aside from our 2012 Equity Incentive Plan, we have no other compensation plans or arrangements under which our securities may be issued (whether or not approved by our stockholders). For further discussion of our 2012 Equity Incentive Plan, see Note 10 to the consolidated financial statements included in this annual report on Form 10-K.

The following table presents certain information about our equity compensation plans as of December 31, 2015:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table)(1)</u>
Equity compensation plans approved by stockholders	—	\$ —	470,175
Equity compensation plans not approved by stockholders	—	—	—
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>470,175</b>

- (1) The securities shown in this column may be issued as restricted stock, restricted stock units and/or other equity-based awards to eligible awardees under our 2012 Equity Incentive Plan.

**Item 6. Selected Financial Data**

The following selected financial and other data for the years ended December 31, 2015, 2014, 2013 and 2012 is derived from our consolidated financial statements and related notes, which have been audited by Ernst & Young, LLP, an independent registered public accounting firm whose report thereon is included elsewhere in this annual report. The data should be read in conjunction with our consolidated financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this annual report on Form 10-K.

**ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES**  
**SELECTED FINANCIAL DATA**  
**(in thousands, except share and per share data)**

	For the year ended December 31,			
	2015	2014	2013	2012
<b>Operating Data:</b>				
Net interest margin, excluding non-controlling interests held by third parties	\$ 40,936	\$ 36,551	\$ 22,627	\$ 6,720
Mortgage banking revenue	35,413	27,605	8,070	—
Gain on sale of loans	—	680	1,333	—
Total revenue	85,408	65,143	32,030	6,720
Total expenses	40,160	41,570	24,265	5,763
Net income	43,320	24,616	13,766	860
Net income attributable to common stockholders	34,285	24,396	13,766	186
Basic weighted average shares of common stock outstanding	28,501,897	28,459,309	18,989,500	6,532,706
Diluted weighted average shares of common stock outstanding	28,597,568	28,585,022	19,038,152	6,567,309
Net income per common share:				
Basic earnings per common share	\$ 1.20	\$ 0.86	\$ 0.72	\$ 0.03
Diluted earnings per common share	\$ 1.20	\$ 0.85	\$ 0.72	\$ 0.03
Dividends declared per share of common stock	\$ 1.00	\$ 1.00	\$ 1.00	\$ 0.67(1)
<b>Balance Sheet Data:</b>				
Loans held for investment	1,174,391	1,462,584	958,495	353,500
Mortgage servicing rights, at fair value	61,800	58,889	59,640	—
Total assets	1,378,982	1,862,155	1,169,606	385,111
Total financing agreements	617,343	745,964	264,419	144,256
Total unsecured debt	—	67,414	65,893	64,541
Total securitizations debt	254,343	523,229	389,640	—
Total liabilities	922,494	1,381,269	763,390	219,673
Total stockholders' equity	409,471	402,954	406,216	165,438
Total equity	456,488	480,886	406,216	165,438

(1) Included is a dividend of \$450 (\$0.30 per share), which was based on 1,500,000 shares outstanding as of March 31, 2012.

## Item 7. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

We are a specialty finance company that operates both as a principal lender and a mortgage banker (with respect to loans collateralized by multifamily and senior-living properties). We are externally managed by Ares Commercial Real Estate Management LLC ("ACREM" or our "Manager"), a subsidiary of Ares Management, L.P. (NYSE: ARES) ("Ares Management"), a publicly traded, leading global alternative asset manager, pursuant to the terms of the management agreement dated April 25, 2012, as amended, between us and our Manager (the "Management Agreement"). From the commencement of our operations in late 2011, we have been primarily focused on our principal lending business, where we directly originate, manage and service a diversified portfolio of commercial real estate ("CRE") debt-related investments for our own account.

We are also engaged in the mortgage banking business through our wholly owned subsidiary, ACRE Capital LLC ("ACRE Capital"), which we believe is complementary to our principal lending business. In this business segment, we primarily originate, sell and service multifamily and other senior-living related loans under programs offered by government-sponsored enterprises ("GSEs"), such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and by government agencies, such as the Government National Mortgage Association ("Ginnie Mae") and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, "HUD"). ACRE Capital is approved as a Fannie Mae Delegated Underwriting and Servicing ("DUS") lender, a Freddie Mac Program Plus® Seller/Servicer, a Multifamily Accelerated Processing and Section 232 LEAN lender for HUD, and a Ginnie Mae issuer. While we earn little interest income from these activities as we generally only hold loans for short periods, we receive origination fees when we close loans and sale premiums when we sell loans. We also retain the rights to service the loans, which are known as mortgage servicing rights ("MSRs") and receive fees for providing such servicing during the life of the loans, which generally last ten years or more.

We were formed and commenced operations in late 2011. We are a Maryland corporation and completed our initial public offering (the "IPO") in May 2012. We have elected and qualified to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended, commencing with our taxable year ended December 31, 2012. We generally will not be subject to U.S. federal income taxes on our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, to the extent that we annually distribute all of our REIT taxable income to stockholders and comply with various other requirements as a REIT. We also operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the "1940 Act").

We are an "emerging growth company," as defined in the in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. However, we chose to "opt out" of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We could remain an "emerging growth company" for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed \$1.0 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange

Act of 1934, as amended (the "Exchange Act") which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three year period.

Below are significant developments during the year presented by quarter:

**Developments during the First Quarter of 2015**

- ACRE originated and funded a \$41.6 million senior mortgage loan on a skilled nursing facility located in New York.
- ACRE Capital rate-locked \$202.0 million in loan commitments.
- ACRE Capital amended the Bank of America, N.A. line of credit (as amended and restated, the "BAML Line of Credit") to, among other things, increase the aggregate commitment to \$135.0 million and extend the maturity date to June 30, 2016.

**Developments During the Second Quarter of 2015**

- ACRE originated a \$39.0 million senior mortgage loan on a hotel located in New York.
- ACRE Capital rate-locked \$233.0 million in loan commitments.
- ACRE Capital temporarily increased the commitment size of its BAML Line of Credit from \$135.0 million to \$185.0 million for the period April 15, 2015 to June 1, 2015.
- ACRE entered into a \$50.0 million Bridge Loan Warehousing Credit and Security Agreement with Bank of America, N.A. (the "BAML Facility") pursuant to which we may finance eligible commercial mortgage loans collateralized by healthcare facilities and other multifamily properties.

**Developments During the Third Quarter of 2015**

- ACRE originated and funded a \$22.1 million senior mortgage loan on a multifamily property located in Arizona.
- ACRE sold a \$75.0 million senior mortgage loan collateralized by office properties in California to a third party at a sale price equal to 100% of the par value of the loan.
- ACRE Capital rate-locked \$207.5 million in loan commitments.
- ACRE exercised a 12-month extension option on the \$75.0 million revolving funding facility (the "July 2014 CNB Facility") with City National Bank, extending the maturity date of the July 2014 CNB Facility until July 31, 2016.
- ACRE extended the scheduled repurchase date on the \$57.2 million global master repurchase agreement (the "December 2014 UBS Facility") with UBS AG. The extended maturity date of the December 2014 UBS Facility is July 6, 2016.

**Developments During the Fourth Quarter of 2015**

- ACRE originated a \$35.2 million senior mortgage loan on a hotel located in Michigan.
- ACRE originated a \$27.8 million senior mortgage loan on a multifamily property located in Texas.
- ACRE Capital rate-locked \$195.9 million in loan commitments.



- ACRE amended the \$140.0 million revolving master repurchase facility (the "April 2014 UBS Facility") with UBS Real Estate Securities, Inc to, among other things, extend the maturity date to October 21, 2018 and amend the price differential (or interest rate).
- ACRE entered into a \$155.0 million Credit and Guaranty Agreement (the "Secured Term Loan") with Highbridge Principal Strategies, LLC, as administrative agent, and DBD Credit Funding LLC, as collateral agent. We made an initial draw of \$75.0 million at closing with the remaining \$80.0 million to be funded within nine months of closing. The Secured Term Loan has a maturity date of December 9, 2018.
- ACRE amended and restated the \$225.0 million master repurchase funding facility with Wells Fargo Bank, National Association (the "Wells Fargo Facility") to, among other things, extend the maturity date to December 14, 2016 and amend the interest rate.
- ACRE repaid the entire aggregate principal amount outstanding of our unsecured 7.00% Convertible Senior Notes (the "2015 Convertible Notes") in accordance with the terms of the Indenture governing the 2015 Convertible Notes. The 2015 Convertible Notes matured on December 15, 2015 and were repaid at par.

### **Factors Impacting Our Operating Results**

The results of our operations are affected by a number of factors and primarily depend on, among other things, the level of our net interest income, the market value of our assets and the supply of, and demand for, commercial mortgage loans, CRE debt and other financial assets in the marketplace. Our net interest income, which reflects the amortization of origination fees and direct costs, is recognized based on the contractual rate and the outstanding principal balance of the loans we originate. Interest rates will vary according to the type of investment, conditions in the financial markets, credit worthiness of our borrowers, competition and other factors, none of which can be predicted with any certainty. Our operating results may also be impacted by credit losses in excess of initial anticipations or unanticipated credit events experienced by borrowers.

*Changes in Fair Value of Our Assets.* In our principal lending business, we generally hold our target investments as long-term investments. We evaluate our investments for impairment on at least a quarterly basis and impairments will be recognized when it is probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we will record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate, or if repayment is expected solely from the collateral, the fair value of the collateral.

Loans are collateralized by real estate and as a result, 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, are regularly evaluated. We monitor performance of our investment portfolio under the following methodology: (1) borrower review, which analyzes the borrower's ability to execute on its original business plan, reviews its financial condition, assesses pending litigation and considers its general level of responsiveness and cooperation; (2) economic review, which considers underlying collateral (i.e., leasing performance, unit sales and cash flow of the collateral and its ability to cover debt service as well as the residual loan balance at maturity); (3) property review, which considers current environmental risks, changes in insurance costs or coverage, current site visibility, capital expenditures and market perception; and (4) market review, which analyzes the collateral from a supply and demand perspective of similar property types, as well as from a capital markets perspective. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, and the borrower's exit plan, among other factors. As of December 31, 2015 and 2014, all loans were paying in accordance with

their contractual terms. There were no impairments during the years ended December 31, 2015, 2014 and 2013.

Although we generally hold our target investments as long-term investments within our principal lending business, we may occasionally classify some of our investments as held for sale. Investments held for sale will be carried at fair value within loans held for sale in our consolidated balance sheets, with changes in fair value recorded through earnings. The fees received are deferred and recognized as part of the gain or loss on sale. Additionally, ACRE Capital originates multifamily mortgage loans, which are recorded at fair value. The holding period for these loans held for sale is approximately 30 days. At this time, we do not expect to hold any of our investments for trading purposes.

*Changes in Market Interest Rates.* With respect to our business operations, increases in interest rates, in general, may over time cause:

- the interest expense associated with our borrowings to increase, subject to any applicable ceilings;
- the value of our mortgage loans to decline;
- coupons on our floating rate mortgage loans to reset to higher interest rates; and
- to the extent we enter into interest rate swap agreements as part of our hedging strategy where we pay fixed and receive floating interest rates, the value of these agreements to increase.

Conversely, decreases in interest rates, in general, may over time cause:

- the interest expense associated with our borrowings to decrease, subject to any applicable floors;
- the value of our mortgage loan portfolio to increase, for such mortgages with applicable floors;
- coupons on our floating rate mortgage loans to reset to lower interest rates; and
- to the extent we enter into interest rate swap agreements as part of our hedging strategy where we pay fixed and receive floating interest rates, the value of these agreements to decrease.

*Credit Risk.* We are subject to varying degrees of credit risk in connection with our target investments. Our Manager seeks to mitigate this risk by seeking to originate or acquire investments of higher quality at appropriate prices given anticipated and unanticipated losses, by employing a comprehensive review and selection process and by proactively monitoring originated or acquired investments. Nevertheless, unanticipated credit losses could occur that could adversely impact our operating results and stockholders' equity.

*Market Conditions.* We believe that our target investments currently present attractive risk-adjusted return profiles, given the underlying property fundamentals and the competitive landscape for the type of capital we provide. Following a dramatic decline in CRE lending in 2008 and 2009, debt capital has become more readily available for select stabilized, high quality assets in certain locations such as gateway cities, but less available for many other types of properties, either because of the markets in which they are located or because the property is undergoing some form of transition. More particularly, many traditional financing products tend to come with limited flexibility, especially with respect to prepayment. Consequently, we anticipate a high demand for the type of customized debt financing we provide from borrowers or sponsors who are looking to refinance indebtedness that is maturing in the next two to five years or are seeking shorter-term debt solutions as they reposition their properties. We also envision that demand for financing will be strong for situations in which a property is being acquired with plans to improve the net operating income through capital improvements, leasing, cost savings or other key initiatives and realize the improved value through a subsequent sale or refinancing. We believe that this will result in increased demand for shorter duration and often floating rate products, which we anticipate will increase financing transaction volumes and

benefit our deal flow. We believe that increased deal flow will further enhance our ability to be increasingly selective about the assets for which we provide financing. We believe market conditions continue to be favorable for disciplined and scaled direct lending with broad and flexible product offerings.

*Performance of Multifamily and Other Commercial Real Estate Related Markets.* Our business is dependent on the general demand for, and value of, commercial real estate and related services, which are sensitive to economic conditions. Demand for multifamily and other commercial real estate generally increases during periods of stronger economic conditions, resulting in increased property values, transaction volumes and loan origination volumes. During periods of weaker economic conditions, multifamily and other commercial real estate may experience higher property vacancies, lower demand and reduced values. These conditions can result in lower property transaction volumes and loan originations, as well as an increased level of servicer advances and losses from ACRE Capital's Fannie Mae DUS allowance for loss sharing.

*The Level of Losses from Fannie Mae Allowance for Loss Sharing.* Loans originated and sold by ACRE Capital to Fannie Mae under the Fannie Mae DUS program are subject to the terms and conditions of a Master Loss Sharing Agreement, which was amended and restated during 2012. Under the Master Loss Sharing Agreement, ACRE Capital is responsible for absorbing certain losses incurred by Fannie Mae with respect to loans originated under the DUS program, as described below in more detail.

The losses incurred with respect to individual loans are allocated between ACRE Capital and Fannie Mae based on the loss level designation ("Loss Level") for the particular loan. Loans are designated as Loss Level I, Loss Level II or Loss Level III. All loans are designated Loss Level I unless Fannie Mae and ACRE Capital agree upon a different Loss Level for a particular loan at the time of the loan commitment, or if Fannie Mae determines that the loan was not underwritten, processed or serviced according to Fannie Mae guidelines.

Losses on Loss Level I loans are shared 33.33% by ACRE Capital and 66.67% by Fannie Mae. The maximum amount of ACRE Capital's risk-sharing obligation with respect to any Loss Level I loan is 33.33% of the original principal amount of the loan. Losses incurred in connection with Loss Level II and Loss Level III loans are allocated disproportionately to ACRE Capital until ACRE Capital has absorbed the maximum level of its risk-sharing obligation with respect to the particular loan. The maximum loss allocable to ACRE Capital for Loss Level II loans is 30% of the original principal amount of the loan, and for Loss Level III loans is 40% of the original principal amount of the loan.

*The Price of Loans in the Secondary Market.* Our profitability is determined in part by the price we are paid for the loans we originate. A component of our origination fees is the premium we recognize on the sale of a loan. Stronger investor demand typically results in larger premiums while weaker demand results in little to no premium.

*Market for Servicing Commercial Real Estate Loans.* Service fee rates for new loans are set at the time we enter into a loan commitment based on origination volumes, competition and prepayment rates. Changes in future service fee rates impact the value of our future MSRs and future servicing revenues, which could impact our profit margins and operating results over time.

**Investment Portfolio**

As of December 31, 2015, we have originated or co-originated 38 loans held for investment, excluding 24 loans that were repaid or sold since inception. Such investments are referred to herein as our "investment portfolio." As of December 31, 2015, the aggregate originated commitment under these loans at closing was approximately \$1.3 billion and outstanding principal was \$1.1 billion, excluding non-controlling interests held by third parties. During the year ended December 31, 2015, we funded approximately \$229.9 million of outstanding principal, received repayments of \$410.6 million of outstanding principal, excluding non-controlling interests held by third parties, and sold a \$75.0 million loan to a third party. As of December 31, 2015, 66.2% of our loans have LIBOR floors, with a weighted average floor of 0.24%, calculated based on loans with LIBOR floors. References to LIBOR or "L" are to 30-day LIBOR (unless otherwise specifically stated).

As of December 31, 2015, all loans were paying in accordance with their contractual terms. During the year ended December 31, 2015, there were no impairments with respect to our loans held for investment.

Our loans held for investment are accounted for at amortized cost. The following table summarizes our loans held for investment as of December 31, 2015 (\$ in thousands):

	As of December 31, 2015				
	Carrying Amount(1)	Outstanding Principal(1)	Weighted Average Interest Rate	Weighted Average Unleveraged Effective Yield(2)	Weighted Average Remaining Life (Years)
Senior mortgage loans	\$ 961,395	\$ 965,578	4.4%	5.1%	1.4
Subordinated debt and preferred equity investments	166,417	168,264	10.6%	11.2%	5.1
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	<u>\$ 1,127,812</u>	<u>\$ 1,133,842</u>	<u>5.3%</u>	<u>6.0%</u>	<u>1.9</u>

- (1) The difference between the Carrying Amount and the Outstanding Principal face amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs.
- (2) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premium or discount) and assumes no dispositions, early prepayments or defaults. The Total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by us as of December 31, 2015 as weighted by the Outstanding Principal balance of each loan.

**Non-Controlling Interests**

The non-controlling interests held by third parties in our consolidated financial statements represent the equity interests in ACRC KA Investor LLC ("ACRC KA") that are not owned by us. See Note 16 to our consolidated financial statements included in this annual report on Form 10-K for more information about ACRC KA.

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A reconciliation of our loans held for investment portfolio, excluding non-controlling interests held by third parties, to our loans held for investment as included within our consolidated balance sheets is as follows (\$ in thousands):

	As of December 31, 2015	
	Carrying Amount	Outstanding Principal
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	\$ 1,127,812	\$ 1,133,842
Non-controlling interest investment held by third parties	46,579	46,579
Loans held for investment	<u>\$ 1,174,391</u>	<u>\$ 1,180,421</u>

For more information about our investment portfolio, see Note 3 to our consolidated financial statements included in this annual report on Form 10-K.

A reconciliation of our interest income from loans held for investment, excluding non-controlling interests, to our interest income from loans held for investment as included within our consolidated statements of operations is as follows (\$ in thousands):

	For the year ended December 31, 2015	
	Interest income from loans held for investment, excluding non-controlling interests	\$ 77,278
Interest income from non-controlling interest investment held by third parties	9,059	
Interest income from loans held for investment	<u>\$ 86,337</u>	

### Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"), which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and other factors management believes to be reasonable. Actual results may differ from those estimates and assumptions. We believe the following critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements.

*Mortgage Servicing Rights.* MSR are recorded at fair value at the time the loan is sold and qualifies as a transfer of a financial asset. The fair value is based on estimates of expected net cash flows associated with the servicing rights, as well as borrower prepayment penalties, interest earnings on escrows and interim cash balances, along with ancillary fees that are discounted at a rate that reflects the credit and liquidity risk of the MSR over the estimated life of the underlying loan. The changes in the MSR fair value are included within change in fair value of mortgage servicing rights in the Company's consolidated statements of operations for the period in which the change occurs. We engage a third party specialist to assist in valuing ACRE Capital's MSRs on a quarterly basis. As of December 31, 2015, the discount rate used was between 8 - 14% and varied based on the loan type. The life of the underlying loan is estimated giving consideration to the prepayment provisions in the loan agreement.

*Allowance for Loss Sharing.* When a loan is sold under the Fannie Mae DUS program, ACRE Capital undertakes an obligation to partially guarantee the performance of the loan. The date ACRE Capital commits to make a loan to a borrower, a liability for the fair value of the obligation undertaken

in issuing the guaranty is recognized. Subsequent to the initial commitment date, we monitor the performance of each loan for events or circumstances that may signal an additional liability to be recognized if there is a probable and estimable loss. The initial fair value of the guarantee is estimated by examining historical loss share experienced in the ACRE Capital Fannie Mae DUS portfolio over the most recent ten-year period. The initial fair value of the guarantee is included within the provision for loss sharing in our consolidated statements of operations. These historical loss shares serve as a basis to derive a loss share rate which is then applied to the current ACRE Capital DUS portfolio (net of specifically identified impaired loans that are subject to a separate loss share reserve analysis).

*Impairment of Loans Held for Investment.* We originate CRE debt and related instruments generally to be held for investment. Loans that are held for investment are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired. Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we will record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate. Significant judgment is required when evaluating loans for impairment, therefore, actual results over time could be materially different.

Each loan classified as held for investment is evaluated for impairment on a quarterly basis. Loans are collateralized by real estate. The extent of any credit deterioration associated with the performance and/or value of the underlying collateral property and the financial and operating capability of the borrower could impact the expected amounts received.

### ***Recent Accounting Pronouncements***

See Note 2 in the Notes to the consolidated financial statements included in this annual report on Form 10-K, which describes recent accounting pronouncements adopted by us for the year ended December 31, 2015 and the expected impact of accounting pronouncements recently issued but not yet required to be adopted.

### **RECENT DEVELOPMENTS**

On January 20, 2016, we originated a \$56.0 million first mortgage loan on a hotel portfolio located in California. At closing, the outstanding principal balance was approximately \$56.0 million. The loan has an interest rate of LIBOR + 4.75% (plus origination and exit fees) subject to a 0.25% LIBOR floor and an initial term of three years.

On February 26, 2016, we amended our BAML Facility to expand the eligible assets to include loans secured by general and affordable multifamily properties.

On February 26, 2016, we amended our March 2014 CNB Facility to extend the maturity date to March 11, 2017. In addition, we continue to have one 12-month extension at our option provided that certain conditions are met and applicable extension fees are paid, which, if exercised, would extend the final maturity of the March 2014 CNB Facility to March 10, 2018.

As of February 26, 2016, we had approximately \$170 million in capital, either in cash or in approved but undrawn capacity under our borrowing facilities. After holding in reserve \$10 million in liquidity requirements, we expect to have approximately \$160 million in capital available to fund new loans, fund outstanding commitments on existing loans, repurchase our common shares and for other working capital and general corporate purposes. Assuming that we use all such amount as capital to make new senior loans and we are able to leverage such amount under our financing facilities at a debt-to-equity ratio of 2.5:1, we would have the capacity to fund approximately \$560 million of additional senior loans.

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As of February 26, 2016, the total unfunded commitments for our existing loans held for investment were approximately \$90 million. In addition, borrowings under our Secured Funding Agreements were approximately \$564 million, borrowings under our Secured Term Loan was approximately \$75 million, debt issued in the form of commercial mortgage-backed securities ("CMBS") was approximately \$28 million and debt issued in the form of collateralized loan obligations ("CLO") was approximately \$193 million.

On February 28, 2016, our board of directors increased the size of our existing \$20.0 million stock repurchase program to \$30.0 million and extended our stock repurchase program through March 31, 2017. See "Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities—Issuer Purchases of Equity Securities" and Note 21 to our consolidated financial statements included in this annual report on Form 10-K for more information on the stock repurchase program.

On March 1, 2016, we declared a cash dividend of \$0.26 per common share for the first quarter of 2016. The first quarter 2016 dividend is payable on April 15, 2016 to common stockholders of record as of March 31, 2016.

## RESULTS OF OPERATIONS

The following table sets forth a summary of the consolidated results of operations for the years ended December 31, 2015, 2014 and 2013 (\$ thousands):

	For the year ended December 31,		
	2015	2014	2013
Net interest margin	\$ 49,995	\$ 36,858	\$ 22,627
Mortgage banking revenue	35,413	27,605	8,070
Gain on sale of loans	—	680	1,333
Total revenue	85,408	65,143	32,030
Total expenses	40,160	41,570	24,265
Changes in fair value of derivatives	—	—	1,739
<b>Income from operations before gain on acquisition and income taxes</b>	<b>45,248</b>	<b>23,573</b>	<b>9,504</b>
Gain on acquisition	—	—	4,438
<b>Income before income taxes</b>	<b>45,248</b>	<b>23,573</b>	<b>13,942</b>
Income tax expense (benefit)	1,928	(1,043)	176
<b>Net income attributable to ACRE</b>	<b>43,320</b>	<b>24,616</b>	<b>13,766</b>
Less: Net income attributable to non-controlling interests	(9,035)	(220)	—
<b>Net income attributable to common stockholders</b>	<b>\$ 34,285</b>	<b>\$ 24,396</b>	<b>\$ 13,766</b>

The following tables set forth select details of the consolidated results of operations for the years ended December 31, 2015, 2014 and 2013 (\$ thousands):

### Net Interest Margin

	For the year ended December 31,		
	2015	2014	2013
Interest income from loans held for investment	\$ 86,337	\$ 70,495	\$ 37,600
Interest expense	(36,342)	(33,637)	(14,973)
<b>Total net interest margin</b>	<b>\$ 49,995</b>	<b>\$ 36,858</b>	<b>\$ 22,627</b>

For the years ended December 31, 2015 and 2014, net interest margin was approximately \$50.0 million and \$36.9 million, respectively. For the years ended December 31, 2015 and 2014, interest income from loans held for investment of \$86.3 million and \$70.5 million, respectively, was generated by weighted average earning assets of \$1.2 billion, offset by \$36.3 million and \$33.6 million, respectively, of interest expense, unused fees and amortization of deferred loan costs. The weighted average borrowings under the Wells Fargo Facility, the Citibank Facility, the BAML Facility, the CNB Facilities, the MetLife Facility and the UBS Facilities (individually defined below and along with the Capital One Facility, collectively, the "Secured Funding Agreements") and securitization debt, the Secured Term Loan and convertible notes were \$929.0 million and \$888.3 million for the years ended December 31, 2015 and 2014, respectively. The increase in net interest margin for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily relates to the inclusion of interest income of \$9.1 million from non-controlling interests for the year ended December 31, 2015 compared to \$0.3 million for the year ended December 31, 2014, a decrease in our weighted average borrowing costs resulting from amendments to our Secured Funding Agreements and an increase in our use of leverage for the year ended December 31, 2015.

For the years ended December 31, 2014 and 2013, net interest margin was approximately \$36.9 million and \$22.6 million, respectively. For the years ended December 31, 2014 and 2013, interest income from loans held for investment of \$70.5 million and \$37.6 million, respectively, was generated by weighted average earning assets of \$1.2 billion and \$555.0 million, respectively, offset by \$33.6 million and \$15.0 million, respectively, of interest expense, unused fees and amortization of deferred loan costs. For the years ended December 31, 2014 and 2013, the weighted average borrowings under our Secured Funding Agreements, securitization debt and convertible notes were \$888.3 million and \$315.0 million, respectively. The increase in net interest margin for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily relates to the increase in the number of loans held for investment from 33 loans to 46 loans as of December 31, 2014.

### Mortgage Banking Revenue

	For the year ended December 31,		
	2015	2014	2013
Servicing fees, net(1)	\$ 16,051	\$ 16,399	\$ 5,754
Gains from mortgage banking activities(2)	27,067	17,492	5,019
Provision for loss sharing	1,093	1,364	(6)
Change in fair value of mortgage servicing rights	(8,798)	(7,650)	(2,697)
<b>Mortgage banking revenue</b>	<b>\$ 35,413</b>	<b>\$ 27,605</b>	<b>\$ 8,070</b>

- (1) Servicing fees include fees earned for all activities related to servicing ACRE Capital's loans, the net fees earned on borrower prepayment penalties and interest earned on



borrowers' escrow payments and interim cash balances, along with other ancillary fees and reduced by write-offs of MSR's for loans that are prepaid, changes in the fair value of the servicing fee payable and interest expense related to escrow accounts.

- (2) Gains from mortgage banking activities include the initial fair value of MSR's, loan origination fees, gain on the sale of loans, interest income on loans held for sale, changes to the fair value of derivative financial instruments, including loan commitments and forward sale commitments, and reduced by the expense related to the initial fair value of the servicing fee payable and interest expense related to our multifamily as soon as pooled sale agreement with Fannie Mae (the "ASAP Line of Credit") and the BAML Line of Credit (together with the ASAP Line of Credit, the "Warehouse Lines of Credit").

For the years ended December 31, 2015 and 2014, net servicing fees were approximately \$16.1 million and \$16.4 million, respectively. For the years ended December 31, 2015 and 2014, net gains from mortgage banking activities were approximately \$27.1 million and \$17.5 million, respectively. The increase in mortgage banking revenue for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily relates to an increase in our loan originations for the year ended December 31, 2015. ACRE Capital rate-locked 87 loans totaling \$838.4 million in commitments for the year ended December 31, 2015 compared to 36 loans totaling \$496.6 million in commitments for the year ended December 31, 2014.

For the years ended December 31, 2014 and 2013, net servicing fees were approximately \$16.4 million and \$5.8 million. For the years ended December 31, 2014 and 2013, net gains from mortgage banking activities were approximately \$17.5 million and \$5.0 million, respectively. The increase in mortgage banking revenue for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily relates to only four months of operations for ACRE Capital being included in the consolidated statements of operations for the year ended December 31, 2013 compared to one year of operations for the year ended December 31, 2014. ACRE Capital rate-locked 36 loans totaling \$496.6 million in commitments for the year ended December 31, 2014 compared to 20 loans totaling \$131.3 million in commitments for the year ended December 31, 2013, which resulted in increased mortgage banking revenue for the year ended December 31, 2014.

**Operating Expenses**

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Management fees to affiliate	\$ 5,948	\$ 5,916	\$ 4,241
Professional fees	3,091	3,733	2,924
Compensation and benefits	20,448	18,649	5,456
Acquisition and investment pursuit costs	—	20	4,079
General and administrative expenses	6,795	9,252	3,955
General and administrative expenses reimbursed to affiliate	3,878	4,000	3,610
<b>Total expenses</b>	<b>\$ 40,160</b>	<b>\$ 41,570</b>	<b>\$ 24,265</b>

For the years ended December 31, 2015 and 2014, we incurred operating expenses of \$40.2 million and \$41.6 million, respectively. The decrease in operating expenses for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily relates to a reduction in general and administrative expenses due to the completion of the restructuring of ACRE Capital and associated charges. Additionally, there was a reduction in professional fees due to a decrease in our use of third

party professionals. These decreases were partially offset by an increase in commission expense and other performance based compensation due to an increase in our loan originations at ACRE Capital.

For the years ended December 31, 2014 and 2013, we incurred operating expenses of \$41.6 million and \$24.3 million, respectively. The increase in operating expenses for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily relates to only four months of operations for ACRE Capital being included in the consolidated statements of operations for the year ended December 31, 2013 compared to one year of operations for the year ended December 31, 2014.

#### ***Related Party Expenses***

For the year ended December 31, 2015, related party expenses included \$5.9 million in management fees due to our Manager and \$3.9 million for our share of allocable general and administrative expenses for which we were required to reimburse our Manager pursuant to the Management Agreement.

For the year ended December 31, 2014, related party expenses included \$5.9 million in management fees due to our Manager and \$4.0 million for our share of allocable general and administrative expenses for which we were required to reimburse our Manager pursuant to the Management Agreement. For the year ended December 31, 2013, related party expenses included \$4.2 million in management fees due to our Manager and \$3.6 million for our share of allocable general and administrative expenses. The increase in related party expenses for the year ended December 31, 2014 compared to year ended December 31, 2013 primarily relates to increased stockholders' equity and an increase in acquisition activities. Effective as of September 30, 2013, and through the period ended December 31, 2014, our Manager agreed not to seek reimbursement of our share of personnel and overhead expenses in excess of \$1.0 million per quarter.

#### ***Other Expenses***

For the years ended December 31, 2015 and 2014, professional fees were \$3.1 million and \$3.7 million, respectively. The decrease in professional fees for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily relates to a decrease in our use of third party professionals. Acquisition and investment pursuit costs related to the acquisition of ACRE Capital for the year ended December 31, 2014 was \$20 thousand. For the years ended December 31, 2015 and 2014, general and administrative expenses were \$6.8 million and \$9.3 million, respectively. The decrease in general and administrative expenses for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily relates to the completion of the restructuring of ACRE Capital and associated charges.

For the year ended December 31, 2013, changes in fair value of derivatives was \$1.7 million related to the 2015 Convertible Notes. No changes in fair value of derivatives were incurred for the year ended December 31, 2014. For the years ended December 31, 2014 and 2013, professional fees were \$3.7 million and \$2.9 million, respectively. The increase in professional fees for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily relates to only four months of operations for ACRE Capital being included in the consolidated statements of operations for the year ended December 31, 2013 compared to one year of operations for the year ended December 31, 2014. For the years ended December 31, 2014 and 2013, acquisition and investment pursuit costs related to the acquisition of ACRE Capital were \$20 thousand and \$4.1 million, respectively. The decrease in acquisition and investment pursuit costs for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily relates to the closing of the ACRE Capital acquisition on August 30, 2013. For the years ended December 31, 2014 and 2013, general and administrative expenses were \$9.3 million and \$4.0 million, respectively. The increase in general and administrative expenses for the year ended December 31, 2014 compared to the year ended

December 31, 2013 primarily relates to only four months of operations for ACRE Capital being included in the consolidated statements of operations for the year ended December 31, 2013 compared to one year of operations for the year ended December 31, 2014.

### ***Compensation and Benefits***

For the years ended December 31, 2015 and 2014, compensation and benefits were \$20.4 million and \$18.6 million, respectively, all of which related to ACRE Capital. The increase in compensation and benefits for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily relates to an increase in commission expense and other performance based compensation due to an increase in our loan originations for the year ended December 31, 2015 and due to the turnover and replacement of employees at ACRE Capital in connection with the restructuring and strengthening of the ACRE Capital platform.

For the years ended December 31, 2014 and 2013, compensation and benefits were \$18.6 million and \$5.5 million, respectively, all of which related to ACRE Capital. The increase in compensation and benefits for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily relates to only four months of operations for ACRE Capital being included in the consolidated statements of operations for the year ended December 31, 2013 compared to one year of operations for the year ended December 31, 2014.

### **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. We use significant cash to purchase our target investments, make principal and interest payments on our borrowings, make distributions to our stockholders and fund our operations. Our primary sources of cash generally consist of unused borrowing capacity under the Secured Funding Agreements, the Warehouse Lines of Credit and the Secured Term Loan (collectively, the "Financing Agreements"), the net proceeds of future offerings, payments of principal and interest we receive on our portfolio of assets and cash generated from our operating activities. However, principal repayments from mortgage loans in the CMBS and CLO are applied sequentially, first going to pay down the senior CMBS and CLO notes, and accordingly we will not receive any proceeds from repayment of loans in the CMBS or CLO until all senior notes are repaid in full. Subject to maintaining our qualification as a REIT and our exemption from the 1940 Act, we expect that our primary sources of financing will be, to the extent available to us, through (a) credit, secured funding and other lending facilities, (b) securitizations, (c) other sources of private financing, including warehouse and repurchase facilities, and (d) public or private offerings of our equity or debt securities. See "Recent Developments" included in this annual report on Form 10-K for information on our available capital as of February 26, 2016. We may seek to sell certain of our investments in order to manage liquidity needs, interest rate risk, meet other operating objectives and adapt to market conditions.

**Equity Offerings**

There were no shares issued in public offerings of our equity securities for the year ended December 31, 2015 and 2014. The following table summarizes the total shares of common stock issued and proceeds we received, net of offering costs, for the year ended December 31, 2013 (\$ in millions, except per share data):

	<u>Shares issued</u>	<u>Gross offering price per share</u>	<u>Proceeds net of offering costs</u>
June 2013 public offering	18.0	13.5	234.6
July 2013 public offering	0.6	13.5(1)	7.7
Total for the year ended December 31, 2013	18.6		242.3

- (1) 601,590 of these shares of our common stock were issued on July 9, 2013 pursuant to the underwriters' partial exercise of the option to purchase additional shares. The gross offering price per share of the 601,590 shares was reduced by the \$0.25 dividend per share in the second quarter of 2013.

**Cash Flows**

The following table sets forth changes in cash and cash equivalents for the years ended December 31, 2015, 2014 and 2013 (\$ in thousands):

	<u>For the year ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net income	\$ 43,320	\$ 24,616	\$ 13,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net cash provided by (used in) operating activities	232,199	(247,530)	11,678
Net cash provided by (used in) investing activities	275,519	(222,914)	25,444
Net cash provided by (used in) investing activities	258,339	(433,080)	(745,697)
Net cash provided by (used in) financing activities	(541,414)	652,445	716,963
Change in cash and cash equivalents	\$ (7,556)	\$ (3,549)	\$ (3,290)

During the years ended December 31, 2015 and 2014, cash and cash equivalents decreased by \$7.6 million and \$3.5 million, respectively. During the year ended December 31, 2014 and 2013, cash and cash equivalents decreased by \$3.5 million and \$3.3 million, respectively.

***Operating Activities***

For the years ended December 31, 2015 and 2014, net cash provided by (used in) operating activities totaled \$275.5 million and \$(222.9) million, respectively. This change in net cash provided by (used in) operating activities was primarily related to the proceeds received from the sale of mortgage loans held for sale to third parties exceeding the cash used to originate and fund mortgage loans held for sale. For the year ended December 31, 2015, adjustments to net income related to operating activities primarily included originations of mortgage loans held for sale of \$681.9 million, sale of mortgage loans held for sale to third parties of \$850.8 million, change in the fair value of MSRs of \$8.8 million, change in mortgage banking activities of \$12.6 million, change in restricted cash of \$39.0 million and change in other assets of \$20.0 million. For the year ended December 31, 2014,

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adjustments to net income related to operating activities primarily included originations of mortgage loans held for sale of \$497.3 million, sale of mortgage loans held for sale to third parties of \$302.9 million, change in the fair value of MSR of \$7.7 million, change in mortgage banking activities of \$8.0 million, change in restricted cash of \$43.8 million and change in other assets of \$10.9 million.

For the years ended December 31, 2014 and 2013, net cash provided by (used in) operating activities totaled \$(222.9) million and \$25.4 million, respectively. This change in net cash provided by (used in) operating activities was primarily related to the cash used to originate and fund mortgage loans held for sale. For the year ended December 31, 2014, adjustments to net income related to operating activities primarily included originations of mortgage loans held for sale of \$497.3 million, sale of mortgage loans held for sale to third parties of \$302.9 million, change in the fair value of MSR of \$7.7 million, change in mortgage banking activities of \$8.0 million, change in restricted cash of \$43.8 million and change in other assets of \$10.9 million. For the year ended December 31, 2013, adjustments to net income related to operating activities primarily included originations of mortgage loans held for sale of \$84.2 million, sale of mortgage loans held for sale to third parties of \$102.4 million, gain on acquisition of \$4.4 million, change in the fair value of MSR of \$2.7 million, and change in other assets of \$4.4 million.

### ***Investing Activities***

For the years ended December 31, 2015 and 2014, net cash provided by (used in) investing activities totaled \$258.3 million and \$(433.1) million, respectively. This change in net cash provided by (used in) investing activities was primarily related to the cash received for the principal repayment of loans held for investment exceeding the cash used for the origination of new loans held for investment for the year ended December 31, 2015.

For the years ended December 31, 2014 and 2013, net cash used in investing activities totaled \$433.1 million and \$745.7 million, respectively. This change in net cash used in investing activities was primarily related to the origination of new loans held for investment partially offset by a sale of a mortgage loan held for sale and principal repayments on loans held for investment for the year ended December 31, 2014.

### ***Financing Activities***

For the year ended December 31, 2015, net cash used in financing activities totaled \$541.4 million and primarily related to repayments of our Secured Funding Agreements of \$375.5 million, repayments of debt of consolidated variable interest entities ("VIEs") of \$272.5 million, repayment of the 2015 Convertible Notes of \$69.0 million and repayments of our Warehouse Lines of Credit of \$973.3 million partially offset by proceeds from our Secured Funding Agreements of \$345.4 million and proceeds from our Warehouse Lines of Credit of \$804.9 million. For the year ended December 31, 2014, net cash provided by financing activities totaled \$652.4 million and related primarily to proceeds from our Secured Funding Agreements of \$1.1 billion, proceeds from issuance of debt of consolidated VIEs of \$308.7 million, and proceeds from our Warehouse Lines of Credit of \$544.0 million partially offset by repayments of our Secured Funding Agreements of \$855.0 million, repayments of debt of consolidated VIEs of \$176.0 million, and repayments of our Warehouse Lines of Credit of \$350.8 million.

For the year ended December 31, 2014, net cash provided by financing activities totaled \$652.4 million and related primarily to proceeds from our Secured Funding Agreements of \$1.1 billion, proceeds from issuance of debt of consolidated VIEs of \$308.7 million, and proceeds from our Warehouse Lines of Credit of \$544.0 million partially offset by repayments of our Secured Funding Agreements of \$855.0 million, repayments of debt of consolidated VIEs of \$176.0 million, and repayments of our Warehouse Lines of Credit of \$350.8 million. For the year ended December 31, 2013, net cash provided by financing activities totaled \$717.0 million and related primarily to proceeds

from our Secured Funding Agreements of \$703.2 million, proceeds from issuance of debt of consolidated VIEs of \$395.0 million and proceeds from the sale of common stock of \$250.7 million partially offset by repayments of our Secured Funding Agreements of \$583.0 million and repayments of our Warehouse Lines of Credit of \$112.1 million.

**Summary of Financing Agreements**

The sources of financing under our Financing Agreements are described in the following table (\$ in thousands):

	As of December 31,							
	2015				2014			
	Total Commitment	Outstanding Balance	Interest Rate	Maturity Date	Total Commitment	Outstanding Balance	Interest Rate	Maturity Date
<b>Secured funding agreements:</b>								
Wells Fargo Facility	\$ 225,000	\$ 101,473	LIBOR+1.75 to 2.35%(1)	December 14,(1) 2016	\$ 225,000	\$ 120,766	LIBOR+2.00 to 2.50%	December 14,(1) 2015
Citibank Facility	250,000	112,827	LIBOR+2.00 to 2.50%	December 8,(2) 2016	250,000	93,432	LIBOR+2.00 to 2.50%	December 8,(2) 2016
Capital One Facility	—	—	—	—(3)	100,000	—	LIBOR+2.00 to 3.50%	—(4)
BAML Facility	50,000	—	LIBOR+2.25 to 2.75%	May 26, 2016(5)	—	—	—	—
March 2014 CNB Facility	50,000	—	LIBOR+3.00%	March 11,(6) 2016	50,000	42,000	LIBOR+3.00%	March 11,(6) 2016
July 2014 CNB Facility	75,000	66,200	LIBOR+3.00%	July 31, 2016(7)	75,000	75,000	LIBOR+3.00%	July 31, 2015(7)
MetLife Facility	180,000	109,474	LIBOR+2.35%	August 12,(8) 2017	180,000	144,673	LIBOR+2.35%	August 12,(8) 2017
April 2014 UBS Facility	140,000	75,558	LIBOR+1.88% to 2.28%(9)	October 21,(9) 2018	140,000	19,685	LIBOR+1.88%	April 7, 2017
December 2014 UBS Facility	57,243	57,243	LIBOR+2.74%	July 6, 2016(10)	57,243	57,243	LIBOR+2.74%	January 6, 2016
Subtotal	\$ 1,027,243	\$ 522,775			\$ 1,077,243	\$ 552,799		
<b>Warehouse lines of credit:</b>								
ASAP Line of Credit	\$ 80,000(11)	\$ —	LIBOR+1.40 to 1.75%	No expiration(11)	\$ 80,000(11)	\$ 58,469	LIBOR+1.40 to 1.75%	No expiration
BAML Line of Credit	135,000(12)	24,806	LIBOR+1.60%	June 30, 2016(12)	180,000(12)	134,696	LIBOR+1.60%	April 15, 2015
Subtotal	\$ 215,000	\$ 24,806			\$ 260,000	\$ 193,165		
Secured Term Loan	\$ 155,000	\$ 75,000	LIBOR+6.00% (13)	December 9, 2018	\$ —	\$ —	—	—
Total	\$ 1,397,243	\$ 622,581			\$ 1,337,243	\$ 745,964		

- (1) In December 2015, we extended the maturity date on the Wells Fargo Facility to December 14, 2016 and amended the interest rate to (i) 30-day LIBOR plus (ii) a pricing margin range of 1.75%—2.35% per annum. Provided that certain conditions are met and applicable extension fees are paid, the maturity date is subject to two 12-month extensions at our option.
- (2) The master repurchase facility with Citibank, N.A. (the "Citibank Facility") is subject to three 12-month extensions at our option provided that certain conditions are met and applicable extension fees are paid.
- (3) The secured revolving funding facility with Capital One, National Association (as amended, the "Capital One Facility") matured on May 18, 2015. The Capital One Facility had been repaid in full and its term was not extended.
- (4) The maturity date of each individual loan is the same as the maturity date of the underlying loan that secures such individual loan.
- (5) We may request individual loans under the BAML Facility through and including May 26, 2016. However, individual advances on loans under the BAML Facility generally have a two-year maturity, subject to a 12-month extension at our option provided that certain conditions are met and applicable extension fees are paid. See "Recent Developments" and Note 21 to our consolidated financial statements included in this annual report on Form 10-K for information on a subsequent event relating to the BAML Facility.
- (6) The secured revolving facility with City National Bank (the "March 2014 CNB Facility") is subject to one 12-month extension at our option provided that certain conditions are met and applicable extension fees are paid. See "Recent Developments" and Note 21 to our consolidated financial statements included in this annual report on Form 10-K for information on a subsequent event relating to the March 2014 CNB Facility.
- (7) In July 2015, we exercised a 12-month extension option on the July 2014 CNB Facility (together with the March 2014 CNB Facility, the "CNB Facilities") which extended the maturity date to July 31, 2016. The July 2014 CNB Facility's interest rate of LIBOR + 3.00% is comprised of LIBOR + 1.50% and a credit support fee of 1.50% payable to Ares Management.
- (8) The revolving master repurchase facility with Metropolitan Life Insurance Company (the "Metlife Facility") is subject to two 12-month extensions at our option provided that certain conditions are met and applicable extension fees are paid.
- (9) In October 2015, we amended the April 2014 UBS Facility which extended the initial maturity date to October 21, 2018. We also amended the price differential (or interest rate) on the April 2014 UBS Facility to one-month LIBOR plus (i) 1.88% per annum, for assets that are subject to an advance for one year or less, (ii) 2.08% per annum, for assets that are subject to an advance in excess of one year but less than two years; and (iii) 2.28% per annum, for assets that are subject to an advance for more than two years; in each case, excluding amortization of commitment and exit fees.
- (10) In August 2015, the maturity date on the December 2014 UBS Facility (together with the April 2014 UBS Facility, the "UBS Facilities") was extended to July 6, 2016.
- (11) The commitment amount is subject to change at any time at Fannie Mae's discretion. To the extent the ASAP Line of Credit remains active through utilization, there is no expiration date.

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- (12) In November 2014, the BAML Line of Credit's commitment size temporarily increased from \$80.0 million to \$180.0 million for the period November 25, 2014 through January 26, 2015. In February 2015, the BAML Line of Credit's commitment size increased from \$80.0 million to \$135.0 million and the maturity date was extended to June 30, 2016. In April 2015, the BAML Line of Credit's commitment size temporarily increased from \$135.0 million to \$185.0 million for the period April 15, 2015 to June 1, 2015.
- (13) The Secured Term Loan has a LIBOR floor of 1.0% on drawn amounts.

Our Financing Agreements contain various affirmative and negative covenants and provisions related to events of default that are normal and customary for similar financing agreements. As of December 31, 2015, we are in compliance in all material respects with the terms of each respective Financing Agreement. See Note 6 included in this annual report on Form 10-K for more information on our Financing Agreements.

During the year ended December 31, 2015, the following activities occurred with respect to our sources of liquidity, except our Secured Funding Agreements and Warehouse Lines of Credit, which are described in the table above.

### **Secured Term Loan**

In December 2015, we and certain of our subsidiaries entered into the Secured Term Loan, which has a total commitment amount of \$155.0 million. We made an initial draw of \$75.0 million at closing with the remaining \$80.0 million to be funded within nine months of closing. The Secured Term Loan carries a coupon of LIBOR + 6.0% with a LIBOR floor of 1.0% on drawn amounts. The Secured Term Loan has a maturity date of December 9, 2018. We are subject to a monthly unused fee equal to 1.0% per annum on the unused commitment amount during the nine month commitment period following the closing date.

### **2015 Convertible Notes**

In December 2015, we repaid the entire aggregate principal amount outstanding of our 2015 Convertible Notes in accordance with the terms of the Indenture governing the 2015 Convertible Notes. The 2015 Convertible Notes matured on December 15, 2015 and were repaid at par.

### **Commercial Mortgage-Backed Securities and Collateralized Loan Obligations**

We may seek to enhance the returns on our senior mortgage loan investments through securitizations, if available. To the extent available, we intend to securitize the senior portion of some of our loans, while retaining the subordinate securities in our investment portfolio. The securitization of this senior portion will be accounted for as either a "sale" and the loans will be removed from our balance sheet or as a "financing" and will be classified as "loans held for investment" in our consolidated balance sheets, depending upon the structure of the securitization.

The following table summarizes our securitizations debt as of December 31, 2015 and 2014 (\$ in thousands):

	As of December 31,			
	2015		2014	
	Carrying Amount	Outstanding Principal	Carrying Amount	Outstanding Principal
Commercial mortgage-backed securitization debt (consolidated VIE)	\$ 61,815	\$ 61,856	\$ 217,495	\$ 219,043
Collateralized loan obligation securitization debt (consolidated VIE)	192,528	193,419	305,734	308,703
Securitizations debt	<u>\$ 254,343</u>	<u>\$ 255,275</u>	<u>\$ 523,229</u>	<u>\$ 527,746</u>

See Note 16 to our consolidated financial statements included in this annual report on Form 10-K for additional terms and details of our securitizations.

## **Capital Markets**

We may periodically raise additional capital through public offerings of debt and equity securities to fund new investments. On May 9, 2013, we filed a registration statement on Form S-3, with the Securities and Exchange Commission ("SEC") in order to permit us to offer, from time to time, in one or more offerings or series of offerings up to \$1.5 billion of our common stock, preferred stock, debt securities, subscription rights to purchase shares of our common stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, or units. On June 17, 2013, the registration statement was declared effective by the SEC.

## **Other Sources of Financing**

In addition to the sources of liquidity described above, in the future, we may also use other sources of financing to fund the origination or acquisition of our target investments or to refinance expiring Financing Agreements, and securitizations, including other credit facilities, warehouse facilities, repurchase facilities, non-convertible or convertible debt, securitized financings and other public and private forms of borrowing. These financings may be issued by us or our subsidiaries, be collateralized or non-collateralized, accrue interest at either fixed or floating rates and may involve one or more lenders.

## **Leverage Policies**

We intend to use prudent amounts of leverage to increase potential returns to our stockholders. To that end, subject to maintaining our qualification as a REIT and our exemption from registration under the 1940 Act, we intend to continue to use borrowings to fund the origination or acquisition of our target investments. Given current market conditions and our focus on first or senior mortgages, we currently expect that such leverage would not exceed, on a debt-to-equity basis, a 4-to-1 ratio. Our charter and bylaws do not restrict the amount of leverage that we may use. The amount of leverage we will deploy for particular investments in our target investments will depend upon our Manager's assessment of a variety of factors, which may include, among others, the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy generally or in specific geographic regions and commercial mortgage markets, our outlook for the level and volatility of interest rates, the slope of the yield curve, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve.



**CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

Our contractual obligations as of December 31, 2015 are described in the following table (\$ in thousands):

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>More than 5 years</u>
Wells Fargo Facility	\$ 101,473	\$ 101,473	\$ —	\$ —	\$ —
Citibank Facility	112,827	112,827	—	—	—
BAML Facility	—	—	—	—	—
March 2014 CNB Facility	—	—	—	—	—
July 2014 CNB Facility	66,200	66,200	—	—	—
MetLife Facility	109,474	—	109,474	—	—
April 2014 UBS Facility	75,558	—	75,558	—	—
December 2014 UBS Facility	57,243	57,243	—	—	—
Secured Term Loan	75,000	—	75,000	—	—
ASAP Line of Credit	—	—	—	—	—
BAML Line of Credit	24,806	24,806	—	—	—
Operating Leases	5,017	775	1,690	1,526	1,026
Future Loan Funding Commitments	305,887	201,034	88,500	7,207	9,146
Future Commitments to Sell Loans	237,372	223,430	13,942	—	—
<b>Total</b>	<b>\$ 1,170,857</b>	<b>\$ 787,788</b>	<b>\$ 364,164</b>	<b>\$ 8,733</b>	<b>\$ 10,172</b>

We may enter into certain contracts that may contain a variety of indemnification obligations, principally with underwriters and counterparties to repurchase agreements. The maximum potential future payment amount we could be required to pay under these indemnification obligations may be unlimited.

**Management Agreement**

We are also required to pay our Manager a base management fee of 1.5% of our stockholders' equity per year, an incentive fee and expense reimbursements pursuant to our Management Agreement. The table above does not include the amounts payable to our Manager under our Management Agreement as they are not fixed and determinable. See Note 14 included in this annual report on Form 10-K for additional terms and details of the fees payable under our Management Agreement.

**DIVIDENDS**

We intend to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT annually distribute at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, and to the extent that it annually distributes less than 100% of its REIT taxable income in any taxable year, that it pay tax at regular corporate rates on that undistributed portion. We intend to make regular quarterly distributions to our stockholders in an amount equal to or greater than our REIT taxable income (which does not equal net income, as calculated in accordance with GAAP), if and to the extent authorized by our board of directors. As a result, such distributions will not be available to fund investments. Before we make any distributions, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating requirements and debt service on our Financing Agreements and other debt payable. If our cash available for distribution is less than our REIT 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.

## OFF-BALANCE SHEET ARRANGEMENTS

We have commitments to fund various senior mortgage loans, as well as subordinated debt and preferred equity investments in our portfolio, extend credit and sell loans. Commitments to extend credit by ACRE Capital are generally agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Other than as set forth in this annual report on Form 10-K, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured investment vehicles, special purpose entities 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 or intend to provide additional funding to any such entities.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

As part of our risk management strategy, our Manager closely monitors our portfolio and actively manages the credit, interest rate, market, prepayment, real estate and inflation risks associated with holding a portfolio of our target investments. We manage our portfolio through an interactive process with our Manager and Ares Management and service our target investments through a combination of direct servicing by ACRE Capital and use of our Manager's servicer. ACRE Capital and one of its subsidiaries serves as the primary servicer of our investments. ACRE Capital is a Standard & Poor's-rated commercial primary servicer that is included on Standard & Poor's Select Servicer List. Our Manager's servicer, which is a Standard & Poor's-rated commercial special servicer that is included on Standard & Poor's Select Servicer List, serves as the special servicer for non-routine investment servicing issues. Our Manager has an Investment Committee that oversees compliance with our investment strategy and guidelines, investment portfolio holdings and financing strategy. 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 we do not seek to avoid risk completely, we believe the risks can be quantified from historical experience and seek to actively manage those risks, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

#### ***Credit Risk***

We are subject to varying degrees of credit risk in connection with holding our target investments. We have exposure to credit risk on our CRE loans and other target investments in our principal lending business. Our Manager seeks to manage credit risk by performing our due diligence process prior to origination or acquisition and through the use of non-recourse financing, when and where available and appropriate. Credit risk is also addressed through our Manager's ongoing review of our investment portfolio. In addition, with respect to any particular principal lending target investment, our Manager's investment team evaluates, among other things, relative valuation, comparable analysis, supply and demand trends, shape of yield curves, delinquency and default rates, recovery of various sectors and vintage of collateral.

In addition, we are exposed to credit risk in our mortgage banking business where, under the Master Loss Sharing Agreement, ACRE Capital is responsible for absorbing certain losses incurred by Fannie Mae with respect to loans originated under the DUS program. See Note 7 to our consolidated financial statements included in this annual report on Form 10-K for further discussion of the Master Loss Sharing Agreement with Fannie Mae. ACRE Capital uses several tools to manage its risk-sharing obligation, including maintenance of disciplined underwriting and approval processes and procedures,

and periodic review and evaluation of underwriting criteria based on underlying multifamily housing market data and limitation of exposure to particular geographic markets and submarkets and to individual borrowers.

### ***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 assets and our related financing obligations, including our borrowings under the Financing Agreements. We primarily originate or acquire floating rate mortgage assets and finance those assets with index-matched floating rate liabilities. As a result, we significantly reduce our exposure to changes in portfolio value and cash flow variability related to changes in interest rates. However, we regularly measure our exposure to interest rate risk and assess interest rate risk and manage our interest rate exposure on an ongoing basis by comparing our interest rate sensitive assets to our interest rate sensitive liabilities. Based on that review, we determine whether or not we should enter into hedging transactions and derivative financial instruments, such as forward sale commitments and interest rate floors in order to mitigate our exposure to changes in interest rates.

While hedging activities may mitigate our exposure to adverse fluctuations in interest rates, certain hedging transactions that we may enter into in the future, such as interest rate swap agreements, may also limit our ability to participate in the benefits of lower interest rates with respect to our investments. In addition, there can be no assurance that we will be able to effectively hedge our interest rate risk.

In addition to the risks related to fluctuations in asset values and cash flows associated with movements in interest rates, there is also the risk of non-performance on floating rate assets. In the case of a significant increase in interest rates, the additional debt service payments due from our borrowers may strain the operating cash flows of the real estate assets underlying our mortgages and, potentially, contribute to non-performance or, in severe cases, default.

### ***Interest Rate Effect on Net Interest Margin***

Our operating results depend in large part on differences between the income earned on our assets and our cost of borrowing. The cost of our borrowings generally is based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally increase while the yields earned on our leveraged fixed-rate mortgage assets remain static, which could result in a decline in our net interest spread and net interest margin.

For the year ended December 31, 2015, the following fluctuations in the average 30-day LIBOR would have resulted in the following increases in net interest margin on our loans held for investment (\$ in millions):

<u>Change in Average 30-Day LIBOR</u>	<u>For the year ended December 31, 2015</u>
Up 300 basis points	\$ 7.7
Up 200 basis points	\$ 4.9
Up 100 basis points	\$ 2.1
Down to 0 basis points	\$ 1.0

The severity of any such impact depends on our asset/liability composition at the time as well as the magnitude and duration of the interest rate increase and any applicable floors and caps. Further, an increase in short-term interest rates could also have a negative impact on the market value of our target investments. If any of these events happen, we could experience a decrease in net income or

incur a net loss during these periods, which could adversely affect our liquidity and results of operations.

***Interest Rate Cap and Floor Risk***

We primarily originate or acquire floating rate mortgage assets. These are assets in which the mortgages may be subject to periodic and lifetime interest rate caps and floors, which limit the amount by which the asset's interest yield change during any given period. However, our borrowing costs pursuant to our financing agreements sometimes are not subject to similar restrictions or have different floors and caps. As a result, in a period of increasing interest rates, interest rate costs on our borrowings could increase without limitation by caps, while the interest rate yields on our floating rate mortgage assets could be limited if we do not implement effective caps. In addition, floating rate mortgage assets may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. This could result in our receipt of less cash income on such assets than we would need to pay the interest cost on our related borrowings. In addition, in a period of decreasing interest rates, the interest rate yields on our floating rate mortgage assets could decrease, while the interest rate costs on certain of our borrowings could be fixed at a higher floor. These factors could lower our net interest income or cause a net loss during periods of decreasing interest rates, which would harm our financial condition, cash flows and results of operations.

***Market Risk***

The estimated fair values of our investments fluctuate primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of the fixed-rate securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of the fixed-rate securities would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our investments may be adversely impacted.

The fair value of ACRE Capital's MSR's is subject to market risk. A 100 basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of ACRE Capital's MSR's by approximately \$2.0 million and \$1.8 million as of December 31, 2015 and 2014, respectively.

***Prepayment and Securitizations Repayment Risk***

Our net income and earnings may be affected by prepayment rates on our existing CRE loans. When we originate our CRE loans, we anticipate that we will generate an expected yield. When borrowers prepay their CRE loans faster than we expect, we may be unable to replace these CRE loans with new CRE loans that will generate yields which are as high as the prepaid CRE loans. Additionally, principal repayment proceeds from mortgage loans in the CMBS and CLO are applied sequentially, first going to pay down the senior CMBS and CLO notes. We will not receive any proceeds from repayment of loans in the CMBS or CLO until all senior notes are repaid in full.

***Real Estate Risk***

Commercial mortgage assets are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; local markets with a significant exposure to the energy sector; 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 loan or loans, as the case may be, which could also cause us to suffer losses. We seek to manage these risks through our underwriting and asset management processes.

### ***Inflation Risk***

Virtually all of our assets and liabilities are sensitive to interest rates. 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. In each case, in general, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation.

### **Item 8. Financial Statements and Supplementary Data**

See the Index to consolidated financial statements included in this annual report on Form 10-K.

### **Item 9. Changes In And Disagreements With Accountants On Accounting And Financial Disclosure**

None.

### **Item 9A. Controls And Procedures**

*Disclosure Controls and Procedures.* The Company's management, with the participation of the Company's Co-Chief Executive Officers and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon such evaluation, the Company's Co-Chief Executive Officers and Chief Financial Officer concluded that its disclosure controls and procedures were effective, as of December 31, 2015, to provide assurance that information that is required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified by the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its Co-Chief Executive Officers and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

*Management Report on Internal Control Over Financial Reporting.* The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with GAAP.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and 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 its financial statements.

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As of December 31, 2015, the Company's management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management has concluded that its internal control over financial reporting as of December 31, 2015 is effective.

Because of its inherent limitations, internal controls 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.

*Changes to Internal Control Over Financial Reporting.* There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during its most recently completed fiscal year, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2016 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2015, and is incorporated herein by reference.

**Item 11. Executive Compensation**

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2016 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2015, and is incorporated herein by reference.

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

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2016 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2015, and is incorporated herein by reference.

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

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2016 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2015, and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2016 Annual Stockholder Meeting, to be filed with the SEC within 120 days after December 31, 2015, and is incorporated herein by reference.

**PART IV****Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed as part of this annual report:

1. Financial Statements—See the Index to Consolidated Financial Statements on Page F-1.
2. Financial Statement Schedules—None. We have omitted financial statement schedules because they are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes to the consolidated financial statements.
3. Exhibits.

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1	Purchase and Sale Agreement, dated as of May 14, 2013, by and among Alliant, Inc., The Alliant Company, LLC and Ares Commercial Real Estate Corporation.(4)
3.1*	Articles of Amendment and Restatement of Ares Commercial Real Estate Corporation.
3.2	Amended and Restated Bylaws of Ares Commercial Real Estate Corporation.(1)
10.1	Registration Rights Agreement, dated April 25, 2012, between Ares Commercial Real Estate Corporation and Ares Investments Holdings LLC.(2)
10.2	Management Agreement, dated April 25, 2012, between Ares Commercial Real Estate Management LLC and Ares Commercial Real Estate Corporation.(8)
10.3	First Amendment to Management Agreement, dated as of September 30, 2013, by and between Ares Commercial Real Estate Corporation and Ares Commercial Real Estate Management LLC.(8)
10.4	Second Amendment to Management Agreement dated November 7, 2014 by and between Ares Commercial Real Estate Corporation and Ares Commercial Real Estate Management LLC.(19)
10.5	Trademark License Agreement, dated April 25, 2012, between Ares Commercial Real Estate Corporation and Ares Management LLC.(2)
10.6	2012 Equity Incentive Plan.(1)
10.7	Form of Restricted Stock Agreement.(3)
10.8	Form of Indemnification Agreement with directors and certain officers.(2)
10.9	Form of Indemnification Agreement with members of the Investment Committee and/or Underwriting Committee of Ares Commercial Real Estate Management LLC.(2)
10.10	Letter Agreement re: Closing Statement Reference Date, dated as of August 30, 2013, among Ares Commercial Real Estate Corporation, The Alliant Company, LLC, a Florida limited liability company, and Alliant Inc., a Florida corporation.(5)
10.11	Letter Agreement re: "Greenleaf at Broadway" Reimbursable Loss Loan, dated as of August 30, 2013, among Ares Commercial Real Estate Corporation, The Alliant Company, LLC, a Florida limited liability company, and Alliant Inc., a Florida corporation.(5)
10.12	Registration Rights Agreement, dated as of August 30, 2013, among Ares Commercial Real Estate Corporation, Alliant Inc. and The Alliant Company, LLC.(6)



<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.13	Pooling and Servicing Agreement, dated as of November 1, 2013, among ACRC 2013-FL1 Depositor LLC, as depositor, Wells Fargo Bank, National Association, as master servicer, Ares Commercial Real Estate Servicer LLC, as special servicer, U.S. Bank National Association, as trustee, certificate administrator, paying agent and custodian, and Trimont Real Estate Advisors, Inc., as trust advisor.(7)
10.14	Trust Asset Purchase Agreement, dated as of November 19, 2013, between ACRC Lender LLC, as seller, and ACRC 2013-FL1 Depositor LLC, as purchaser.(7)
10.15	Amended and Restated Master Repurchase and Securities Contract, dated as of December 20, 2013, among ACRC Lender W LLC and ACRC Lender W TRS LLC, as sellers, and Wells Fargo Bank, National Association, as buyer.(8)
10.16	Amended and Restated Custodial Agreement, dated as of December 20, 2013, among ACRC Lender W LLC and ACRC Lender W TRS LLC, as sellers, and Wells Fargo Bank, National Association, as buyer and custodian.(8)
10.17	Amended and Restated Controlled Account Agreement (Waterfall Account), dated as of December 20, 2013, among ACRC Lender W LLC and ACRC Lender W TRS LLC, as debtors, and Wells Fargo Bank, National Association, as secured party and depository bank.(8)
10.18	Amended and Restated Pledge and Security Agreement, dated as of December 20, 2013, by ACRC Lender LLC, as pledgor, in favor of Wells Fargo Bank, National Association, as secured party.(8)
10.19	Amended and Restated Guarantee Agreement, dated as of December 20, 2013, by Ares Commercial Real Estate Corporation, as guarantor, in favor of Wells Fargo Bank, National Association, as bank.(8)
10.20	Credit Agreement, dated as of March 12, 2014, by and among ACRC Lender LLC, as borrower, City National Bank, a national banking association, as arranger and administrative agent, and the lenders party thereto.(9)
10.21	General Continuing Guaranty, dated as of March 12, 2014, by Ares Commercial Real Estate Corporation, as guarantor, in favor of City National Bank, a national banking association, as arranger and administrative agent.(9)
10.22	Security Agreement, dated as of March 12, 2014, by ACRC Lender LLC, as borrower, in favor of City National Bank, a national banking association, as arranger and administrative agent.(9)
10.23	Intercompany Subordination Agreement, dated as of March 12, 2014, by and among ACRC Lender LLC, as borrower, and Ares Commercial Real Estate Corporation, as guarantor, in favor of City National Bank, a national banking association, as arranger and administrative agent.(9)
10.24	Master Repurchase Agreement, dated as of April 9, 2014, among ACRC Lender U LLC and ACRC Lender U TRS LLC, as sellers, ACRC Lender U Mezz LLC, as mezzanine subsidiary, Ares Commercial Real Estate Corporation, as guarantor, and UBS Real Estate Securities Inc., as buyer.(10)
10.25	Guaranty Agreement, dated as of April 9, 2014, by Ares Commercial Real Estate Corporation in favor of UBS Real Estate Securities Inc.(10)

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.26	Sixth Amended and Restated Mortgage Warehousing Credit and Security Agreement, dated as of May 1, 2014, by and among ACRE Capital LLC, Bank of America, N.A., as agent and lender and the other lenders party thereto.(11)
10.27	Amendment No. 1 to Amended and Restated Master Repurchase and Securities Contract dated as of May 29, 2014, among ACRC Lender W LLC and ACRC Lender W TRS LLC and Wells Fargo Bank, National Association.(12)
10.28	Amendment No. 1 to Amended and Restated Guarantee Agreement dated as of May 29, 2014, by Ares Commercial Real Estate Corporation, as guarantor, in favor of Wells Fargo Bank, National Association, as buyer.(12)
10.29	Credit Agreement, dated as of July 30, 2014, by and among ACRC Lender LLC, as borrower, City National Bank, a national banking association, as arranger and administrative agent, and the lenders party thereto.(13)
10.30	General Continuing Guaranty, dated as of July 30, 2014, by Ares Commercial Real Estate Corporation, as guarantor, in favor of City National Bank, a national banking association, as arranger and administrative agent.(13)
10.31	Intercompany Subordination Agreement, dated as of July 30, 2014, by and among ACRC Lender LLC, as borrower, and Ares Commercial Real Estate Corporation, as guarantor, in favor of City National Bank, a national banking association, as arranger and administrative agent.(13)
10.32	Credit Support Fee Agreement, dated as of July 30, 2014, by and among Ares Commercial Real Estate Corporation, ACRC Holdings LLC, ACRC Lender LLC and Ares Management LLC.(13)
10.33	Amendment Number One to Credit Agreement and Consent, dated as of July 30, 2014, by and among ACRC Lender LLC, as borrower, City National Bank, a national banking association, as arranger and administrative agent, and the lenders party thereto.(13)
10.34	Master Repurchase Agreement, dated as of August 13, 2014, between ACRC Lender ML LLC, as seller, and Metropolitan Life Insurance Company, as buyer.(14)
10.35	Guaranty, dated as of August 13, 2014, by Ares Commercial Real Estate Corporation in favor of Metropolitan Life Insurance Company.(14)
10.36	Indenture dated as of August 15, 2014 among ACRE Commercial Mortgage 2014-FL2 Ltd, as issuer, ACRE Commercial Mortgage 2014-FL2 LLC as co-issuer, Wilmington Trust, National Association, as trustee, Wells Fargo Bank, National Association, as note administrator, paying agent, calculation agent, transfer agent, authentication agent and custodian, and Wells Fargo Bank, National Association, as advancing agent.(15)
10.37	Mortgage Asset Purchase Agreement dated as of August 15, 2014 between ACRC Lender LLC, as seller and ACRE Commercial Mortgage 2014-FL2 Ltd., as issuer, and agreed and acknowledged by the Company.(15)
10.38	Amendment No. 1 to Sixth Amended and Restated Mortgage Warehousing Credit and Security Agreement, dated as of November 24 2014, by and among ACRE Capital LLC, as borrower, Bank of America, N.A., as agent and lender and the other lenders party thereto.(16)
10.39	Master Repurchase Agreement, dated as of December 8, 2014, by and between ACRC Lender C LLC, as seller, and Citibank, N.A., as buyer.(17)

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.40	Omnibus Amendment To Other Transaction Documents and Reaffirmation of Guaranty, dated as of December 8, 2014, by and among ACRC Lender C LLC, ACRC Lender LLC, Ares Commercial Real Estate Corporation and Citibank, N.A.(17)
10.41	Amendment No. 2 to Amended and Restated Master Repurchase and Securities Contract dated as of December 12, 2014, among ACRC Lender W LLC and ACRC Lender W TRS LLC, as sellers, and Wells Fargo Bank, National Association, as buyer.(18)
10.42	Amendment No. 2 to Sixth Amended and Restated Mortgage Warehousing Credit and Security Agreement, dated as of February 27, 2015, by and among ACRE Capital LLC, Bank of America, N.A., as Agent and Lender and the other Lenders party thereto.(20)
10.43	Amendment No. 3 to Sixth Amended and Restated Mortgage Warehousing Credit and Security Agreement, dated as of April 15, 2015, by and among ACRE Capital LLC, Bank of America, N.A., as Agent and Lender and the other Lenders party thereto.(21)
10.44	Bridge Loan Warehousing Credit and Security Agreement, dated as of May 27, 2015, by and among ACRC Lender B LLC, Bank of America, N.A., as Administrative Agent and Lender and the other Lenders.(22)
10.45	Guaranty Agreement, dated as of May 27, 2015, by Ares Commercial Real Estate Corporation, in favor of Bank of America, N.A., as Administrative Agent and Lender and for the benefit of the other Lenders.(22)
10.46	Pledge and Security Agreement, dated as of May 27, 2015, by and between ACRC Lender LLC and Bank of America, N.A., as Administrative Agent and Lender and for the benefit of the other Lenders.(22)
10.47	Amendment No. 2 to Master Repurchase Agreement dated as of October 21, 2015, among ACRC Lender U LLC and ACRC Lender U TRS LLC, as sellers, ACRC Lender U Mezz LLC, as mezzanine subsidiary, Ares Commercial Real Estate Corporation, as guarantor and UBS Real Estate Securities, Inc., as buyer.(23)
10.48	Credit and Guaranty Agreement, dated as of December 9, 2015 by and among Ares Commercial Real Estate Corporation, as borrower and ACRC Holdings LLC, ACRC Mezz Holdings LLC, ACRC CP Investor LLC and ACRC Warehouse Holdings LLC, as guarantors, the lenders party thereto, Highbridge Principal Strategies, LLC, as administrative agent and DBD Credit Funding LLC, as collateral agent.(24)
10.49	Pledge and Security Agreement, dated as of December 9, 2015 among Ares Commercial Real Estate Corporation, ACRC Holdings LLC, ACRC Mezz Holdings LLC, ACRC CP Investor LLC, ACRC Warehouse Holdings LLC and ACRC Lender and DBD Credit Funding LLC, as collateral agent for the lenders.(24)
10.50	Negative Pledge Agreement, dated as of December 9, 2015 by Ares Commercial Real Estate Corporation, ACRC KA JV Investor LLC, ACRC Lender LLC, ACRC Champions Investor LLC and ACRE Capital Holdings LLC in favor of DBD Credit Funding LLC, as collateral agent for the lenders.(24)
10.51	Amendment No. 5 to Amended and Restated Master Repurchase and Securities Contract and Amended and Restated Guarantee Agreement dated as of December 14, 2015, among ACRC Lender W LLC, ACRC Lender W TRS LLC and Ares Commercial Real Estate Corporation and Wells Fargo Bank, National Association.(25)

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<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.52*	Amendment No. 2 to Bridge Loan Warehousing Credit and Security Agreement dated as of February 26, 2016, among ACRC Lender B LLC and Bank Of America, N.A.
10.53*	Amendment No. 3 to Credit Agreement dated as of February 26, 2016, by and among ACRC Lender LLC, as borrower, City National Bank, a national banking association, as arranger and administrative agent, and the lenders party thereto.
21.1*	Subsidiaries of Ares Commercial Real Estate Corporation
23.1*	Consent of Ernst & Young LLP
31.1*	Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Co-Chief Executive Officers and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

\* Filed herewith

- (1) Incorporated by reference to Exhibits 3.2 and 10.1, as applicable, to the Company's Form S-8 (File No. 333-181077), filed on May 1, 2012.
- (2) Incorporated by reference to Exhibits 10.1, 10.3, 10.4 and 10.5, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on May 4, 2012.
- (3) Incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Amendment No. 3 to Form S-11/A (File No. 333-176841), filed on April 12, 2012.
- (4) Incorporated by reference to Exhibit 2.1 to the Company's Form 8-K (File No. 001-35517), filed on May 15, 2013.
- (5) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on August 30, 2013.
- (6) Incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q (File No. 001-35517), filed on November 13, 2013.
- (7) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on November 25, 2013.
- (8) Incorporated by reference to Exhibit 10.11, 10.12, 10.13, 10.14, 10.15, 10.17 and 10.18 to the Company's Form 10-K (File No. 001-35517), filed on March 17, 2014.

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- (9) Incorporated by reference to Exhibits 10.1, 10.2, 10.3 and 10.4, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on March 14, 2014.
- (10) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on April 15, 2014.
- (11) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-35517), filed on May 6, 2014.
- (12) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on June 3, 2014.
- (13) Incorporated by reference to Exhibits 10.1, 10.2, 10.3, 10.4 and 10.6, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on July 31, 2014.
- (14) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on August 18, 2014.
- (15) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on August 19, 2014.
- (16) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-35517), filed on December 1, 2014.
- (17) Incorporated by reference to Exhibits 10.1 and 10.2, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on December 12, 2014.
- (18) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-35517), filed on December 18, 2014.
- (19) Incorporated by reference to Exhibit 10.11 to the Company's Form 10-Q (File No. 001-35517), filed on November 10, 2014.
- (20) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-35517), filed on March 5, 2015.
- (21) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-35517), filed on April 20, 2015.
- (22) Incorporated by reference to Exhibits 10.1, 10.2 and 10.3, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on June 2, 2015.
- (23) Incorporated by reference to Exhibits 10.1 to the Company's Form 8-K (File No. 001-35517), filed on October 26, 2015.
- (24) Incorporated by reference to Exhibits 10.1, 10.2 and 10.3, as applicable, to the Company's Form 8-K (File No. 001-35517), filed on December 14, 2015.
- (25) Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K (File No. 001-35517), filed on December 17, 2015.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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<a href="#">Consolidated Balance Sheets as of December 31, 2015 and 2014</a>	<a href="#">F-3</a>
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<a href="#">Consolidated Statements of Equity for the years ended December 31, 2015, 2014 and 2013</a>	<a href="#">F-5</a>
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013</a>	<a href="#">F-6</a>
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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Ares Commercial Real Estate Corporation

We have audited the accompanying consolidated balance sheets of Ares Commercial Real Estate Corporation as of December 31, 2015 and 2014, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ares Commercial Real Estate Corporation at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California  
March 1, 2016

**ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share data)

	As of December 31,	
	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents (\$8 and \$47 related to consolidated VIEs, respectively)	\$ 8,995	\$ 16,551
Restricted cash	30,380	66,121
Loans held for investment (\$483,572 and \$848,224 related to consolidated VIEs, respectively)	1,174,391	1,462,584
Loans held for sale, at fair value	30,612	203,006
Mortgage servicing rights, at fair value	61,800	58,889
Other assets (\$2,695 and \$3,438 of interest receivable related to consolidated VIEs, respectively; \$35,607 and \$18,352 of other receivables related to consolidated VIEs, respectively)	72,804	55,004
Total assets	<u>\$ 1,378,982</u>	<u>\$ 1,862,155</u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Secured funding agreements	\$ 522,775	\$ 552,799
Warehouse lines of credit	24,806	193,165
Secured term loan	69,762	—
Convertible notes	—	67,414
Commercial mortgage-backed securitization debt (consolidated VIE)	61,815	217,495
Collateralized loan obligation securitization debt (consolidated VIE)	192,528	305,734
Allowance for loss sharing	8,969	12,349
Due to affiliate	2,658	2,735
Dividends payable	7,152	7,147
Other liabilities (\$299 and \$498 of interest payable related to consolidated VIEs, respectively)	32,029	22,431
Total liabilities	<u>922,494</u>	<u>1,381,269</u>
Commitments and contingencies (Note 8)		
<b>EQUITY</b>		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at December 31, 2015 and 2014, 28,609,650 and 28,586,915 shares issued and outstanding at December 31, 2015 and 2014, respectively	284	284
Additional paid-in capital	421,179	420,344
Accumulated deficit	(11,992)	(17,674)
Total stockholders' equity	409,471	402,954
Non-controlling interests in consolidated VIEs	47,017	77,932
Total equity	<u>456,488</u>	<u>480,886</u>
Total liabilities and equity	<u>\$ 1,378,982</u>	<u>\$ 1,862,155</u>

See accompanying notes to consolidated financial statements.



ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	For the year ended December 31,		
	2015	2014	2013
<b>Net interest margin:</b>			
Interest income from loans held for investment	\$ 86,337	\$ 70,495	\$ 37,600
Interest expense	(36,342)	(33,637)	(14,973)
Net interest margin	49,995	36,858	22,627
<b>Mortgage banking revenue:</b>			
Servicing fees, net	16,051	16,399	5,754
Gains from mortgage banking activities	27,067	17,492	5,019
Provision for loss sharing	1,093	1,364	(6)
Change in fair value of mortgage servicing rights	(8,798)	(7,650)	(2,697)
Mortgage banking revenue	35,413	27,605	8,070
Gain on sale of loans	—	680	1,333
Total revenue	85,408	65,143	32,030
<b>Expenses:</b>			
Management fees to affiliate	5,948	5,916	4,241
Professional fees	3,091	3,733	2,924
Compensation and benefits	20,448	18,649	5,456
Acquisition and investment pursuit costs	—	20	4,079
General and administrative expenses	6,795	9,252	3,955
General and administrative expenses reimbursed to affiliate	3,878	4,000	3,610
Total expenses	40,160	41,570	24,265
Changes in fair value of derivatives	—	—	1,739
<b>Income from operations before gain on acquisition and income taxes</b>	45,248	23,573	9,504
Gain on acquisition	—	—	4,438
<b>Income before income taxes</b>	45,248	23,573	13,942
Income tax expense (benefit)	1,928	(1,043)	176
<b>Net income attributable to ACRE</b>	43,320	24,616	13,766
Less: Net income attributable to non-controlling interests	(9,035)	(220)	—
<b>Net income attributable to common stockholders</b>	\$ 34,285	\$ 24,396	\$ 13,766
<b>Net income per common share:</b>			
Basic earnings per common share	\$ 1.20	\$ 0.86	\$ 0.72
Diluted earnings per common share	\$ 1.20	\$ 0.85	\$ 0.72
<b>Weighted average number of common shares outstanding:</b>			
Basic weighted average shares of common stock outstanding	28,501,897	28,459,309	18,989,500
Diluted weighted average shares of common stock outstanding	28,597,568	28,585,022	19,038,152

See accompanying notes to consolidated financial statements.

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands, except share and per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Non- Controlling Interests	Total Equity
	Shares	Amount					
<b>Balance at December 31, 2012</b>	9,267,162	\$ 92	\$ 169,200	\$ (3,854)	\$ 165,438	\$ —	\$ 165,438
Sale of common stock	18,601,590	186	250,501	—	250,687	—	250,687
Issuance of common stock- acquisition of ACRE Capital	588,235	6	7,506	—	7,512	—	7,512
Offering costs	—	—	(8,412)	—	(8,412)	—	(8,412)
Stock-based compensation	49,990	—	524	—	524	—	524
Net income	—	—	—	13,766	13,766	—	13,766
2015 Convertible Notes	—	—	86	—	86	—	86
Dividends declared	—	—	—	(23,385)	(23,385)	—	(23,385)
<b>Balance at December 31, 2013</b>	28,506,977	\$ 284	\$ 419,405	\$ (13,473)	\$ 406,216	\$ —	\$ 406,216
Stock-based compensation	79,938	—	939	—	939	—	939
Net income	—	—	—	24,396	24,396	220	24,616
Dividends declared	—	—	—	(28,597)	(28,597)	—	(28,597)
Contributions from non- controlling interests	—	—	—	—	—	77,712	77,712
<b>Balance at December 31, 2014</b>	28,586,915	\$ 284	\$ 420,344	\$ (17,674)	\$ 402,954	\$ 77,932	\$ 480,886
Stock-based compensation	22,735	—	835	—	835	—	835
Net income	—	—	—	34,285	34,285	9,035	43,320
Dividends declared	—	—	—	(28,603)	(28,603)	—	(28,603)
Contributions from non- controlling interests	—	—	—	—	—	5,685	5,685
Distributions to non-controlling interests	—	—	—	—	—	(45,635)	(45,635)
<b>Balance at December 31, 2015</b>	<u>28,609,650</u>	<u>\$ 284</u>	<u>\$ 421,179</u>	<u>\$ (11,992)</u>	<u>\$ 409,471</u>	<u>\$ 47,017</u>	<u>\$ 456,488</u>

See accompanying notes to consolidated financial statements.

**ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	<b>For the year ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Operating activities:</b>			
Net income	\$ 43,320	\$ 24,616	\$ 13,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of deferred financing costs	9,559	9,716	3,274
Change in mortgage banking activities	(12,596)	(7,955)	(3,110)
Change in fair value of mortgage servicing rights	8,798	7,650	2,697
Accretion of deferred loan origination fees and costs	(4,979)	(3,661)	(2,366)
Provision for loss sharing	(1,093)	(1,364)	6
Cash paid to settle loss sharing obligations	(2,264)	(2,581)	(2,040)
Originations of mortgage loans held for sale	(681,928)	(497,258)	(84,150)
Sale of mortgage loans held for sale to third parties	850,816	302,886	102,363
Stock-based compensation	835	939	524
Changes in fair value of derivatives	—	—	(1,739)
Gain on acquisition	—	—	(4,438)
Depreciation expense	219	160	38
Deferred tax expense	2,093	93	61
Changes in operating assets and liabilities:			
Restricted cash	38,956	(43,811)	1,648
Other assets	20,040	(10,892)	(4,414)
Due to affiliate	(77)	(61)	1,476
Other liabilities	3,820	(1,391)	1,848
Net cash provided by (used in) operating activities	<u>275,519</u>	<u>(222,914)</u>	<u>25,444</u>
<b>Investing activities:</b>			
Issuance of and fundings on loans held for investment	(228,500)	(711,136)	(675,607)
Principal repayment of loans held for investment	411,740	193,867	66,920
Issuance of a mortgage loan held for sale	—	—	(84,769)
Proceeds from sale of a mortgage loan held for sale	74,625	80,197	—
Receipt of origination fees	1,078	7,082	6,058
Acquisition of ACRE Capital, net of cash acquired	—	—	(58,258)
Purchases of other assets	(604)	(823)	(41)
Payments for acquisition of intangible assets	—	(1,008)	—
Payments for acquisition of mortgage servicing rights	—	(1,259)	—
Net cash provided by (used in) investing activities	<u>258,339</u>	<u>(433,080)</u>	<u>(745,697)</u>
<b>Financing activities:</b>			
Proceeds from secured funding agreements	345,434	1,143,342	703,154
Repayments of secured funding agreements	(375,458)	(854,962)	(582,991)
Payment of secured funding costs	(8,013)	(10,841)	(7,033)
Proceeds from issuance of debt of consolidated VIEs	—	308,703	395,027
Repayments of debt of consolidated VIEs	(272,471)	(175,984)	—
Proceeds from issuance of common stock	—	—	250,687
Payment of offering costs	—	(113)	(8,834)
Proceeds from warehouse lines of credit	804,935	544,011	97,676
Repayments of warehouse lines of credit	(973,294)	(350,846)	(112,148)
Proceeds from secured term loan	75,000	—	—
Repayment of convertible debt	(69,000)	—	—
Dividends paid	(28,597)	(28,577)	(18,575)
Contributions from non-controlling interests	5,685	77,712	—
Distributions to non-controlling interests	(45,635)	—	—
Net cash provided by (used in) financing activities	<u>(541,414)</u>	<u>652,445</u>	<u>716,963</u>
Change in cash and cash equivalents	(7,556)	(3,549)	(3,290)
Cash and cash equivalents, beginning of period	<u>\$ 16,551</u>	<u>\$ 20,100</u>	<u>\$ 23,390</u>
Cash and cash equivalents, end of period	<u>\$ 8,995</u>	<u>\$ 16,551</u>	<u>\$ 20,100</u>
<b>Supplemental Information:</b>			
Interest paid during the period	\$ 28,731	\$ 23,870	\$ 11,317
Income taxes paid during the period	\$ 83	\$ 430	\$ —
<b>Supplemental disclosure of noncash investing and financing activities:</b>			
Dividends declared, but not yet paid	\$ 7,152	\$ 7,147	\$ 7,127
Deferred financing and offering costs	\$ —	\$ —	\$ 174
Notes receivable related to consolidated VIEs	\$ 35,607	\$ 16,116	\$ —
Issuance of common stock for acquisition of ACRE Capital	\$ —	\$ —	\$ 7,512
Fair value of assets acquired from ACRE Capital, net of cash acquired	\$ —	\$ —	\$ 112,609
Fair value of liabilities assumed from ACRE Capital	\$ —	\$ —	\$ 48,401

See accompanying notes to consolidated financial statements.

**ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**As of December 31, 2015**

**(in thousands, except share and per share data, percentages and as otherwise indicated)**

**1. ORGANIZATION**

Ares Commercial Real Estate Corporation (together with its consolidated subsidiaries, the "Company" or "ACRE") is a specialty finance company that operates both as a principal lender and a mortgage banker (with respect to loans collateralized by multifamily and senior-living properties). Through Ares Commercial Real Estate Management LLC ("ACREM" or the Company's "Manager"), a Securities and Exchange Commission ("SEC") registered investment adviser and a subsidiary of Ares Management L.P. (NYSE: ARES) ("Ares Management"), a publicly traded, leading global alternative asset manager, it has investment professionals strategically located across the United States and Europe who directly source new loan opportunities for the Company with owners, operators and sponsors of commercial real estate ("CRE") properties. The Company was formed and commenced operations in late 2011. The Company is a Maryland corporation and completed its initial public offering (the "IPO") in May 2012. The Company is externally managed by its Manager, pursuant to the terms of a management agreement (the "Management Agreement").

In the Company's principal lending business, it is primarily focused on directly originating, managing and servicing a diversified portfolio of CRE debt-related investments for the Company's own account. The Company's target investments in its principal lending business include senior mortgage loans, subordinated debt, preferred equity, mezzanine loans and other CRE investments. These investments, which are referred to as the Company's "principal lending target investments," are generally held for investment and are secured, directly or indirectly, by office, multifamily, retail, industrial, lodging, senior-living and other commercial real estate properties, or by ownership interests therein.

The Company is also engaged in the mortgage banking business through its wholly owned subsidiary, ACRE Capital LLC ("ACRE Capital"), which the Company believes is complementary to its principal lending business. In this business segment, the Company primarily originates, sells and services multifamily and senior-living related loans under programs offered by government-sponsored enterprises ("GSEs"), such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and by government agencies, such as the Government National Mortgage Association ("Ginnie Mae") and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, "HUD"). ACRE Capital is approved as a Fannie Mae Delegated Underwriting and Servicing ("DUS") lender, a Freddie Mac Program Plus® Seller/Servicer, a Multifamily Accelerated Processing and Section 232 LEAN lender for HUD, and a Ginnie Mae issuer. While the Company earns little interest income from these activities as it generally only holds loans for short periods, the Company receives origination fees when it closes loans and sale premiums when it sells loans. The Company also retains the rights to service the loans, which are known as mortgage servicing rights ("MSRs") and receives fees for such servicing during the life of the loans, which generally last ten years or more.

The Company has elected and qualified to be taxed as a real estate investment trust ("REIT") for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended, commencing with its taxable year ended December 31, 2012. The Company generally will not be subject to U.S. federal income taxes on its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, to the extent that it annually distributes all of its REIT taxable income to stockholders and complies with various other requirements as a REIT.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Presentation*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with United States generally accepted accounting principles ("GAAP") and include the accounts of the Company, the consolidated variable interest entities ("VIEs") that the Company controls and of which the Company is the primary beneficiary, and the Company's wholly owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications that, in the opinion of management, are necessary for the fair presentation of the Company's results of operations and financial condition as of and for the periods presented. All intercompany balances and transactions have been eliminated.

### *Variable Interest Entities*

The Company evaluates all of its interests in VIEs for consolidation. When the Company's interests are determined to be variable interests, the Company assesses whether it is deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, *Consolidation*, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. The Company considers its variable interests, as well as any variable interests of its related parties in making this determination. Where both of these factors are present, the Company is deemed to be the primary beneficiary and it consolidates the VIE. Where either one of these factors is not present, the Company is not the primary beneficiary and it does not consolidate the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company applies judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Company.

For VIEs of which the Company is determined to be the primary beneficiary, all of the underlying assets, liabilities, equity, revenue and expenses of the structures are consolidated into the Company's consolidated financial statements.

The Company performs an ongoing reassessment of: (1) whether any entities previously evaluated under the majority voting interest framework have become VIEs, based on certain events, and therefore are subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding its involvement with a VIE cause the Company's consolidation conclusion

regarding the VIE to change. See Note 16 included in these consolidated financial statements for further discussion of the Company's VIEs.

### ***Segment Reporting***

The Company has two reportable business segments: principal lending and mortgage banking. See Note 18 included in these consolidated financial statements for further discussion of the Company's reportable business segments.

### ***Reclassifications***

Certain prior period amounts have been reclassified to conform to the current period presentation. Amortization of convertible notes issuance costs and accretion of convertible notes have been reclassified into amortization of deferred financing costs in the consolidated statements of cash flows. As of December 31, 2015, the Company no longer presents amortization of convertible notes issuance costs and accretion of convertible notes in its consolidated statements of cash flows.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include funds on deposit with financial institutions, including demand deposits with financial institutions. Cash and short-term investments with an original maturity of three months or less when acquired are considered cash and cash equivalents for the purpose of the consolidated balance sheets and statements of cash flows.

### ***Restricted Cash***

Restricted cash includes escrow deposits for taxes, insurance, leasing outlays, capital expenditures, tenant security deposits and payments required under certain loan agreements. These escrow deposits are held on behalf of the respective borrowers and are offset by escrow liabilities included in other liabilities in the consolidated balance sheets. In connection with its mortgage banking business, the Company held restricted cash, which consisted of reserves that are a requirement of the Fannie Mae DUS program and borrower deposits, which represent funds that were collected for the processing of the borrowers loan applications and loan commitments.

### ***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and restricted cash, loans held for investment, MSR's, loans held for sale, interest receivable and derivative financial instruments. The Company places its cash and cash equivalents with financial institutions and, at times, cash held may exceed the FDIC-insured limit. The Company has exposure to credit risk on its loans held for investment and through its subsidiary ACRE Capital, the Company has exposure on credit risk on loans held for sale and the servicing portfolio whereby ACRE Capital shares in the risk of loss (see Note 7 included in these consolidated financial statements). The Company and the Company's Manager seek to manage credit risk by performing due diligence prior to origination or acquisition and through the use of non-recourse financing, when and where available and appropriate.

### ***Loans Held for Investment***

The Company originates CRE debt and related instruments generally to be held for investment. Loans that are held for investment are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired. Impairment occurs 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. If a loan is considered to be impaired, the Company will record an allowance to reduce the carrying value

of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate.

Each loan classified as held for investment is evaluated for impairment on a quarterly basis. Loans are collateralized by real estate. The extent of any credit deterioration associated with the performance and/or value of the underlying collateral property and the financial and operating capability of the borrower could impact the expected amounts received. The Company monitors performance of its investment portfolio under the following methodology: (1) borrower review, which analyzes the borrower's ability to execute on its original business plan, reviews its financial condition, assesses pending litigation and considers its general level of responsiveness and cooperation; (2) economic review, which considers underlying collateral, (i.e. leasing performance, unit sales and cash flow of the collateral and its ability to cover debt service, as well as the residual loan balance at maturity); (3) property review, which considers current environmental risks, changes in insurance costs or coverage, current site visibility, capital expenditures and market perception; and (4) market review, which analyzes the collateral from a supply and demand perspective of similar property types, as well as from a capital markets perspective. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, and the borrower's exit plan, among other factors.

In addition, the Company evaluates the entire portfolio to determine whether the portfolio has any impairment that requires a valuation allowance on the remainder of the loan portfolio. As of December 31, 2015, 2014 and 2013, the Company did not recognize any impairment charges with respect to its loans held for investment.

Loans are generally placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected in full. Accrued and unpaid interest is generally reversed against interest income in the period the loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding the borrower's ability to make pending principal and interest payments. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. The Company may make exceptions to placing a loan on non-accrual status if the loan has sufficient collateral value and is in the process of collection.

Preferred equity investments, which are subordinate to any loans but senior to common equity, are accounted for as loans held for investment and are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed impaired, and are included within loans held for investment in the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan held for investment utilizing the effective interest method.

#### ***Loans Held for Sale***

Through its subsidiaries, including ACRE Capital, ACRC Lender W TRS LLC ("ACRC W TRS") and ACRC Lender U TRS LLC ("ACRC U TRS"), the Company originates mortgage loans held for sale, which are recorded at fair value and accounted for under FASB ASC Topic 860, *Transfers and Servicing*. The holding period for loans originated by ACRE Capital is approximately 30 days. The carrying value of the mortgage loans sold is reduced by the value allocated to the associated retained MSR based on relative fair value at the time of the sale. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the adjusted value of the related mortgage loans sold.

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Although the Company generally holds its target investments as long-term investments within its principal lending business, the Company may occasionally classify some of its investments as held for sale. Investments held for sale will be carried at fair value within loans held for sale in the Company's consolidated balance sheets, with changes in fair value recorded through earnings. The fees received are deferred and recognized as part of the gain or loss on sale. As of December 31, 2015 and 2014, the Company did not have any loans held for sale in its principal lending business.

### ***Mortgage Servicing Rights***

When a mortgage loan is sold, ACRE Capital retains the right to service the loan and recognizes the MSR at fair value. The initial fair value represents expected net cash flows from servicing, as well as interest earnings on escrows and interim cash balances, borrower prepayment penalties, delinquency rates, late charges along with ancillary fees that are discounted at a rate that reflects the credit and liquidity risk of the MSR over the estimated life of the underlying loan. After initial recognition, changes in the MSR fair value are included within change in fair value of mortgage servicing rights in the Company's consolidated statements of operations for the period in which the change occurs.

### ***Intangible Assets***

Intangible assets consist of ACRE Capital's licenses permitting it to participate in programs offered by Fannie Mae, Freddie Mac and HUD (including Ginnie Mae). These licenses are intangible assets with indefinite lives. The Company evaluates identified intangibles for impairment annually or if other events or circumstances indicate that the carrying value may be impaired.

### ***Debt Issuance Costs***

Debt issuance costs under the Company's indebtedness are capitalized and amortized over the terms of the respective debt instrument. Debt issuance costs related to debt securitizations are capitalized and amortized over the term of the underlying loans using the effective interest method. When an underlying loan is prepaid in a debt securitization, the related unamortized debt issuance costs are charged to expense based on a pro-rata share of the debt issuance costs being allocated to the specific loans that were prepaid. Amortization of debt issuance costs is included within interest expense in the Company's consolidated statements of operations while the unamortized balance on (i) Secured Funding Agreements and Warehouse Lines of Credit (each individually defined in Note 6 included in these consolidated financial statements) are included within other assets and (ii) the Secured Term Loan and the 2015 Convertible Notes (each individually defined in Note 6 included in these consolidated financial statements) are included as a reduction to the carrying amount of the liability, in the Company's consolidated balance sheets.

The original issue discount ("OID") on amounts drawn under the Company's Secured Term Loan (defined in Note 6 included in these consolidated financial statements) represents a discount to the face amount of the drawn debt obligations. The OID is amortized over the term of the Secured Term Loan using the effective interest method and is included within interest expense in the Company's consolidated statements of operations while the unamortized balance is a reduction to the carrying amount of the Secured Term Loan in the Company's consolidated balance sheets.

### ***Derivative Financial Instruments***

The Company does not hold or issue derivative instruments for trading purposes. The Company recognizes derivatives in its consolidated balance sheets, measures them at their estimated fair value and recognizes changes in their estimated fair value in the Company's consolidated statements of operations for the period in which the change occurs.



Through its subsidiary, ACRE Capital, the Company enters into loan commitments with borrowers on loan originations whereby the interest rate on the prospective loan is determined prior to funding. In general, ACRE Capital simultaneously enters into forward sale commitments with investors in order to hedge interest rate exposure on loan commitments. The forward sale commitment with the investor locks in an interest rate and price for the sale of the loan. The terms of the loan commitment with the borrower and the forward sale commitment with the investor are matched with the objective of hedging interest rate risk. Loan commitments and forward sale commitments are considered undesignated derivative instruments. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value, with changes in fair value recorded in earnings.

On December 19, 2012, the Company issued unsecured 7.00% Convertible Senior Notes that matured in December 2015 (the "2015 Convertible Notes"). The conversion features of the 2015 Convertible Notes were deemed to be an embedded derivative under FASB ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). In accordance with ASC 815, the Company was required to bifurcate the embedded derivative related to the conversion features of the 2015 Convertible Notes. Prior to June 26, 2013, the Company recognized the embedded derivative as a liability on its balance sheet, measured at its estimated fair value and recognized changes in its estimated fair value within changes in fair value of derivatives in the Company's consolidated statements of operations for the period in which the change occurs. See Note 9 included in these consolidated financial statements for information on the derivative liability reclassification. In December 2015, the Company repaid the entire aggregate principal amount outstanding of its 2015 Convertible Notes. See Note 6 included in these consolidated financial statements for information on the 2015 Convertible Notes redemption.

#### ***Fair Value Measurements***

GAAP establishes market-based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The financial instruments recorded at fair value on a recurring basis in the Company's consolidated financial statements are derivative financial instruments, MSRs and loans held for sale. The Company has not elected the fair value option for certain other financial instruments, including loans held for investment, secured funding agreements and other debt instruments. Such financial instruments are carried at cost. Fair value is separately disclosed (see Note 13 included in these consolidated financial statements).

#### ***Allowance for Loss Sharing***

When a loan is sold under the Fannie Mae DUS program, ACRE Capital undertakes an obligation to partially guarantee the performance of the loan. The date ACRE Capital commits to make a loan to a borrower, a liability for the fair value of the obligation undertaken in issuing the guarantee is recognized. Subsequent to the initial commitment date, the Company monitors the performance of each loan for events or circumstances which may signal an additional liability to be recognized if there is a probable and estimable loss. The initial fair value of the guarantee is estimated by examining historical loss share experienced in the ACRE Capital Fannie Mae DUS portfolio over the most recent ten-year period. The initial fair value of the guarantee is included within the provision for loss sharing in the Company's consolidated statements of operations. These historical loss shares serve as a basis to derive a loss share rate which is then applied to the current ACRE Capital DUS portfolio (net of specifically identified impaired loans that are subject to a separate loss share reserve analysis).

#### ***Servicing Fee Payable***

ACRE Capital provides additional payments to certain personnel by providing them with a percentage of the servicing fee revenue that is earned by ACRE Capital, which is initially recorded as a liability when ACRE Capital commits to make a loan to a borrower (the "servicing fee payable"). The initial fair value of the liability represents the expected net cash payments over the life of the related

mortgage loan that are discounted at a rate that reflects the credit and liquidity risk of the related MSR. ACRE Capital incurs an expense over the life of each loan as long as the related loan is performing. If a particular loan is not performing, the recipient will not receive the additional compensation on that loan, and if a loss sharing event is triggered, the recipient will not receive a portion of the additional compensation on other loans. The servicing fee payable is included within other liabilities in the consolidated balance sheets. The initial fair value of the related expense is included within gains from mortgage banking activities and the changes in the fair value of the servicing fee payable over the life of the related mortgage loan is included within servicing fee revenue on a net basis in the consolidated statements of operations in the period in which the change occurs.

### **Revenue Recognition**

*Interest income from loans held for investment* is accrued based on the outstanding principal amount and the contractual terms of each loan. For loans held for investment, origination fees, contractual exit fees and direct loan origination costs are also recognized in interest income from loans held for investment over the initial loan term as a yield adjustment using the effective interest method.

A reconciliation of the Company's interest income from loans held for investment, excluding non-controlling interests, to the Company's interest income from loans held for investment as included within its consolidated statements of operations is as follows (\$ in thousands):

	For the year ended	
	December 31,	
	2015	2014
Interest income from loans held for investment, excluding non-controlling interests	\$ 77,278	\$ 70,188
Interest income from non-controlling interest investment held by third parties	9,059	307
Interest income from loans held for investment	<u>\$ 86,337</u>	<u>\$ 70,495</u>

*Servicing fees* are earned for servicing mortgage loans, including all activities related to servicing the loans, and are recognized as services are provided over the life of the related mortgage loan. Also included in servicing fees are the net fees earned on borrower prepayment penalties and interest earned on borrowers' escrow payments and interim cash balances, along with other ancillary fees and reduced by write-offs of MSRs for loans that are prepaid, changes in the fair value of the servicing fee payable and interest expense related to escrow accounts.

*Gains from mortgage banking activities* includes the initial fair value of MSRs, loan origination fees, gain on the sale of loans originated, interest income and fees earned on loans held for sale, changes to the fair value of derivative financial instruments attributable to the loan commitments and forward sale commitments and reduced by the expense related to the initial fair value of the servicing fee payable and the interest expense related to the Warehouse Lines of Credit (as defined in Note 6 included in these consolidated financial statements). The initial fair value of MSRs, loan origination fees, gain on the sale of loans originated, certain direct loan origination costs for loans held for sale and the expenses related to the initial fair value of the servicing fee payable are recognized when ACRE Capital commits to make a loan to a borrower. When the Company settles a sale agreement and transfers the mortgage loan to the buyer, the Company recognizes a MSR asset equal to the present value of the expected net cash flows associated with the servicing of loans sold.

### **Net Interest Margin and Interest Expense**

Net interest margin within the consolidated statements of operations is a measure that is specific to the Company's principal lending business and serves to measure the performance of the principal

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lending segment's loans held for investment as compared to its use of debt leverage. The Company includes interest income from its loans held for investment and interest expense related to its Secured Funding Agreements, securitizations debt, the Secured Term Loan and the 2015 Convertible Notes (individually defined in Note 6 included in these consolidated financial statements) in net interest margin. For the years ended December 31, 2015, 2014 and 2013, interest expense is comprised of the following (\$ in thousands):

	<u>For the year ended December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Secured funding agreements and securitizations debt	\$ 29,740	\$ 27,299	\$ 8,774
Secured term loan	388	—	—
Convertible notes	6,214	6,338	6,199
Interest expense	<u>\$ 36,342</u>	<u>\$ 33,637</u>	<u>\$ 14,973</u>

***Stock-Based Compensation***

The Company recognizes the cost of stock-based compensation, which is included within compensation and benefits for ACRE Capital and general and administrative expenses for ACRE in the consolidated statements of operations. The fair value of the time vested restricted stock or restricted stock units granted is recorded to expense on a straight-line basis over the vesting period for the award, with an offsetting increase in stockholders' equity. For grants to directors, officers and employees, the fair value is determined based upon the market price of the stock on the grant date.

Certain ACRE Capital employees were granted restricted stock that vest in proportion to various financial performance targets being met over a specified period of time. The fair value of the performance based restricted stock granted is recorded to expense on an accelerated basis, using the accelerated attribution method, over the performance period for the award, with an offsetting increase in stockholders' equity. For performance based measures, compensation expense, net of estimated forfeitures, is recorded based on the Company's estimate of the probable achievement of such measures.

***Underwriting Commissions and Offering Costs***

Underwriting commissions and offering costs incurred in connection with common stock offerings are reflected as a reduction of additional paid-in capital. Costs incurred that are not directly associated with the completion of a common stock offering are expensed when incurred. Underwriting commissions that are the responsibility of and paid by a related party, such as the Company's Manager, are reflected as a contribution of additional paid-in capital from a sponsor in the consolidated financial statements.

***Income Taxes***

The Company has elected and qualified for taxation as a REIT commencing with its taxable year ended December 31, 2012. As a result of the Company's REIT qualification and its distribution policy, the Company does not generally pay U.S. federal corporate level income taxes. Many of the REIT requirements, however, are highly technical and complex. To continue to qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that the Company distribute annually at least 90% of the Company's REIT taxable income to the Company's stockholders. If the Company fails to continue to qualify as a REIT in any taxable year and does not qualify for certain statutory relief provisions, the Company will be subject to U.S. federal and state income taxes at regular corporate rates (including any applicable alternative minimum tax) beginning with the year in which it fails to qualify and may be precluded from being able to elect to be treated as a REIT for the Company's four subsequent taxable years. Even though the Company currently qualifies for taxation as a REIT, the Company may be subject to certain U.S. federal, state, local and foreign taxes on the Company's income and property and to U.S. federal income and excise taxes on the Company's undistributed REIT taxable income.

In connection with the acquisition of ACRE Capital, the Company created a wholly owned subsidiary, ACRE Capital Holdings LLC ("TRS Holdings"), to hold the common units of ACRE Capital. The Company formed a wholly owned subsidiary in December 2013, ACRC W TRS and in March 2014, ACRC U TRS in order to issue and hold certain loans intended for sale. The Company currently owns 100% of the equity of TRS Holdings, ACRC W TRS and ACRC U TRS. Entity classification elections to be taxed as a corporation and taxable REIT subsidiary ("TRS") elections were made with respect to TRS Holdings, ACRC W TRS and ACRC U TRS. A TRS is an entity taxed as a corporation other than a REIT in which a REIT directly or indirectly holds equity, and that has made a joint election with such REIT to be treated as a TRS. Other than some activities relating to lodging and health care facilities, a TRS generally may engage in any business, including investing in assets and engaging in activities that could not be held or conducted directly by the Company without jeopardizing its qualification as a REIT. A TRS is subject to applicable U.S. federal, state, local and foreign income tax on its taxable income. In addition, as a REIT, the Company also may be subject to a 100% excise tax on certain transactions between it and its TRS that are not conducted on an arm's-length basis.

For financial reporting purposes, a provision for current and deferred taxes has been established for the portion of the Company's GAAP consolidated earnings recognized by TRS Holdings, ACRC W TRS and ACRC U TRS.

FASB ASC Topic 740, *Income Taxes* ("ASC 740"), prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company has analyzed its various federal and state filing positions and believes that its income tax filing positions and deductions are well documented and supported. As of December 31, 2015 and 2014, based on the Company's evaluation, there is no reserve for any uncertain income tax positions. TRS Holdings, ACRC W TRS and ACRC U TRS recognize interest and penalties, if any, related to unrecognized tax benefits within income tax expense in the consolidated statements of operations. Accrued interest and penalties, if any, are included within other liabilities in the consolidated balance sheets.

### ***Comprehensive Income***

For the years ended December 31, 2015, 2014 and 2013, comprehensive income equaled net income; therefore, a separate consolidated statement of comprehensive income is not included in the accompanying consolidated financial statements.

### ***Earnings per Share***

The Company calculates basic earnings (loss) per share by dividing net income (loss) allocable to common stockholders for the period by the weighted-average shares of common stock outstanding for that period after consideration of the earnings (loss) allocated to the Company's restricted stock, which are participating securities as defined in GAAP. Diluted earnings (loss) per share takes into effect any dilutive instruments, such as restricted stock and convertible debt, except when doing so would be anti-dilutive. With respect to the 2015 Convertible Notes, the Company applied the treasury stock method when determining the dilutive impact on earnings per share.

### ***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

***Business Combinations***

The Company accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. The Company recognizes identifiable assets acquired and liabilities (both specific and contingent) assumed at their fair values at the acquisition date. Furthermore, acquisition-related costs, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the acquired assets. The excess of the assets acquired and liabilities assumed over the purchase price is recognized as a gain on acquisition. During the measurement period, the Company records adjustments to the assets acquired and liabilities assumed with corresponding adjustments to the gain on acquisition. After the measurement period, which could be up to one year after the transaction date, subsequent adjustments are recorded through earnings.

***Asset Acquisitions***

The Company accounts for acquired assets and assumed liabilities that do not meet the definition of a business as an asset acquisition, under which the cost of the acquisition is allocated to the assets acquired and liabilities assumed on a relative fair value basis. Acquisition-related costs, such as due diligence, legal and accounting fees, are capitalized as a component of the cost of the assets acquired.

***Costs Associated with Restructuring Activities***

The Company began restructuring and relocating certain ACRE Capital support services during the three months ended March 31, 2014. The Company incurred costs related to these restructuring activities, including employee termination costs and office relocation costs. The employee termination costs are associated with the severance of certain employees, retention bonuses and guaranteed bonuses to certain key employees, insurance and outplacement, which were accounted for on a straight-line basis over the period from notification through each employee's termination date. If employees were required to render services (beyond a minimum retention period) in order to receive the termination benefits, a liability for employee termination costs was measured initially at the communication date based on its fair value, as of the termination date, and recognized ratably over the future service period. Office relocation costs included costs that were incurred in the physical move of offices and incremental rent costs, which were expensed when space was vacated. The costs incurred were included within general and administrative expenses in the Company's consolidated statements of operations. The ACRE Capital restructuring was completed as of December 31, 2014. See Note 20 included in these consolidated financial statements.

***Recent Accounting Pronouncements***

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The guidance in this ASU supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition." Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation: Amendments to the Consolidation Analysis (Topic 810)." The guidance in this ASU includes amendments to Topic 810,

"Consolidation." The new guidance modifies the consolidation analysis for limited and general partnerships and similar type entities, as well as variable interests in a VIE, particularly those that have fee arrangements and related party relationships. Additionally, it provides a scope exception to the consolidation guidance for certain entities. The amendments in ASU No. 2015-02 are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The new guidance modifies the requirements for reporting debt issuance costs. Under the amendments in ASU No. 2015-03, debt issuance costs related to a recognized debt liability will no longer be recorded as a separate asset, but will be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU No. 2015-03. In addition, in August 2015, the FASB issued ASU No. 2015-15, "Interest—Imputation of Interest (Subtopic 835-30)." The additional guidance reiterates that the SEC would not object to an entity deferring and presenting debt issuance costs related to a line of credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings. ASU No. 2015-03 and ASU No. 2015-15 are required to be applied retrospectively for periods beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company early adopted this guidance retrospectively during the fourth quarter of 2015. As a result of adopting this guidance, the following balance sheet line items decreased as of December 31, 2014 as presented in the following table (\$ in thousands):

	As of December 31, 2014						
	Other Assets	Total Assets	Convertible Notes	Commercial Mortgage-Backed Securitization Debt	Collateralized Loan Obligation Securitization Debt	Total Liabilities	Total Liabilities and Equity
Previously reported	\$ 60,502	\$ 1,867,653	\$ 68,395	\$ 219,043	\$ 308,703	\$ 1,386,767	\$ 1,867,653
Deferred debt issuance costs	(5,498)	(5,498)	(981)	(1,548)	(2,969)	(5,498)	(5,498)
<b>Current presentation</b>	<b>\$ 55,004</b>	<b>\$ 1,862,155</b>	<b>\$ 67,414</b>	<b>\$ 217,495</b>	<b>\$ 305,734</b>	<b>\$ 1,381,269</b>	<b>\$ 1,862,155</b>

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The guidance in this ASU supersedes the leasing guidance in Topic 840, "Leases." Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. The amendments in ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

### 3. LOANS HELD FOR INVESTMENT

As of December 31, 2015, the Company had originated or co-originated 38 loans held for investment, excluding 24 loans that were repaid or sold since inception. The aggregate originated commitment under these loans at closing was approximately \$1.3 billion and outstanding principal was \$1.1 billion, excluding non-controlling interests held by third parties, as of December 31, 2015. During the year ended December 31, 2015, the Company funded approximately \$229.9 million of outstanding principal, received repayments of \$410.6 million of outstanding principal, excluding non-controlling interests held by third parties, and sold a \$75.0 million loan to a third party as described in more detail

in the tables below. Such investments are referred to herein as the Company's "investment portfolio." As of December 31, 2015, 66.2% of the Company's loans have LIBOR floors, with a weighted average floor of 0.24%, calculated based on loans with LIBOR floors. References to LIBOR or "L" are to 30-day LIBOR (unless otherwise specifically stated).

The Company's investments in mortgages and loans held for investment are accounted for at amortized cost. The following tables summarize the Company's loans held for investment as of December 31, 2015 and 2014 (\$ in thousands):

As of December 31, 2015					
	Carrying Amount(1)	Outstanding Principal(1)	Weighted Average Interest Rate	Weighted Average Unleveraged Effective Yield(2)	Weighted Average Remaining Life (Years)
Senior mortgage loans	\$ 961,395	\$ 965,578	4.4%	5.1%	1.4
Subordinated debt and preferred equity investments	166,417	168,264	10.6%	11.2%	5.1
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	<u>\$ 1,127,812</u>	<u>\$ 1,133,842</u>	<u>5.3%</u>	<u>6.0%</u>	<u>1.9</u>

As of December 31, 2014					
	Carrying Amount(1)	Outstanding Principal(1)	Weighted Average Interest Rate	Weighted Average Unleveraged Effective Yield(2)	Weighted Average Remaining Life (Years)
Senior mortgage loans	\$ 1,156,476	\$ 1,164,055	4.5%	5.0%	2.1
Subordinated debt and preferred equity investments	228,499	231,226	10.3%	10.7%	6.1
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	<u>\$ 1,384,975</u>	<u>\$ 1,395,281</u>	<u>5.5%</u>	<u>6.0%</u>	<u>2.8</u>

- (1) The difference between the Carrying Amount and the Outstanding Principal face amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs. The tables above exclude non-controlling interests held by third parties. A reconciliation of the Carrying Amount of loans held for investment portfolio, excluding non-controlling interests, to the Carrying Amount of loans held for investment, as included within the Company's consolidated balance sheets is presented below.
- (2) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premium or discount) and assumes no dispositions, early prepayments or defaults. The Total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of December 31, 2015 and 2014 as weighted by the Outstanding Principal balance of each loan.

A reconciliation of the Company's loans held for investment portfolio, excluding non-controlling interests held by third parties, to the Company's loans held for investment as included within its consolidated balance sheets is as follows (\$ in thousands):

	As of December 31, 2015	
	Carrying Amount	Outstanding Principal
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	\$ 1,127,812	\$ 1,133,842
Non-controlling interest investment held by third parties	46,579	46,579
Loans held for investment	<u>\$ 1,174,391</u>	<u>\$ 1,180,421</u>

	As of December 31, 2014	
	Carrying Amount	Outstanding Principal
Total loans held for investment portfolio (excluding non-controlling interests held by third parties)	\$ 1,384,975	\$ 1,395,281
Non-controlling interest investment held by third parties	77,609	77,609
Loans held for investment	<u>\$ 1,462,584</u>	<u>\$ 1,472,890</u>



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A more detailed listing of the Company's investment portfolio, excluding non-controlling interests, based on information available as of December 31, 2015 is as follows (\$ in millions, except percentages):

Loan Type	Location	Outstanding Principal(1)	Carrying Amount(1)	Interest Rate	Unleveraged Effective Yield(2)	Maturity Date(3)	Payment Terms(4)
<b>Senior Mortgage Loans:</b>							
Office	TX	\$ 80.5	\$ 80.0	L+5.00%	6.2%	Jan 2017	I/O
Retail	IL	75.9	75.6	L+4.00%(6)	4.8%	Aug 2017	I/O
Mixed-use	IL	53.2	52.7	L+3.60%	4.4%	Oct 2018	I/O
Office	FL	47.3	47.3	L+5.25%	5.6%	Apr 2016	I/O
Multifamily	TX	44.7	44.7	L+3.75%	4.7%	July 2016	I/O
Healthcare	NY	41.6	41.4	L+5.00%	5.9%	Dec 2016	I/O
Industrial	MO/KS	37.4	37.3	L+4.30%	5.2%	Jan 2017	P/I (5)
Hotel	NY	36.5	36.2	L+4.75%	5.6%	June 2018	I/O
Hotel	MI	35.2	35.1	L+4.15%	4.8%	July 2017	I/O
Multifamily	TX	35.0	35.0	L+3.75%	4.7%	July 2016	I/O
Office	FL	34.0	33.9	L+3.65%	4.3%	Oct 2017	I/O
Industrial	OH	32.5	32.3	L+4.20%	5.0%	May 2018	I/O(5)
Retail	IL	30.4	30.2	L+3.25%	4.1%	Sep 2018	I/O
Multifamily	NY	28.3	28.2	L+3.75%	4.7%	Oct 2017	I/O
Multifamily	TX	27.6	27.5	L+3.65%	4.6%	Jan 2017	I/O
Office	OR	28.4	28.1	L+3.75%	4.6%	Oct 2018	I/O
Mixed-use	NY	28.0	27.9	L+4.25%	5.0%	Aug 2017	I/O
Office	KS	25.5	25.5	L+5.00%	5.9%	Mar 2016	I/O
Multifamily	TX	25.0	24.9	L+3.65%	4.6%	Jan 2017	I/O
Multifamily	TX	23.9	23.8	L+3.80%	4.4%	Jan 2019	I/O
Multifamily	GA	23.1	23.0	L+3.85%	5.0%	May 2017	I/O
Multifamily	AZ	22.1	22.1	L+4.25%	5.5%	Sep 2016	I/O
Industrial	VA	19.0	19.0	L+5.25%	6.4%	Jan 2016(7)	I/O
Office	CO	18.7	18.5	L+3.95%	4.9%	Dec 2017	I/O
Office	CA	15.9	15.8	L+3.75%	4.6%	July 2016	I/O
Multifamily	NC	16.0	15.9	L+4.00%	5.0%	Apr 2017	I/O
Office	CA	14.9	14.9	L+4.50%	5.5%	July 2016	I/O
Multifamily	NY	14.9	14.9	L+3.85%	4.7%	Nov 2017	I/O
Office	CA	14.5	14.5	L+4.75%	5.8%	Feb 2016	I/O
Mixed-use	NY	13.1	13.0	L+3.95%	5.0%	Sep 2017	I/O
Multifamily	FL	12.3	12.2	L+3.75%	4.8%	Apr 2017	I/O
Industrial	CA	10.1	10.0	L+5.25%	6.5%	May 2017	I/O
<b>Subordinated Debt and Preferred Equity Investments:</b>							
Multifamily	GA and FL	50.8	50.3	L+11.85%(8)	12.5%	June 2021	I/O
Multifamily	NY	33.3	33.2	L+8.07%	8.8%	Jan 2019	I/O
Office	GA	14.3	14.3	9.50%	9.5%	Aug 2017	I/O
Mixed-use	NY	16.5	16.4	11.50%(9)	12.1%	Nov 2016	I/O
Multifamily	TX	4.9	4.8	L+11.00%(10)	11.8%	Oct 2016	I/O
Various	Diversified(11)	48.5	47.4	10.95%	11.7%	Dec 2024	I/O
<b>Total/Weighted Average</b>		<b>\$ 1,133.8</b>	<b>\$ 1,127.8</b>		<b>6.0%</b>		

- (1) The difference between the Carrying Amount and the Outstanding Principal amount of the loans held for investment consists of unamortized purchase discount, deferred loan fees and loan origination costs.
- (2) Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premium or discount) and assumes no dispositions, early prepayments or defaults. Unleveraged Effective Yield for each loan is calculated based on LIBOR as of December 31, 2015 or the LIBOR floor, as applicable. The Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of December 31, 2015 as weighted by the Outstanding Principal balance of each loan.
- (3) Certain loans are subject to contractual extension options that vary between one and two 12-month extensions and may be subject to performance based or other conditions as stipulated in the loan agreement. Actual maturities may differ from contractual maturities stated herein as certain borrowers may have the right to prepay with or without paying a prepayment penalty. The Company may also extend contractual maturities in connection with loan modifications.
- (4) I/O = interest only, P/I = principal and interest.

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- (5) In January 2015, amortization began on the senior Missouri/Kansas loan, which had an outstanding principal balance of \$37.4 million as of December 31, 2015. In May 2017, amortization will begin on the senior Ohio loan, which had an outstanding principal balance of \$32.5 million as of December 31, 2015. The remainder of the loans in the Company's principal lending portfolio are non-amortizing through their primary terms.
- (6) In April 2015, the Company entered into a loan modification that lowered the interest rate to L+4.00% with a 4.20% interest rate floor and extended the make-whole provision to November 2016.
- (7) In December 2015, the Company entered into a modification agreement that extended the maturity date to January 2016.
- (8) The preferred return is L+11.85% with 2.00% as payment-in-kind ("PIK"), to the extent cash flow is not available. There is no capped dollar amount on accrued PIK.
- (9) The interest rate is 11.50% with a 9.00% current pay and up to a capped dollar amount as PIK based on the borrower's election. In July 2015, the Company entered into an amendment to increase the loan commitment and outstanding principal by \$650 thousand at an interest rate of 15.00% on the increased commitment and outstanding principal only.
- (10) The preferred return is L+11.00% with a L+9.00% current pay and up to a capped dollar amount as PIK.
- (11) The preferred equity investment is in an entity whose assets are comprised of multifamily, student housing and medical office properties.

For the years ended December 31, 2015 and 2014, the activity in the Company's loan portfolio was as follows (\$ in thousands):

<b>Balance at December 31, 2013</b>	<b>\$ 958,495</b>
Initial funding	637,222
Receipt of origination fees, net of costs	(7,026)
Additional funding	80,215
Loan payoffs	(209,983)
Origination fee accretion	3,661
<b>Balance at December 31, 2014</b>	<b>\$ 1,462,584</b>
Initial funding	159,348
Receipt of origination fees, net of costs	(1,078)
Additional funding	70,529
Amortizing payments	(601)
Loan payoffs	(446,745)
Loans sold to third parties(1)	(74,625)
Origination fee accretion	4,979
<b>Balance at December 31, 2015</b>	<b>\$ 1,174,391</b>

- (1) In July 2015, the Company sold a loan to a third party that was previously classified as held for investment. At the time of the sale, the loan had an unleveraged effective yield of 4.2% as compared to the 4.9% weighted average unleveraged effective yield for all senior loans held by the Company. No gain or loss was recognized on the sale.

No impairment charges have been recognized during the years ended December 31, 2015, 2014 and 2013.

#### 4. MORTGAGE SERVICING RIGHTS

MSRs represent servicing rights retained by ACRE Capital for loans it originates and sells. The servicing fees are collected from the monthly payments made by the borrowers. ACRE Capital generally receives other remuneration including rights to various loan fees such as late charges, collateral re-conveyance charges, loan prepayment penalties, and other ancillary fees. In addition, ACRE Capital is also generally entitled to retain the interest earned on funds held pending remittance related to its collection of loan principal and escrow balances. As of December 31, 2015 and 2014, the carrying value of MSRs was approximately \$61.8 million and \$58.9 million, respectively. As of

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December 31, 2015 and 2014, ACRE Capital had a servicing portfolio consisting of 973 and 976 loans, respectively, with an unpaid principal balance of \$4.9 billion and \$4.1 billion, respectively, which excludes ACRE's loans held for investment portfolio (see Note 14 included in these consolidated financial statements).

Activity related to MSR's as of and for the years ended December 31, 2015 and 2014 was as follows (\$ in thousands):

<b>Balance at December 31, 2013</b>	<b>\$ 59,640</b>
MSR's acquired in asset acquisition (See Note 17)	1,259
Additions, following sale of loan	7,853
Changes in fair value	(7,650)
Prepayments and write-offs	(2,213)
<b>Balance at December 31, 2014</b>	<b>\$ 58,889</b>
MSR's purchased	549
Additions, following sale of loan	13,267
Changes in fair value	(8,798)
Prepayments and write-offs	(2,107)
<b>Balance at December 31, 2015</b>	<b>\$ 61,800</b>

As discussed in Note 2 included in these consolidated financial statements, the Company determines the fair values of the MSR's based on discounted cash flow models that calculate the present value of estimated future net servicing income. The fair values of ACRE Capital's MSR's are subject to changes in discount rates. For example, a 100 basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of ACRE Capital's MSR's outstanding as of December 31, 2015 and 2014 by approximately \$2.0 million and \$1.8 million, respectively.

## 5. INTANGIBLE ASSETS

As of December 31, 2015 and 2014, the carrying value of the Company's intangible assets, as described in Note 2 included in these consolidated financial statements, was \$6.0 million, which is included within other assets in the Company's consolidated balance sheets. On August 5, 2014, ACRE Capital was approved and granted a license by Freddie Mac as a Program Plus® Seller/Servicer for multifamily loans under which ACRE Capital is authorized to sell and service Freddie Mac loans secured by multifamily properties located in New York and Princeton, New Jersey. ACRE Capital can also sell and service Freddie Mac loans secured by multifamily properties located outside of its approved geographic area if it obtains a waiver from Freddie Mac. As a Program Plus® Seller/Servicer, ACRE Capital is approved to originate and sell to Freddie Mac multifamily loans that satisfy Freddie Mac's underwriting and other eligibility requirements. Under the program, ACRE Capital submits its completed loan underwriting package to Freddie Mac and obtains Freddie Mac's commitment to purchase the loan at a specified price after closing. Ultimately, Freddie Mac performs its own underwriting of loans that ACRE Capital sells to it. Freddie Mac may choose to hold, sell, or later securitize such loans. ACRE Capital does not have any material risk-sharing arrangements on loans it sells to Freddie Mac under Program Plus®.

As of December 31, 2015, the carrying value of the Company's intangible assets of \$6.0 million includes the Freddie Mac Program Plus® Seller/Servicer license with a carrying value of \$1.0 million. The identified intangible assets have indefinite lives and are not subject to amortization. The Company performs an annual assessment of impairment of its intangible assets in the fourth quarter of each year or whenever events or circumstances make it more likely than not that impairment may have occurred. For the years ended December 31, 2015 and 2014, no impairment charges have been recognized.

**6. DEBT**

**Financing Agreements**

The Company borrows funds under the ASAP Line of Credit and the BAML Line of Credit (individually defined below and together, the "Warehouse Lines of Credit"), the Wells Fargo Facility, the Citibank Facility, the BAML Facility, the CNB Facilities, the MetLife Facility and the UBS Facilities (individually defined below and along with the Capital One Facility, collectively, the "Secured Funding Agreements"). The Company refers to the Warehouse Lines of Credit, the Secured Funding Agreements and the Secured Term Loan (defined below) as the "Financing Agreements". As of December 31, 2015 and 2014, the outstanding balances and total commitments under the Financing Agreements consisted of the following (\$ in thousands):

	As of December 31,			
	2015		2014	
	Outstanding Balance	Total Commitment	Outstanding Balance	Total Commitment
Wells Fargo Facility	\$ 101,473	\$ 225,000	\$ 120,766	\$ 225,000
Citibank Facility	112,827	250,000	93,432	250,000
Capital One Facility	—	—(1)	—	100,000
BAML Facility	—	50,000	—	—
March 2014 CNB Facility	—	50,000	42,000	50,000
July 2014 CNB Facility	66,200	75,000	75,000	75,000
MetLife Facility	109,474	180,000	144,673	180,000
April 2014 UBS Facility	75,558	140,000	19,685	140,000
December 2014 UBS Facility	57,243	57,243	57,243	57,243
ASAP Line of Credit	—	80,000(2)	58,469	80,000(2)
BAML Line of Credit	24,806	135,000(3)	134,696	180,000(3)
Secured Term Loan	75,000	155,000	—	—
<b>Total</b>	<b>\$ 622,581</b>	<b>\$ 1,397,243</b>	<b>\$ 745,964</b>	<b>\$ 1,337,243</b>

- (1) The secured revolving funding facility with Capital One, National Association (as amended, the "Capital One Facility") matured on May 18, 2015. The Capital One Facility had been repaid in full and its term was not extended.
- (2) The commitment amount is subject to change at any time at Fannie Mae's discretion.
- (3) In November 2014, the BAML Line of Credit's (defined below) commitment size temporarily increased from \$80.0 million to \$180.0 million for the period November 25, 2014 through January 26, 2015. In February 2015, the BAML Line of Credit's commitment size increased from \$80.0 million to \$135.0 million. In April 2015, the BAML Line of Credit's commitment size temporarily increased from \$135.0 million to \$185.0 million for the period April 15, 2015 to June 1, 2015.

Some of the Company's Financing Agreements are collateralized by (i) assignments of specific loans, preferred equity or a pool of loans held for investment or loans held for sale owned by the

Company, (ii) interests in the subordinated portion of the Company's securitizations debt, or (iii) interests in wholly owned entity subsidiaries that hold the Company's loans held for investment. The Company is the borrower or guarantor of each of the Financing Agreements (excluding the Warehouse Lines of Credit). Generally, the Company partially offsets interest rate risk by matching the interest index of loans held for investment with the Secured Funding Agreements used to fund them. The Company's Financing Agreements contain various affirmative and negative covenants and provisions regarding events of default that are normal and customary for similar financing arrangements.

### ***Wells Fargo Facility***

The Company is party to a master repurchase funding facility arranged by Wells Fargo Bank, National Association ("Wells Fargo") (as amended and restated, the "Wells Fargo Facility"), which allows the Company to borrow up to \$225.0 million. In December 2014, the Company amended and restated the Wells Fargo Facility to, among other things, extend the maturity date from December 14, 2014 to December 14, 2015 and waive the non-utilization fee from December 14, 2014 through April 14, 2015. In December 2015, the Company amended and restated the Wells Fargo Facility to, among other things, extend the maturity date from December 14, 2015 to December 14, 2016. Provided that certain conditions are met and applicable extension fees are paid, the maturity date is subject to two 12-month extensions at the Company's option. Under the Wells Fargo Facility, the Company is permitted to sell, and later repurchase, certain qualifying senior commercial mortgage loans, A-Notes, pari passu participations in commercial mortgage loans and mezzanine loans under certain circumstances, subject to available collateral. Beginning on December 14, 2015, advances under the Wells Fargo Facility accrue interest at a per annum rate equal to the sum of (i) 30 day LIBOR plus (ii) a pricing margin range of 1.75% to 2.35%. Prior to December 14, 2015, advances under the Wells Fargo Facility accrue interest at a per annum rate equal to the sum of (i) 30 day LIBOR plus (ii) a pricing margin range of 2.00% to 2.50%. Subject to the waiver set forth above, the Company incurs a non-utilization fee of 25 basis points on the daily available balance of the Wells Fargo Facility to the extent less than 75% of the Wells Fargo Facility is utilized. For the years ended December 31, 2015, 2014 and 2013, the Company incurred a non-utilization fee of \$195 thousand, \$213 thousand and \$218 thousand, respectively.

The Wells Fargo Facility contains various affirmative and negative covenants and provisions regarding events of default that are applicable to the Company and certain of the Company's subsidiaries, which are normal and customary for similar repurchase facilities, including the following: (a) limitations on the incurrence of additional indebtedness or liens, (b) limitations on how borrowed funds may be used, (c) limitations on certain distributions and dividend payments in excess of the minimum amount necessary to continue to qualify as a REIT and avoid the payment of income and excise taxes, (d) maintenance of adequate capital, (e) limitations on change of control, (f) maintaining a ratio of total debt to tangible net worth of not more than 4.00 to 1.00, (g) maintaining a ratio of recourse debt to tangible net worth of not more than 3.00 to 1.00, (h) maintaining a fixed charge coverage ratio (expressed as the ratio of EBITDA (net income before net interest expense, income tax expense, depreciation and amortization), as defined, to fixed charges) for the immediately preceding 12-month period ending on the last date of the applicable reporting period to be at least 1.25 to 1.00, (i) maintaining a tangible net worth of at least the sum of (1) approximately \$135.5 million, plus (2) 80% of the net proceeds raised in all future equity issuances by the Company and (j) if certain specific debt yield, loan to value or other credit based tests are not met with respect to assets on the Wells Fargo Facility, the Company may be required to repay certain amounts under the Wells Fargo Facility. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the Wells Fargo Facility.

***Citibank Facility***

The Company is party to a \$250.0 million master repurchase facility (the "Citibank Facility") with Citibank, N.A. Under the Citibank Facility, the Company is permitted to sell and later repurchase certain qualifying senior commercial mortgage loans and A-Notes approved by Citibank, N.A. in its sole discretion. Advances under the Citibank Facility accrue interest at a per annum rate equal to 30 day LIBOR plus a pricing margin of 2.00% to 2.50%, subject to certain exceptions. Under the Citibank Facility, the maturity date is December 8, 2016, subject to three 12-month extensions at the Company's option assuming no existing defaults under the Citibank Facility and applicable extension fees are paid. The Company incurs a non-utilization fee of 25 basis points on the daily available balance of the Citibank Facility. For the years ended December 31, 2015, 2014 and 2013, the Company incurred a non-utilization fee of \$369 thousand, \$316 thousand and \$164 thousand, respectively.

The Citibank Facility contains various affirmative and negative covenants and provisions regarding events of default that are applicable to the Company and certain of the Company's subsidiaries, which are normal and customary for similar repurchase facilities, including the following: (a) maintaining tangible net worth of at least the sum of (1) 80% of the Company's tangible net worth as of September 30, 2013, plus (2) 80% of the total net capital raised in all future equity issuances by the Company, (b) maintaining liquidity in an amount not less than the greater of (1) \$5.0 million or (2) 5% of the Company's recourse indebtedness, not to exceed \$10.0 million (provided that in the event the Company's total liquidity equals or exceeds \$5.0 million, the Company may satisfy the difference between the minimum total liquidity requirement and the Company's total liquidity with available borrowing capacity), (c) maintaining a fixed charge coverage ratio (expressed as the ratio of EBITDA (net income before net interest expense, income tax expense, depreciation and amortization), as defined, to fixed charges) for the immediately preceding 12-month period ending on the last date of the applicable reporting period to be at least 1.25 to 1.00, (d) maintaining a ratio of total debt to tangible net worth of not more than 4.00 to 1.00, (e) maintaining a ratio of recourse debt to tangible net worth of not more than 3.00 to 1.00 and (f) if certain specific debt yield and loan to value tests are not met with respect to assets on the Citibank Facility, the Company may be required to repay certain amounts under the Citibank Facility. The Citibank Facility also prohibits the Company from amending the management agreement with its Manager in a material respect without the prior consent of the lender. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the Citibank Facility.

***BAML Facility***

The Company is party to a \$50.0 million Bridge Loan Warehousing Credit and Security Agreement (the "BAML Facility") with Bank of America, N.A. Under the BAML Facility, the Company may obtain advances secured by eligible commercial mortgage loans collateralized by healthcare facilities and other multifamily properties. Bank of America, N.A. may approve the loans on which advances are made under the BAML Facility in its sole discretion. The Company may request individual loans under the BAML Facility through May 26, 2016. Individual advances under the BAML Facility generally have a two-year maturity, subject to one 12-month extension at the Company's option upon the satisfaction of certain conditions and applicable extension fees being paid. The BAML Facility is fully guaranteed by the Company and a subsidiary of the Company has pledged its equity interest in the Company's subsidiary, ACRC Lender B LLC, to secure the obligations under the BAML Facility. The final maturity date of individual loans under the BAML Facility is May 26, 2019. Advances under the BAML Facility accrue interest at a per annum rate equal to one-month LIBOR plus a spread ranging from 2.25% to 2.75% depending upon the type of asset securing such advance. The BAML Facility contains mandatory prepayment events with respect to individual advances if certain specified coverage ratio or other credit based tests are not met with respect to the related eligible assets. The Company incurs a non-utilization fee of 12.5 basis points on the average daily available balance of the BAML Facility. For

the year ended December 31, 2015, the Company incurred a non-utilization fee of \$37 thousand. See Note 21 included in these consolidated financial statements for a subsequent event related to the BAML Facility.

The BAML Facility contains various affirmative and negative covenants and provisions regarding events of default that are applicable to the Company and certain of the Company's subsidiaries, which are normal and customary for similar financing facilities, including the following: (a) limitations on the incurrence of additional indebtedness or liens, (b) limitations on how borrowed funds may be used, (c) limitations on certain distributions and dividend payments following a default or event of default, (d) limitations on dispositions of assets and (e) prohibitions of certain change of control events. The agreements governing the BAML Facility also impose certain covenants on the Company, including the following: (i) maintaining a ratio of total debt to tangible net worth of not more than 4.00 to 1.00, (ii) maintaining a ratio of recourse debt to tangible net worth of not more than 3.00 to 1.00, (iii) maintaining a tangible net worth of at least 80% of the Company's net worth as of September 30, 2013, plus 80% of the net cash proceeds raised in equity issuances by the Company after September 30, 2013, (iv) maintaining a fixed charge coverage ratio (expressed as the ratio of EBITDA (net income before net interest expense, income tax expense, depreciation and amortization), as defined, to fixed charges) for the immediately preceding 12-month period ending on the last date of the applicable reporting period of at least 1.25 to 1.00, (v) limitations on mergers, consolidations, transfers of assets and similar transactions and (vi) maintaining its status as a REIT. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the BAML Facility.

#### ***City National Bank Facilities***

##### ***March 2014 CNB Facility***

The Company is party to a \$50.0 million secured revolving funding facility with City National Bank (the "March 2014 CNB Facility"). The Company is permitted to borrow funds under the March 2014 CNB Facility to finance investments and for other working capital and general corporate needs. Advances under the March 2014 CNB Facility accrue interest at a per annum rate equal to the sum of, at the Company's option, either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12-month interest period plus 3.00% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%) plus 1.25%; provided that in no event shall the interest rate be less than 3.00%. Unless at least 75% of the March 2014 CNB Facility is used on average, unused commitments under the March 2014 CNB Facility accrue unused line fees at the rate of 0.375% per annum. For the years ended December 31, 2015 and 2014, the Company incurred a non-utilization fee of \$177 thousand and \$82 thousand, respectively. The initial maturity date is March 11, 2016, subject to one 12-month extension at the Company's option provided that certain conditions are met and applicable extension fees are paid. See Note 21 included in these consolidated financial statements for a subsequent event related to the March 2014 CNB Facility.

The March 2014 CNB Facility contains various affirmative and negative covenants and provisions regarding events of default that are applicable to the Company and certain of the Company's subsidiaries, which are normal and customary for similar financing facilities, including the following: (a) limitations on the incurrence of additional indebtedness or liens, (b) limitations on how borrowed funds may be used, (c) limitations on certain distributions and dividend payments following a default or event of default, (d) limitations on dispositions of assets, (e) maintenance of minimum total asset value by the borrower under the March 2014 CNB Facility and its subsidiaries, and (f) prohibitions of certain change of control events. The agreements governing the March 2014 CNB Facility also impose certain covenants on the Company, including the following: (i) maintaining a ratio of total debt to tangible net worth of not more than 4.00 to 1.00, (ii) maintaining a ratio of recourse debt to tangible net worth of not more than 3.00 to 1.00, (iii) maintaining a tangible net worth of at least 80% of the Company's net worth as of September 30, 2013, plus 80% of the net cash proceeds raised in equity issuances by the

Company after March 12, 2014, (iv) maintaining a fixed charge coverage ratio (expressed as the ratio of EBITDA (net income before net interest expense, income tax expense, depreciation and amortization), as defined, to fixed charges) for the immediately preceding 12-month period ending on the last date of the applicable reporting period of at least 1.25 to 1.00, (v) limitations on mergers, consolidations, transfers of assets and similar transactions, and (vi) maintaining its status as a REIT. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the March 2014 CNB Facility.

#### ***July 2014 CNB Facility***

The Company and certain of its subsidiaries are party to a \$75.0 million revolving funding facility (the "July 2014 CNB Facility" and together with the March 2014 CNB Facility, the "CNB Facilities") with City National Bank. The Company is permitted to borrow funds under the July 2014 CNB Facility to finance investments and for other working capital and general corporate needs. Advances under the July 2014 CNB Facility accrue interest at a per annum rate equal, at the Company's option, to either (a) LIBOR for a one, two, three, six or, if available to all lenders, 12-month interest period plus 1.50% or (b) a base rate (which is the highest of a prime rate, the federal funds rate plus 0.50%, or one month LIBOR plus 1.00%) plus 0.25%; provided that in no event shall the interest rate be less than 1.50%. Unless at least 75% of the July 2014 CNB Facility is used on average, unused commitments under the July 2014 CNB Facility accrue unused line fees at the rate of 0.125% per annum. For the years ended December 31, 2015 and 2014, the Company incurred a non-utilization fee of \$4 thousand and \$15 thousand, respectively. In July 2015, the Company exercised a 12-month extension option to extend the maturity date to July 31, 2016. See Note 14 included in these consolidated financial statements for more information on a credit support fee agreement with respect to the July 2014 CNB Facility.

The July 2014 CNB Facility contains various affirmative and negative covenants and provisions regarding events of default that are applicable to the Company and certain of the Company's subsidiaries, which are normal and customary for similar financing facilities, including the following: (a) limitations on the incurrence of additional indebtedness or liens, (b) limitations on how borrowed funds may be used, (c) limitations on certain distributions and dividend payments following a default or event of default, (d) limitations on dispositions of assets, (e) maintenance of minimum total asset value by the borrower under the July 2014 CNB Facility and its subsidiaries and (f) prohibitions of certain change of control events. The agreements governing the July 2014 CNB Facility also impose certain covenants on the Company, including the following: (i) maintaining a ratio of total debt to tangible net worth of not more than 4.00 to 1.00, (ii) maintaining a ratio of recourse debt to tangible net worth of not more than 3.00 to 1.00, (iii) maintaining a tangible net worth of at least 80% of the Company's net worth as of September 30, 2013, plus 80% of the net cash proceeds raised in equity issuances by the Company after July 30, 2014, (iv) maintaining a fixed charge coverage ratio (expressed as the ratio of EBITDA (net income before net interest expense, income tax expense, depreciation and amortization), as defined, to fixed charges) for the immediately preceding 12-month period ending on the last date of the applicable reporting period of at least 1.25 to 1.00, (v) limitations on mergers, consolidations, transfers of assets and similar transactions and (vi) maintaining its status as a REIT. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the July 2014 CNB Facility.

#### ***MetLife Facility***

The Company and certain of its subsidiaries are party to a \$180.0 million revolving master repurchase facility (the "MetLife Facility") with Metropolitan Life Insurance Company ("MetLife"), pursuant to which the Company may sell, and later repurchase, commercial mortgage loans meeting defined eligibility criteria which are approved by MetLife in its sole discretion. Advances under the



MetLife Facility accrue interest at a per annum rate of 30 day LIBOR plus 2.35%. The Company will pay MetLife, if applicable, an annual make-whole fee equal to the amount by which the aggregate price differential paid over the term of the MetLife Facility is less than the defined minimum price differential, unless certain conditions are met. The initial maturity date of the MetLife Facility is August 12, 2017, subject to two 12-month extensions at the Company's option provided that certain conditions are met and applicable extension fees are paid.

The MetLife Facility contains various affirmative and negative covenants and provisions regarding events of default that are applicable to the Company and certain of the Company's subsidiaries, which are normal and customary for similar repurchase facilities, including the following: (a) limitations on the incurrence of additional indebtedness or liens, (b) limitations on how borrowed funds may be used, (c) limitations on certain distributions and dividend payments following a default or event of default, and (d) limitations on dispositions of assets. The agreements governing the MetLife Facility also impose certain covenants on the Company, including the following: (i) maintaining a ratio of total debt to tangible net worth of not more than 4.00 to 1.00, (ii) maintaining a ratio of recourse debt to tangible net worth of not more than 3.00 to 1.00, (iii) maintaining a tangible net worth of at least 80% of the Company's net worth as of September 30, 2013, plus 80% of the net cash proceeds raised in equity issuances by the Company after August 13, 2014, (iv) maintaining a fixed charge coverage ratio (expressed as the ratio of EBITDA (net income before net interest expense, income tax expense, depreciation and amortization), as defined, to fixed charges) for the immediately preceding 12-month period ending on the last date of the applicable reporting period of at least 1.25 to 1.00, and (v) if certain specific debt yield, loan to value or other credit based tests are not met with respect to assets on the MetLife Facility, the Company may be required to repay certain amounts under the MetLife Facility. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the MetLife Facility.

### ***UBS Facilities***

#### ***April 2014 UBS Facility***

The Company is party to a \$140.0 million revolving master repurchase facility (the "April 2014 UBS Facility") with UBS Real Estate Securities Inc. ("UBS"), pursuant to which the Company may sell, and later repurchase, commercial mortgage loans and, under certain circumstances, other assets meeting defined eligibility criteria that are approved by UBS in its sole discretion. Since October 21, 2015, the price differential (or interest rate) on the April 2014 UBS Facility is one-month LIBOR plus (a) 1.88% per annum, for assets that are subject to an advance for one year or less, (b) 2.08% per annum, for assets that are subject to an advance in excess of one year but less than two years; and (c) 2.28% per annum, for assets that are subject to an advance for greater than two years; in each case, excluding amortization of commitment and exit fees. Prior to October 21, 2015, the price differential (or interest rate) on the April 2014 UBS Facility was one-month LIBOR plus 1.88%. In October 2015, the Company entered into an amendment to extend the initial maturity date to October 21, 2018. The initial maturity date is subject to annual extensions in UBS' sole discretion. Upon termination of the April 2014 UBS Facility, the Company will pay UBS, if applicable, the amount by which the aggregate price differential paid over the term of the April 2014 UBS Facility is less than the defined minimum price differential and an exit fee, in each case, unless certain conditions are met.

The April 2014 UBS Facility contains margin call provisions that provide UBS with certain rights if the applicable percentage of the aggregate asset value of the purchased assets under the April 2014 UBS Facility is less than the aggregate purchase price for such assets. The April 2014 UBS Facility is fully guaranteed by the Company and requires the Company to maintain certain financial and other covenants including the following: (a) maintaining a ratio of (i) recourse debt to tangible net worth of not more than 3.00 to 1.00 and (ii) total debt to tangible net worth of not more than 4.00 to 1.00, (b) maintaining a tangible net worth of at least 80% of the Company's net worth as of September 30,

2013, plus 80% of net cash proceeds received from all subsequent equity issuances by the Company, and (c) maintaining a fixed charge coverage ratio (expressed as the ratio of adjusted-EBITDA (net income before net interest expense, income tax expense, depreciation and amortization) to fixed charges) for the immediately preceding 12-month period ending on the last day of the applicable reporting period of at least 1.25 to 1.00. In addition, the April 2014 UBS Facility contains certain affirmative and negative covenants and provisions regarding events of default that are normal and customary for similar repurchase facilities. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the April 2014 UBS Facility.

#### ***December 2014 UBS Facility***

The Company is party to a global master repurchase agreement (the "December 2014 UBS Facility," and together with the April 2014 UBS Facility, the "UBS Facilities") with UBS AG, pursuant to which the Company will sell, and later repurchase, certain retained subordinate notes in the Company's commercial mortgage-backed securities ("CMBS") securitization (the "Purchased Securities") for an aggregate purchase price equal to \$57.2 million. In August 2015, the Company extended the scheduled repurchase date of the December 2014 UBS Facility to July 6, 2016 (the "Repurchase Date"). The transaction fee (or interest rate), which is payable monthly on the December 2014 UBS Facility, is equal to one-month LIBOR plus 2.74% per annum on the outstanding amount. The Purchased Securities may be purchased by the Company in whole, but not in part, prior to the Repurchase Date. If the outstanding amount of the Purchased Securities subject to the December 2014 UBS Facility is reduced or repaid prior to the Repurchase Date, UBS AG shall be entitled to a termination fee.

The December 2014 UBS Facility also contains margin call provisions that provide UBS AG with certain rights if the applicable percentage of the aggregate asset value of the Purchased Securities is less than the aggregate purchase price for such Purchased Securities. The December 2014 UBS Facility is fully guaranteed by the Company and requires the Company to maintain certain financial and other covenants including the following: (a) maintaining a ratio of (i) recourse debt to tangible net worth of not more than 3.00 to 1.00 and (ii) total debt to tangible net worth of not more than 4.00 to 1.00, (b) maintaining a tangible net worth of at least 80% of the Company's net worth as of September 30, 2013, plus 80% of net cash proceeds received from all subsequent equity issuances by the Company, and (c) maintaining a fixed charge coverage ratio (expressed as the ratio of adjusted-EBITDA (net income before net interest expense, income tax expense, depreciation and amortization) to fixed charges) for the immediately preceding 12-month period ending on the last day of the applicable reporting period of at least 1.25 to 1.00. In addition, the December 2014 UBS Facility contains certain affirmative and negative covenants and provisions regarding events of default that are normal and customary for similar repurchase facilities. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the December 2014 UBS Facility.

#### **Warehouse Lines of Credit**

##### ***ASAP Line of Credit***

ACRE Capital is party to a multifamily as soon as pooled ("ASAP") sale agreement with Fannie Mae (the "ASAP Line of Credit") to finance installments received from Fannie Mae. To the extent the ASAP Line of Credit remains active through utilization, there is no expiration date. The commitment amount is subject to change at any time at Fannie Mae's discretion. Fannie Mae advances payment to ACRE Capital in two separate installments according to the terms as set forth in the ASAP sale agreement. The first installment is considered an advance to ACRE Capital from Fannie Mae and not a sale until the second advance and settlement is made.

### ***BAML Line of Credit***

In November 2014, ACRE Capital amended its line of credit with Bank of America, N.A. (as amended and restated, the "BAML Line of Credit") to, among other things, temporarily increase the size of the commitment from \$80.0 million to \$180.0 million for the period November 25, 2014 through January 26, 2015. In February 2015, ACRE Capital amended the BAML Line of Credit to, among other things, increase the size of the commitment from \$80.0 million to \$135.0 million and extend the maturity date to June 30, 2016. In April 2015, the agreement governing the BAML Line of Credit was amended to, among other things, temporarily increase the commitment size from \$135.0 million to \$185.0 million for the period April 15, 2015 to June 1, 2015. The stated interest rate on the BAML Line of Credit is LIBOR Daily Floating Rate plus 1.60%. ACRE Capital incurs a non-utilization fee of 12.5 basis points on the daily available balance of the BAML Line of Credit to the extent less than 40% of the BAML Line of Credit is utilized. For the years ended December 31, 2015, 2014 and 2013, the Company incurred a non-utilization fee of \$76 thousand, \$84 thousand and \$26 thousand, respectively.

The BAML Line of Credit is collateralized by a first lien on ACRE Capital's interest in the mortgage loans that it originates. Advances from the BAML Line of Credit cannot exceed 100% of the principal amounts of the mortgage loans originated by ACRE Capital and must be repaid at the earlier of the sale or other disposition of the mortgage loans or at the expiration date of the BAML Line of Credit. The BAML Line of Credit contains various affirmative and negative covenants and provisions regarding events of default that are applicable to the Company and certain of the Company's subsidiaries, which are normal and customary for similar financing facilities, including a minimum tangible net worth requirement. As of December 31, 2015, ACRE Capital was in compliance in all material respects with the terms of the BAML Line of Credit.

### **Secured Term Loan**

In December 2015, the Company and certain of its subsidiaries entered into a \$155.0 million Credit and Guaranty Agreement (the "Secured Term Loan") with Highbridge Principal Strategies, LLC, as administrative agent, and DBD Credit Funding LLC, as collateral agent. The Company made an initial draw of \$75.0 million at closing. The remaining \$80.0 million of the Secured Term Loan may be borrowed during the nine month commitment period following the closing date, subject to the satisfaction of certain conditions. The Secured Term Loan carries a coupon of LIBOR + 6.0% with a LIBOR floor of 1.0% on drawn amounts. The Secured Term Loan has a maturity date of December 9, 2018. The Company is subject to a monthly unused fee equal to 1.0% per annum on the unused commitment amount during the nine month commitment period following the closing date. For the year ended December 31, 2015, the Company incurred a non-utilization fee of \$51 thousand. The original issue discount on the initial draw was \$1.1 million, which represented a discount to the debt cost to be amortized into interest expense using the effective interest method over the term of the Secured Term Loan. The estimated effective interest rate of the Secured Term Loan, which is equal to LIBOR (subject to a floor of 1.0%) plus the stated rate of 6.0% plus the accretion of the original issue discount and associated costs, was 8.4% for the year ended December 31, 2015.

The Company's obligations under the Secured Term Loan are guaranteed by certain subsidiaries of the Company. Certain subsidiaries of the Company entered into a Pledge and Security Agreement with the collateral agent under the Secured Term Loan, pursuant to which the obligations of the Company and the subsidiary guarantors under the Secured Term Loan are each secured by equity interests in certain of the Company's indirect subsidiaries and other assets. In addition, the Company and certain of its subsidiaries entered into a Negative Pledge Agreement with the collateral agent under the Secured Term Loan, which prohibits pledging or otherwise encumbering, subject to permitted encumbrances, certain of the assets which were not subject to the Pledge and Security Agreement.

The Secured Term Loan contains various affirmative and negative covenants and provisions regarding events of default that are applicable to the Company and certain of the Company's subsidiaries, which are normal and customary for similar financing agreements, including the following: (a) limitations on the incurrence of additional indebtedness or liens, (b) limitations on how borrowed funds may be used, (c) limitations on certain distributions and dividend payments following a default or event of default, (d) limitations on dispositions of assets and (e) prohibitions of certain change of control events. The agreements governing the Secured Term Loan also impose certain covenants on the Company, including the following: (i) maintaining a ratio of total debt to tangible net worth of not more than 4.00 to 1.00, (ii) maintaining a tangible net worth of at least 80% of the Company's net worth as of September 30, 2015, plus 80% of the net cash proceeds raised in subsequent equity issuances by the Company, (iii) maintaining an asset coverage ratio greater than 110%, (iv) maintaining an unencumbered asset ratio greater than 120%, (v) limitations on mergers, consolidations, transfers of assets and similar transactions, (vi) maintaining its status as a REIT and (vii) maintaining at least 65.0% of loans held for investment as senior commercial real estate loans, as measured by the average daily outstanding principal balance of all loans held for investment during a fiscal quarter and as adjusted for non-controlling interests. As of December 31, 2015, the Company was in compliance in all material respects with the terms of the Secured Term Loan.

## **2015 Convertible Notes**

In December 2012, the Company issued \$69.0 million aggregate principal amount of the 2015 Convertible Notes. Of this aggregate principal amount, \$60.5 million aggregate principal amount of the 2015 Convertible Notes was sold to the initial purchasers (including \$9.0 million pursuant to the initial purchasers' exercise in full of their overallotment option) and \$8.5 million aggregate principal amount of the 2015 Convertible Notes was sold directly to certain directors, officers and affiliates of the Company in a private placement. The 2015 Convertible Notes were issued pursuant to an Indenture, dated December 19, 2012 (the "Indenture"), between the Company and U.S. Bank National Association, as trustee. The sale of the 2015 Convertible Notes generated net proceeds of approximately \$66.2 million. Aggregate estimated offering expenses in connection with the transaction, including the initial purchasers' discount of approximately \$2.1 million, were approximately \$2.8 million. In December 2015, the Company repaid the entire aggregate principal amount outstanding of its 2015 Convertible Notes in accordance with the terms of the Indenture governing the 2015 Convertible Notes. The 2015 Convertible Notes matured on December 15, 2015 and were repaid at par. As of December 31, 2014, the carrying value of the 2015 Convertible Notes was \$67.4 million.

The 2015 Convertible Notes bore interest at a rate of 7.00% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2013. The estimated effective interest rate of the 2015 Convertible Notes, which was equal to the stated rate of 7.00% plus the accretion of the original issue discount and associated costs, was 9.4% prior to redemption and for the year ended December 31, 2014. For the years ended December 31, 2015, 2014 and 2013, the interest expense incurred on this indebtedness was \$6.2 million, \$6.3 million and \$6.2 million, respectively.

Prior to June 26, 2013, the Company could not elect to issue shares of common stock upon conversion of the 2015 Convertible Notes to the extent such election would result in the issuance of 20% or more of the common stock outstanding immediately prior to the issuance of the 2015 Convertible Notes until the Company received stockholder approval for issuances above this threshold. Until such stockholder approval was obtained, the Company could not share-settle the full conversion option. As a result, the embedded conversion option did not qualify for equity classification and instead was separately valued and accounted for as a derivative liability. The initial value allocated to the derivative liability was \$1.7 million, which represented a discount to the debt cost to be amortized through interest expense using the effective interest method through the maturity of the 2015 Convertible Notes. The effective interest rate used to amortize the debt discount on the 2015 Convertible Notes was 9.4%. During each reporting period, the derivative liability was marked to fair value through earnings.

On June 26, 2013, stockholder approval was obtained for the issuance of shares in excess of 20% of the Company's common stock outstanding to satisfy any conversions of the 2015 Convertible Notes. As a result, the Company had the ability to fully settle in shares the conversion option and the embedded conversion option was no longer required to be separately valued and accounted for as a derivative liability on a prospective basis. As of June 26, 2013, the conversion option's cumulative value of \$86 thousand was reclassified to additional paid-in capital and was no longer marked-to-market through earnings. The remaining debt discount of \$1.5 million as of June 26, 2013, which arose at the date of debt issuance from the original bifurcation, continued to be amortized through interest expense.

At December 31, 2015, approximate principal maturities of the Company's Financing Agreements are as follows (\$ in thousands):

	Wells Fargo Facility	Citibank Facility	BAML Facility	March 2014 CNB Facility	July 2014 CNB Facility	MetLife Facility	April 2014 UBS Facility	December 2014 UBS Facility	Secured Term Loan	ASAP Line of Credit	BAML Line of Credit	Total
2016	\$ 101,473	\$ 112,827	\$ —	\$ —	\$ 66,200	\$ —	\$ —	\$ 57,243	\$ —	\$ —	\$ 24,806	\$ 362,549
2017	—	—	—	—	—	109,474	—	—	—	—	—	109,474
2018	—	—	—	—	—	—	75,558	—	75,000	—	—	150,558
2019	—	—	—	—	—	—	—	—	—	—	—	—
2020	—	—	—	—	—	—	—	—	—	—	—	—
Thereafter	—	—	—	—	—	—	—	—	—	—	—	—
	<u>\$ 101,473</u>	<u>\$ 112,827</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 66,200</u>	<u>\$ 109,474</u>	<u>\$ 75,558</u>	<u>\$ 57,243</u>	<u>\$ 75,000</u>	<u>\$ —</u>	<u>\$ 24,806</u>	<u>\$ 622,581</u>

## 7. ALLOWANCE FOR LOSS SHARING

Loans originated and sold by ACRE Capital to Fannie Mae under the Fannie Mae DUS program are subject to the terms and conditions of a Master Loss Sharing Agreement, which was amended and restated during 2012. Under the Master Loss Sharing Agreement, ACRE Capital is responsible for absorbing certain losses incurred by Fannie Mae with respect to loans originated under the DUS program, as described below in more detail. The compensation for this risk of loss is a component of servicing fees on the loan.

The losses incurred with respect to individual loans are allocated between ACRE Capital and Fannie Mae based on the loss level designation ("Loss Level") for the particular loan. Loans are designated as Loss Level I, Loss Level II or Loss Level III. All loans are designated Loss Level I unless Fannie Mae and ACRE Capital agree upon a different Loss Level for a particular loan at the time of the loan commitment, or if Fannie Mae determines that the loan was not underwritten, processed or serviced according to Fannie Mae guidelines.

Losses on Loss Level I loans are shared 33.33% by ACRE Capital and 66.67% by Fannie Mae. The maximum amount of ACRE Capital's risk-sharing obligation with respect to any Loss Level I loan is 33.33% of the original principal amount of the loan. Losses incurred in connection with Loss Level II and Loss Level III loans are allocated disproportionately to ACRE Capital until ACRE Capital has absorbed the maximum level of its risk-sharing obligation with respect to the particular loan. The maximum loss allocable to ACRE Capital for Loss Level II loans is 30% of the original principal amount of the loan, and for Loss Level III loans is 40% of the original principal amount of the loan.

According to the Master Loss Sharing Agreement, Fannie Mae may unilaterally increase the amount of the risk-sharing obligation of ACRE Capital with respect to individual loans without regard to a particular Loss Level if (a) the loan does not meet specific underwriting criteria, (b) the loan is defaulted within twelve (12) months after it is purchased by Fannie Mae, or (c) Fannie Mae determines that there was fraud, material misrepresentation or gross negligence by ACRE Capital in its underwriting, closing, delivery or servicing of the loan. Under certain limited circumstances, Fannie

Mae may require ACRE Capital to absorb 100% of the losses incurred on a loan by requiring ACRE Capital to repurchase the loan.

The amount of loss incurred on a particular loan is determined at the time the loss is incurred, for example, at the time a property is foreclosed by Fannie Mae (whether acquired by Fannie Mae or a third party) or at the time a loan is modified in connection with a default. Losses may be determined by reference to the price paid by a third party at a foreclosure sale or by reference to an appraisal obtained by Fannie Mae in connection with the default on the loan.

In connection with the Company's acquisition of ACRE Capital, Alliant, Inc., a Florida corporation, and The Alliant Company, LLC, a Florida limited liability company (the "Sellers"), are jointly and severally obligated to fund directly (if permitted) or to reimburse ACRE Capital for amounts due and owing after the closing date to Fannie Mae pursuant to ACRE Capital's allowance for loss sharing with respect to settlement of certain DUS program mortgage loans originated and serviced by ACRE Capital, subject to certain limitations. In addition, the Sellers are jointly and severally obligated to indemnify ACRE Capital for, among other things, certain losses arising from Sellers' failure to fulfill the funding or reimbursement obligations described above. As of December 31, 2015 and 2014, the preliminary estimate of the portion of such contributions towards such losses relating to the allowance for loss sharing of ACRE Capital is \$377 thousand and \$494 thousand, respectively, and is included within other assets in the consolidated balance sheets. Additionally, with respect to the settlement of certain non-designated DUS program mortgage loans originated and serviced by ACRE Capital, the Sellers are jointly and severally obligated to fund directly (if permitted) or to reimburse ACRE Capital in each of the three 12 month periods following the closing date for eighty percent (80%) of amounts due and owing after the closing date to Fannie Mae pursuant to ACRE Capital's allowance for loss sharing in excess of \$2.0 million during such 12 month period; provided that in no event shall Sellers obligations exceed in the aggregate \$3.0 million for the entire three year period.

ACRE Capital uses several tools to manage its risk-sharing obligation, including maintenance of disciplined underwriting and approval processes and procedures, and periodic review and evaluation of underwriting criteria based on underlying multifamily housing market data and limitation of exposure to particular geographic markets and submarkets and to individual borrowers. In situations where payment under the guarantee is probable and estimable on a specific loan, the Company records an additional liability through a charge to the provision for loss sharing in the consolidated statements of operations. The amount of the provision reflects the Company's assessment of the likelihood of payment by the borrower, the estimated disposition value of the underlying collateral and the level of risk-sharing. Historically, among other factors, the loss recognition occurs at or before the loan becoming 60 days delinquent.

A summary of the Company's allowance for loss sharing for the years ended December 31, 2015 and 2014 is as follows (\$ in thousands):

<b>Balance at December 31, 2013</b>	<b>\$ 16,480</b>
Current period provision for loss sharing	(1,364)
Settlements/Writeoffs	<u>(2,767)</u>
<b>Balance at December 31, 2014</b>	<b>\$ 12,349</b>
Current period provision for loss sharing	(1,093)
Settlements/Writeoffs	<u>(2,287)</u>
<b>Balance at December 31, 2015</b>	<b>\$ 8,969</b>

As of December 31, 2015 and 2014, the maximum quantifiable allowance for loss sharing associated with the Company's guarantees under the Fannie Mae DUS agreement was \$1.1 billion from

a total recourse at risk pool of \$3.2 billion. Additionally, as of December 31, 2015 and 2014, the non-at risk pool was \$855 thousand and \$2.0 million, respectively. The at risk pool is subject to Fannie Mae's Master Loss Sharing Agreement and the non-at risk pool is not subject to such agreement. The maximum quantifiable allowance for loss sharing is not representative of the actual loss the Company would incur. The Company would be liable for this amount only if all of the loans it services for Fannie Mae, for which the Company retains some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

## 8. COMMITMENTS AND CONTINGENCIES

As of December 31, 2015 and 2014, the Company had the following commitments to fund various senior mortgage loans, subordinated debt investments, as well as preferred equity investments accounted for as loans held for investment (\$ in thousands):

	As of December 31,	
	2015	2014
Total commitments	\$ 1,232,163	\$ 1,565,117
Less: funded commitments	(1,133,842)	(1,395,281)
Total unfunded commitments	<u>\$ 98,321</u>	<u>\$ 169,836</u>

Commitments to extend credit by ACRE Capital are generally agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Occasionally, the commitments may expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2015 and 2014, ACRE Capital had the following commitments to sell and fund loans (\$ in thousands):

	As of December 31,	
	2015	2014
Commitments to sell loans	\$ 237,372	\$ 249,803
Commitments to fund loans	\$ 207,566	\$ 51,109

### *Lease Commitments*

ACRE Capital is obligated under a number of operating leases for office spaces with terms ranging from less than one year to more than five years. Rent expense for the years ended December 31, 2015, 2014 and 2013 was \$844 thousand, \$983 thousand and \$230 thousand, respectively.

The following table shows future minimum payments required under the Company's operating leases as of December 31, 2015 (\$ in thousands):

	As of December 31, 2015
2016	\$ 775
2017	853
2018	837
2019	772
2020	754
Thereafter	1,026
Total	<u>\$ 5,017</u>

The Company from time to time may be party to litigation relating to claims arising in the normal course of business. As of December 31, 2015, the Company is not aware of any legal claims that could materially impact its business, financial condition or results of operations.

## 9. DERIVATIVES

### *Non-designated Hedges*

Derivatives not designated as hedges are derivatives that do not meet the criteria for hedge accounting under GAAP or for which the Company has not elected to designate as hedges. Changes in the fair value of derivatives related to the loan commitments and forward sale commitments are recorded directly in gains from mortgage banking activities in the consolidated statements of operations.

### *Loan commitments and forward sale commitments*

Through its subsidiary, ACRE Capital, the Company enters into loan commitments with borrowers on loan originations whereby the interest rate on the prospective loan is determined prior to funding. In general, ACRE Capital simultaneously enters into forward sale commitments with investors in order to hedge against the interest rate exposure on loan commitments. The forward sale commitment with the investor locks in an interest rate and price for the sale of the loan. The terms of the loan commitment with the borrower and the forward sale commitment with the investor are matched with the objective of hedging interest rate risk. Loan commitments and forward sale commitments are considered undesignated derivative instruments. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value, with changes in fair value recorded in earnings. For the year ended December 31, 2015, the Company entered into 87 loan commitments and 87 forward sale commitments. For the year ended December 31, 2014, the Company entered into 36 loan commitments and 36 forward sale commitments.

As of December 31, 2015, the Company had 16 loan commitments with a total notional amount of \$207.6 million and 24 forward sale commitments with a total notional amount of \$237.4 million, with maturities ranging from 25 days to 17 months that were not designated as hedges in qualifying hedging relationships. As of December 31, 2014, the Company had one loan commitment with a total notional amount of \$51.1 million and ten forward sale commitments with a total notional amount of \$249.8 million, with maturities ranging from nine days to 23 months that were not designated as hedges in qualifying hedging relationships.

### *MSR purchase commitments*

In March 2015, ACRE Capital entered into a MSR purchase agreement with a third party to purchase the servicing rights for a HUD loan. Under the purchase agreement, the purchase price for the servicing rights was \$500 thousand and ACRE Capital assumed the rights to service the loan in October 2015. In July 2015, ACRE Capital entered into a second purchase agreement with a third party to purchase the servicing rights for a HUD loan (the "July 2015 HUD Loan"). Under the second purchase agreement, the purchase price for the servicing rights was \$325 thousand and ACRE Capital will assume the rights to service the loan in March 2016. The derivative asset associated with the rights to service the loan related to the July 2015 HUD Loan is included within other assets in the consolidated balance sheets as of December 31, 2015.

### *Embedded conversion option*

In connection with the issuance of the 2015 Convertible Notes, the Company could not elect to issue shares of common stock upon conversion of the 2015 Convertible Notes to the extent such election would result in the issuance of 20% or more of the common stock outstanding immediately



prior to the issuance of the 2015 Convertible Notes until the Company received stockholder approval for issuances above this threshold. As a result, the embedded conversion option did not qualify for equity classification and instead was separately valued and accounted for as a derivative liability. On June 26, 2013, stockholder approval was obtained for the issuance of shares in excess of 20% of the Company's common stock outstanding to satisfy any conversions of the 2015 Convertible Notes. As a result, the Company had the ability to fully settle in shares the conversion option and the embedded conversion option was no longer required to be separately valued and accounted for as a derivative liability on a prospective basis. As of December 31, 2015 and 2014, there was no derivative liability.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification within the Company's consolidated balance sheets as of December 31, 2015 and 2014 (\$ in thousands):

	As of December 31,			
	2015		2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives not designated as hedging instruments</b>				
Loan commitments	Other assets	\$ 8,450	Other assets	\$ 3,082
Forward sale commitments	Other assets	25	Other assets	116
MSR purchase commitment	Other assets	330	Other assets	—
Forward sale commitments	Other liabilities	(1,868)	Other liabilities	(1,528)
<b>Total derivatives not designated as hedging instruments</b>		<u>\$ 6,937</u>		<u>\$ 1,670</u>

## 10. EQUITY

The following table summarizes the total shares issued and proceeds received in public offerings of the Company's common stock net of offering costs for the year ended December 31, 2013 (in millions, except per share data):

	Shares Issued	Offering Price Per Share	Proceeds Net Of Offering Costs
<b>2013</b>			
July 2013	601,590(1)	\$ 13.50	\$ 7.7
June 2013	18,000,000	13.50	234.6
Total for the year ended December 31, 2013	18,601,590		\$ 242.3

- (1) The Company granted the underwriters an option to purchase up to an additional 2.7 million shares of common stock. This amount represents the partial exercise of the option to purchase additional shares by the underwriters.

The net proceeds were used to invest in target investments, repay indebtedness, fund future funding commitments on existing loans and for other general corporate purposes. There were no shares issued in public or private offerings for the years ended December 31, 2015 and 2014.

See Note 17 included in these consolidated financial statements for information regarding shares of the Company's common stock issued in a private placement.

**Equity Incentive Plan**

On April 23, 2012, the Company adopted an equity incentive plan (the "2012 Equity Incentive Plan"). Pursuant to the 2012 Equity Incentive Plan, the Company may grant awards consisting of restricted shares of the Company's common stock, restricted stock units and/or other equity-based awards to the Company's outside directors, employees, officers, ACREM and other eligible awardees under the plan, subject to an aggregate limitation of 690,000 shares of common stock (7.5% of the issued and outstanding shares of the Company's common stock immediately after giving effect to the issuance of the shares sold in the IPO). Any restricted shares of the Company's common stock and restricted stock units will be accounted for under FASB ASC Topic 718, *Compensation—Stock Compensation*, resulting in share-based compensation expense equal to the grant date fair value of the underlying restricted shares of common stock or restricted stock units.

Restricted stock grants generally vest ratably over a one to four year period from the vesting start date. The grantee receives additional compensation for each outstanding restricted stock grant, classified as dividends paid, equal to the per-share dividends received by common stockholders.

During the year ended December 31, 2014, an ACRE Capital employee was granted restricted stock that vests in proportion to certain financial performance targets being met over a specified period of time. The fair value of the performance based restricted stock granted is recorded to expense on an accelerated basis using the accelerated attribution method over the performance period for the award, with an offsetting increase in stockholders' equity.

The following table details the restricted stock grants awarded as of December 31, 2015:

<u>Grant Date</u>	<u>Vesting Start Date</u>	<u>Shares Granted</u>
May 1, 2012	July 1, 2012	35,135
June 18, 2012	July 1, 2012	7,027
July 9, 2012	October 1, 2012	25,000
June 26, 2013	July 1, 2013	22,526
November 25, 2013	November 25, 2016	30,381
January 31, 2014	August 31, 2015	48,273
February 26, 2014	February 26, 2014	12,030
February 27, 2014	August 27, 2014	22,354
June 24, 2014	June 24, 2014	17,658
June 24, 2015	July 1, 2015	25,555
<b>Total</b>		<b>245,939</b>

The following tables summarize the non-vested shares of restricted stock and the vesting schedule of shares of restricted stock for the Company's directors and officers and employees of ACRE Capital as of December 31, 2015.

**Schedule of Non-Vested Share and Share Equivalents**

	<u>Restricted Stock Grants—Directors</u>	<u>Restricted Stock Grants—Officer</u>	<u>Restricted Stock Grants—Employees</u>	<u>Total</u>
<b>Balance as of December 31, 2014</b>	21,324	10,936	78,654	110,914
Granted	25,555	—	—	25,555
Vested	(27,114)	(6,250)	(16,091)	(49,455)
Forfeited	(2,820)	—	—	(2,820)
<b>Balance as of December 31, 2015</b>	<b>16,945</b>	<b>4,686</b>	<b>62,563</b>	<b>84,194</b>

**Future Anticipated Vesting Schedule**

	<u>Restricted Stock Grants—Directors</u>	<u>Restricted Stock Grants—Officer</u>	<u>Restricted Stock Grants—Employees(1)</u>	<u>Total</u>
2016	16,111	4,686	30,381	51,178
2017	834	—	—	834
2018	—	—	—	—
2019	—	—	—	—
2020	—	—	—	—
Total	<u>16,945</u>	<u>4,686</u>	<u>30,381</u>	<u>52,012</u>

- (1) Future anticipated vesting related to an employee of ACRE Capital that was granted restricted stock that vests in proportion to certain financial performance targets being met over a specified period of time is not included due to uncertainty in actual vesting date.

The following table summarizes the restricted stock compensation expense included in general and administrative expenses for ACRE and compensation and benefits for ACRE Capital, the total fair value of shares vested and the weighted average grant date fair value of the restricted stock granted to the Company's directors and officers and employees of ACRE Capital for the years ended December 31, 2015, 2014 and 2013 (\$ in thousands):

	<b>For the year ended December 31,</b>															
	<b>2015</b>				<b>2014</b>					<b>2013</b>						
	<b>Restricted Stock Grants</b>				<b>Restricted Stock Grants</b>					<b>Restricted Stock Grants</b>						
	<b>Directors</b>	<b>Officer</b>	<b>Employees</b>	<b>Total</b>	<b>Directors</b>	<b>Officer</b>	<b>Employees</b>	<b>Total</b>	<b>Directors</b>	<b>Officer</b>	<b>Employees</b>	<b>Total</b>	<b>Directors</b>	<b>Officer</b>	<b>Employees</b>	<b>Total</b>
Compensation expense	\$ 330	\$ 106	\$ 399	\$ 835	\$ 445	\$ 106	\$ 388	\$ 939	\$ 408	\$ 106	\$ 10	\$ 524				
Total fair value of shares vested(1)	313	72	201	586	399	79	56	534	366	92	—	458				
Weighted average grant date fair value	299	—	—	299	385	—	944	1,329	289	—	398	687				

- (1) Based on the closing price of the Company's common stock on the NYSE on each vesting date.

As of December 31, 2015 and 2014, the total compensation cost related to non-vested awards not yet recognized totaled \$494 thousand and \$1.1 million, respectively, and the weighted-average period over which the non-vested awards are expected to be recognized is 1.59 years and 2.60 years, respectively.

**Non-Controlling Interests**

The non-controlling interests held by third parties in the Company's consolidated balance sheets represent the equity interests in a limited liability company, ACRC KA Investor LLC ("ACRC KA") that are not owned by the Company. A portion of ACRC KA's consolidated equity and net income are allocated to these non-controlling interests held by third parties based on their pro-rata ownership of ACRC KA. As of December 31, 2015, ACRC KA's total equity was \$96.0 million, of which \$49.0 million was owned by the Company and \$47.0 million was allocated to non-controlling interests held by third parties. As of December 31, 2014, ACRC KA's total equity was \$170.7 million, of which \$92.8 million was owned by the Company and \$77.9 million was allocated to non-controlling interests held by third parties. See Note 16 included in these consolidated financial statements for more information on ACRC KA.

**11. EARNINGS PER SHARE**

The following information sets forth the computations of basic and diluted earnings per common share for the years ended December 31, 2015, 2014 and 2013 (\$ in thousands, except share and per share data):

	For the year ended December 31,		
	2015	2014	2013
Net income attributable to common stockholders:	\$ 34,285	\$ 24,396	\$ 13,766
Divided by:			
Basic weighted average shares of common stock outstanding:	28,501,897	28,459,309	18,989,500
Non-vested restricted stock	95,671	125,713	48,652
Diluted weighted average shares of common stock outstanding:	28,597,568	28,585,022	19,038,152
Basic earnings per common share:	\$ 1.20	\$ 0.86	\$ 0.72
Diluted earnings per common share:	\$ 1.20	\$ 0.85	\$ 0.72

The Company has considered the impact of the 2015 Convertible Notes and the restricted shares on diluted earnings per common share. The number of shares of common stock that the 2015 Convertible Notes are convertible into were not included in the computation of diluted net income per common share because the inclusion of those shares would have been anti-dilutive for the years ended December 31, 2014 and 2013.

**12. INCOME TAX**

The Company established a TRS, TRS Holdings, in connection with the acquisition of ACRE Capital. In addition, in December 2013 and March 2014, the Company formed ACRC W TRS and ACRC U TRS, respectively, in order to issue and hold certain loans intended for sale. The TRS' income tax provision consisted of the following for the years ended December 31, 2015, 2014 and 2013 (\$ in thousands):

	For the year ended December 31,		
	2015	2014	2013
Current	\$ (165)	\$ 329	\$ 115
Deferred	2,093	(1,372)	61
Total income tax expense (benefit)	\$ 1,928	\$ (1,043)	\$ 176

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are presented net by tax jurisdiction and are included within other assets and other liabilities in the consolidated balance sheets, respectively. As of December 31, 2015 and 2014, the TRS' U.S. tax jurisdiction was in a net deferred tax liability position. The TRS' are not currently subject to tax in any foreign tax jurisdictions.

As of December 31, 2015, TRS Holdings had a net operating loss carryforward of \$7.8 million, which may be carried back to 2013 and forward 20 years. The following table presents the U.S. tax

jurisdiction and the tax effects of temporary differences on the TRS' respective net deferred tax assets and liabilities (\$ in thousands):

	<u>As of December 31,</u>	
	<u>2015</u>	<u>2014</u>
<b>Deferred tax assets</b>		
Mortgage servicing rights	\$ 4,083	\$ 2,844
Net operating loss carryforward	2,906	1,465
Other temporary differences	1,762	1,055
Sub-total-deferred tax assets	<u>8,751</u>	<u>5,364</u>
<b>Deferred tax liabilities</b>		
Basis difference in assets from acquisition of ACRE Capital	(2,709)	(2,654)
Components of gains from mortgage banking activities	(9,344)	(4,046)
Amortization of intangible assets	(297)	(170)
Sub-total-deferred tax liabilities	<u>(12,350)</u>	<u>(6,870)</u>
<b>Net deferred tax liability</b>	<u>\$ (3,599)</u>	<u>\$ (1,506)</u>

Based on the TRS' assessment, it is more likely than not that the deferred tax assets will be realized through future taxable income. The TRS' recognize interest and penalties related to unrecognized tax benefits within income tax expense in the consolidated statements of operations. Accrued interest and penalties, if any, are included within other liabilities in the consolidated balance sheets.

The following table is a reconciliation of the TRS' statutory U.S. federal income tax rate to the TRS' effective tax rate for the years ended December 31, 2015, 2014 and 2013:

	<u>For the year ended</u>		
	<u>December 31,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes	3.6%	2.4%	5.7%
Federal benefit of state tax deduction	(1.3)%	(0.8)%	(2.0)%
Effective tax rate	<u>37.3%</u>	<u>36.6%</u>	<u>38.7%</u>

As of December 31, 2015, tax years 2012 through 2015 remain subject to examination by taxing authorities. The Company does not have any unrecognized tax benefits and the Company does not expect that to change in the next twelve months.

**Intercompany Notes**

In connection with the acquisition of ACRE Capital, the Company partially capitalized TRS Holdings with a \$44.0 million note. In October 2014, the Company entered into an \$8.0 million revolving promissory note with TRS Holdings (collectively, the two intercompany notes described above are referred to as, the "Intercompany Notes"). As of December 31, 2015 and 2014, the outstanding principal balance of the Intercompany Notes was \$51.9 million and \$50.9 million, respectively. The income statement effects of the Intercompany Notes are eliminated in consolidation for financial reporting purposes, but the interest income and expense from the Intercompany Notes will affect the taxable income of the Company and TRS Holdings.

### 13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows FASB ASC Topic 820-10, *Fair Value Measurement* ("ASC 820-10"), which expands the application of fair value accounting. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure requirements for fair value measurements. ASC 820-10 determines fair value to be the price that would be received for a financial instrument in a current sale, which assumes an orderly transaction between market participants on the measurement date. The financial instruments recorded at fair value on a recurring basis in the Company's consolidated financial statements are derivative instruments, MSRs and loans held for sale. ASC 820-10 specifies a hierarchy of valuation techniques based on the inputs used in measuring fair value.

In accordance with ASC 820-10, the inputs used to measure fair value are summarized in the three broad levels listed 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.

GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the financial statements, for which it is practical to estimate the value. In cases where quoted market prices are not available, fair values are based upon the application of discount rates to estimated future cash flows using market yields, or other valuation methodologies. Any changes to the valuation methodology will be reviewed by the Company's management to ensure the changes are appropriate. The methods used may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while the Company anticipates that the valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may fall within periods of market dislocation, during which price transparency may be reduced.

#### ***Financial Instruments Reported at Fair Value***

The Company has certain assets and liabilities that are required to be recorded at fair value on a recurring basis in accordance with GAAP. Financial instruments reported at fair value in the Company's consolidated financial statements include MSRs, MSR purchase commitments, loan commitments, forward sale commitments and loans held for sale.

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The following table summarizes the levels in the fair value hierarchy into which the Company's financial instruments were categorized as of December 31, 2015 and 2014 (\$ in thousands):

	Fair Value as of December 31, 2015			
	Level I	Level II	Level III	Total
Loans held for sale	\$ —	\$ 30,612	\$ —	\$ 30,612
Mortgage servicing rights	—	—	61,800	61,800
Derivative assets:				
Loan commitments	—	—	8,450	8,450
Forward sale commitments	—	—	25	25
MSR purchase commitment	—	—	330	330
Derivative liabilities:				
Forward sale commitments	—	—	(1,868)	(1,868)

	Fair Value as of December 31, 2014			
	Level I	Level II	Level III	Total
Loans held for sale	\$ —	\$ 203,006	\$ —	\$ 203,006
Mortgage servicing rights	—	—	58,889	58,889
Derivative assets:				
Loan commitments	—	—	3,082	3,082
Forward sale commitments	—	—	116	116
Derivative liabilities:				
Forward sale commitments	—	—	(1,528)	(1,528)

There were no transfers between the levels as of December 31, 2015 and 2014. Transfers between levels are recognized based on the fair value of the financial instrument at the beginning of the period.

Loan commitments and forward sale commitments are valued based on a discounted cash flow model that incorporates changes in interest rates during the period. The MSRs and the MSR purchase commitment are valued based on discounted cash flow models that calculate the present value of estimated future net servicing income. The model considers contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The loans held for sale are valued based on discounted cash flow models that incorporate quoted observable prices from market participants. The valuation of derivative instruments are determined using widely accepted valuation techniques, including market yield analyses and discounted cash flow analysis on the expected cash flows of each derivative.

The following table summarizes the significant unobservable inputs the Company used to value financial instruments categorized within Level III as of December 31, 2015 (\$ in thousands):

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		
			Input	Range	Weighted Average
Mortgage servicing rights	\$ 61,800	Discounted cash flow	Discount rate	8 - 14%	11.1%
Loan commitments and forward sale commitments	6,607	Discounted cash flow	Discount rate	8 - 12%	8.2%
MSR purchase commitment	330	Discounted cash flow	Discount rate	8%	8.0%

The following table summarizes the significant unobservable inputs the Company used to value financial instruments categorized within Level III as of December 31, 2014 (\$ in thousands):

Asset Category	Fair Value	Primary Valuation Technique	Unobservable Input		Weighted Average
			Input	Range	
Mortgage servicing rights	\$ 58,889	Discounted cash flow	Discount rate	8 - 14%	11.4%
Loan commitments and forward sale commitments	1,670	Discounted cash flow	Discount rate	8 - 8%	8.0%

The tables above are not intended to be all-inclusive, but instead are intended to capture the significant unobservable inputs relevant to the Company's determination of fair values. Changes in market yields, discount rates or EBITDA multiples, each in isolation, may have changed the fair value of the financial instruments. Generally, an increase in market yields or discount rates or a decrease in EBITDA multiples may have resulted in a decrease in the fair value of the financial instruments.

The Company's management is responsible for the Company's fair value valuation policies, processes and procedures related to Level III financial instruments. The Company's management reports to the Company's Chief Financial Officer, who has final authority over the valuation of the Company's Level III financial instruments.

The following table summarizes the change in derivative assets and liabilities classified as Level III related to mortgage banking activities as of and for the years ended December 31, 2015 and 2014 (\$ in thousands):

<b>Balance as of December 31, 2013</b>	\$ 3,527
Settlements	(8,893)
Realized gains (losses) recorded in net income(1)	5,366
Unrealized gains (losses) recorded in net income(1)	1,670
<b>Balance as of December 31, 2014</b>	\$ 1,670
Settlements	(23,675)
Realized gains (losses) recorded in net income(1)	22,005
Unrealized gains (losses) recorded in net income(1)	6,937
<b>Balance as of December 31, 2015</b>	\$ 6,937

- (1) Realized and unrealized gains (losses) from derivatives are included within gains from mortgage banking activities in the consolidated statements of operations.

See Note 4 included in these consolidated financial statements for the changes in MSRs that are classified as Level III.



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As of December 31, 2015 and 2014, the carrying values and fair values of the Company's financial assets and liabilities recorded at cost are as follows (\$ in thousands):

	Level in Fair Value Hierarchy	As of December 31,			
		2015		2014	
		Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets:</b>					
Loans held for investment	3	\$ 1,174,391	\$ 1,180,421	\$ 1,462,584	\$ 1,472,891
<b>Financial liabilities:</b>					
Secured funding agreements	2	\$ 522,775	\$ 522,775	\$ 552,799	\$ 552,799
Warehouse lines of credit	2	24,806	24,806	193,165	193,165
Secured term loan	2	69,762	75,000	—	—
Convertible notes	2	—	—	67,414	69,000
Commercial mortgage-backed securitization debt (consolidated VIE)	3	61,815	61,856	217,495	219,043
Collateralized loan obligation securitization debt (consolidated VIE)	3	192,528	193,419	305,734	308,703

The carrying values of cash and cash equivalents, restricted cash, interest receivable, due to affiliate liability and accrued expenses approximate their fair values due to their short-term nature.

Loans held for investment are recorded at cost, net of unamortized loan fees and origination costs and net of an allowance for loan losses. The Company may record fair value adjustments on a nonrecurring basis when it has determined that it is necessary to record a specific reserve against a loan and the Company measures such specific reserve using the fair value of the loan's collateral. To determine the fair value of the collateral, the Company may employ different approaches depending on the type of collateral. The Financing Agreements, convertible notes, CMBS debt and collateralized loan obligation ("CLO") debt are recorded at outstanding principal, which is the Company's best estimate of the fair value.

#### 14. RELATED PARTY TRANSACTIONS

##### *Management Agreement*

The Company is party to a Management Agreement under which ACREM, subject to the supervision and oversight of the Company's board of directors, is responsible for, among other duties, (a) performing all of the Company's day-to-day functions, (b) determining the Company's investment strategy and guidelines in conjunction with the Company's board of directors, (c) sourcing, analyzing and executing investments, asset sales and financing, and (d) performing portfolio management duties. In addition, ACREM has an Investment Committee that oversees compliance with the Company's investment strategy and guidelines, investment portfolio holdings and financing strategy.

In exchange for its services, ACREM is entitled to receive a base management fee, an incentive fee, expense reimbursements, grants of equity-based awards pursuant to the Company's 2012 Equity Incentive Plan and a termination fee, if applicable.

The base management fee is equal to 1.5% of the Company's stockholders' equity per annum, which is calculated and payable quarterly in arrears in cash. For purposes of calculating the base management fee, stockholders' equity means: (a) the sum of (i) the net proceeds from all issuances of the Company's equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (ii) the Company's retained earnings at the end of the most recently completed fiscal quarter determined in accordance with GAAP (without taking into account any non-cash equity compensation expense incurred in current or prior periods); less (b) (x) any amount that the Company has paid to repurchase the Company's common stock since

inception, (y) any unrealized gains and losses and other non-cash items that have impacted stockholders' equity as reported in the Company's consolidated financial statements prepared in accordance with GAAP, and (z) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between ACREM and the Company's independent directors and approval by a majority of the Company's independent directors. As a result, the Company's stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown in the Company's consolidated financial statements.

The incentive fee is an amount, not less than zero, equal to the difference between: (a) the product of (i) 20% and (ii) the difference between (A) the Company's Core Earnings (as defined below) for the previous 12-month period, and (B) the product of (1) the weighted average of the issue price per share of the Company's common stock of all of the Company's public offerings of common stock multiplied by the weighted average number of all shares of common stock outstanding including any restricted shares of the Company's common stock, restricted stock units or any shares of the Company's common stock not yet issued, but underlying other awards granted under the Company's 2012 Equity Incentive Plan (see Note 10 included in these consolidated financial statements) in the previous 12-month period, and (2) 8%; and (b) the sum of any incentive fees earned by ACREM with respect to the first three fiscal quarters of such previous 12-month period; *provided, however*, that no incentive fee is payable with respect to any fiscal quarter unless cumulative Core Earnings for the 12 most recently completed fiscal quarters is greater than zero. "Core Earnings" is a non-GAAP measure and is defined as GAAP net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of the Company's target investments are structured as debt and the Company forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), and one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between ACREM and the Company's independent directors and after approval by a majority of the Company's independent directors. No incentive fees were incurred for the years ended December 31, 2015, 2014 and 2013.

The Company reimburses ACREM at cost for operating expenses that ACREM incurs on the Company's behalf, including expenses relating to legal, financial, accounting, servicing, due diligence and other services.

The Company will not reimburse ACREM for the salaries and other compensation of its personnel, except for the allocable share of the salaries and other compensation of the Company's (a) Chief Financial Officer, based on the percentage of his time spent on the Company's affairs and (b) other corporate finance, tax, accounting, internal audit, legal, risk management, operations, compliance and other non-investment professional personnel of ACREM or its affiliates who spend all or a portion of their time managing the Company's affairs based on the percentage of their time spent on the Company's affairs. The Company is also required to pay its pro rata portion of rent, telephone, utilities, office furniture, equipment, machinery and other office, internal and overhead expenses of ACREM and its affiliates that are required for the Company's operations. The term of the Management Agreement ends on May 1, 2016, with automatic one-year renewal terms thereafter. Except under limited circumstances, upon a termination of the Management Agreement, the Company will pay ACREM a termination fee equal to three times the average annual base management fee and incentive fee received by ACREM during the 24-month period immediately preceding the most recently completed fiscal quarter prior to the date of termination, each as described above.

Certain of the Company's subsidiaries, along with the Company's lenders under certain of the Company's Secured Funding Agreements, as well as under the CMBS and CLO have entered into various servicing agreements with ACREM's subsidiary servicer, Ares Commercial Real Estate

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Servicer LLC ("ACRES"), a Standard & Poor's-rated commercial special servicer that is included on Standard & Poor's Select Servicer List. Effective January 1, 2015, ACREM transferred primary servicing of the Company's loans held for investment to ACRE Capital. The Company's Manager will specially service, as needed, certain of the Company's investments. Effective May 1, 2012, ACRES agreed that no servicing fees pursuant to these servicing agreements would be charged to the Company or its subsidiaries by ACRES or the Manager for so long as the Management Agreement remains in effect, but that ACRES will continue to receive reimbursement for overhead related to servicing and operational activities pursuant to the terms of the Management Agreement.

In September 2013, the Company and ACREM entered into an amendment to the Management Agreement whereby ACREM agreed not to seek reimbursement of restricted costs in excess of \$1.0 million per quarter for the quarterly periods between September 30, 2013 through December 31, 2014.

Summarized below are the related party costs incurred by the Company, including ACRE Capital, for the years ended December 31, 2015, 2014 and 2013 and amounts payable to the Company's Manager as of December 31, 2015 and 2014 (\$ in thousands):

	<u>Incurred</u>			<u>Payable</u>	
	<u>For the year ended December 31,</u>			<u>As of December 31,</u>	
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015</u>	<u>2014</u>
<b><i>Affiliate Payments</i></b>					
Management fees	\$ 5,948	\$ 5,916	\$ 4,241	\$ 1,501	\$ 1,471
General and administrative expenses	3,878	4,000	3,610	919	1,000
Direct costs	1,489	861	769	238	264
	<u>\$ 11,315</u>	<u>\$ 10,777</u>	<u>\$ 8,620</u>	<u>\$ 2,658</u>	<u>\$ 2,735</u>

***Ares Investments Holdings LLC***

As of December 31, 2014, Ares Investments Holdings LLC, a wholly owned subsidiary of Ares Management, owned \$1.2 million aggregate principal amount of the 2015 Convertible Notes. In December 2015, the 2015 Convertible Notes matured and were repaid at par.

***Credit Support Fee Agreement***

In July 2014, the Company and certain of its subsidiaries entered into a Credit Support Fee Agreement with Ares Management under which the Company agreed to pay Ares Management a credit support fee in an amount equal to 1.50% per annum times the average amount of the loans outstanding under the July 2014 CNB Facility and to reimburse Ares Management for its out-of-pocket costs and expenses in connection with the transaction. During the years ended December 31, 2015 and 2014, the Company incurred a credit support fee of \$1.0 million and \$278 thousand, respectively, under the July 2014 CNB Facility which is included within interest expense in the Company's consolidated statements of operations. In connection with the Credit Support Fee Agreement, the Company entered into a Pledge Agreement pursuant to which the Company pledged to Ares Management its ownership interests in its wholly owned direct subsidiary, ACRC Holdings LLC, the holding entity for the Company's principal lending business. On December 18, 2015, the Pledge Agreement with Ares Management was terminated. In July 2015, the Company exercised a 12-month extension option to extend the maturity date of the July 2014 CNB Facility to July 31, 2016. See Note 6 included in these consolidated financial statements for more information on the July 2014 CNB Facility.

**15. DIVIDENDS AND DISTRIBUTIONS**

The following table summarizes the Company's dividends declared during the years ended December 31, 2015, 2014 and 2013 (\$ in thousands, except per share data):

<u>Date declared</u>	<u>Record date</u>	<u>Payment date</u>	<u>Per share amount</u>	<u>Total amount</u>
November 5, 2015	December 31, 2015	January 19, 2016	\$ 0.25	\$ 7,152
July 30, 2015	September 30, 2015	October 15, 2015	0.25	7,152
May 7, 2015	June 30, 2015	July 15, 2015	0.25	7,152
March 5, 2015	March 31, 2015	April 15, 2015	0.25	7,146
<b>Total cash dividends declared for the year ended December 31, 2015</b>			<u>\$ 1.00</u>	<u>\$ 28,602</u>
November 10, 2014	December 31, 2014	January 15, 2015	\$ 0.25	\$ 7,147
August 6, 2014	September 30, 2014	October 15, 2014	0.25	7,151
May 7, 2014	June 30, 2014	July 16, 2014	0.25	7,151
March 17, 2014	March 31, 2014	April 16, 2014	0.25	7,147
<b>Total cash dividends declared for the year ended December 31, 2014</b>			<u>\$ 1.00</u>	<u>\$ 28,596</u>
November 13, 2013	December 31, 2013	January 22, 2014	\$ 0.25	\$ 7,127
August 7, 2013	September 30, 2013	October 17, 2013	0.25	7,119
May 15, 2013	June 28, 2013	July 18, 2013	0.25	6,822
March 14, 2013	April 08, 2013	April 18, 2013	0.25	2,317
<b>Total cash dividends declared for the year ended December 31, 2013</b>			<u>\$ 1.00</u>	<u>\$ 23,385</u>

**16. VARIABLE INTEREST ENTITIES*****Consolidated VIEs***

As discussed in Note 2, the Company evaluates all of its investments and other interests in entities for consolidation, including its investments in: (a) the CMBS transaction and the Company's retained interests in the subordinated classes of the certificates issued by the Trust (as defined below) it initiated and (b) the CLO transaction and the Company's retained interests in the subordinated notes and preferred equity of the Issuer (as defined below) and (c) a preferred equity investment in an LLC entity (discussed below), all of which are generally considered to be variable interests in a VIE. The Trust and Issuer together are referred herein as the Company's "Securitization VIEs."

***CMBS Securitization***

In connection with forming ACRE Commercial Mortgage Trust 2013-FL1 (the "Trust"), ACRC 2013-FL1 Depositor LLC (the "Depositor"), a wholly owned subsidiary of the Company, entered into a Pooling and Servicing Agreement dated as of November 1, 2013 (as amended on March 28, 2014, the "Pooling and Servicing Agreement") with Wells Fargo as master servicer, ACRES as servicer, U.S. Bank National Association as trustee, and Trimont Real Estate Advisors Inc. as trust advisor. The Trust is treated for U.S. federal income tax purposes as a real estate mortgage investment conduit.

The Pooling and Servicing Agreement governs the issuance of approximately \$493.8 million aggregate principal balance commercial mortgage pass through certificates in a CMBS effected by the Depositor. In connection with the securitization, the Depositor contributed a pool of 18 adjustable rate participation interests in commercial mortgage loans to the Trust. The commercial mortgage loans were originated by the Company or its subsidiaries and are secured by 27 commercial properties. The certificates represent, in the aggregate, the entire beneficial ownership interest in, and the obligations of, the Trust.

In connection with the securitization, the Company offered and sold the following classes of certificates: Class A, Class B, Class C and Class D Certificates (collectively, the "Offered Certificates") to third parties pursuant to an offering made privately in transactions exempt from the registration requirements of the Securities Act of 1933 (the "Securities Act"). As of December 31, 2015 and 2014, the aggregate principal balance of the Offered Certificates was approximately \$61.9 million and \$219.0 million, respectively. In addition, a wholly owned subsidiary of the Company retained approximately \$98.8 million of the certificates. The Company, as the holder of the subordinated classes of the Trust, has the obligation to absorb losses of the Trust, since the Company has a first loss position in the capital structure of the Trust.

### ***CLO Securitization***

On August 15, 2014, ACRE Commercial Mortgage 2014-FL2 Ltd. (the "Issuer") and ACRE Commercial Mortgage 2014-FL2 LLC ("Co-Issuer"), both wholly owned indirect subsidiaries of the Company, entered into an indenture with Wells Fargo as advancing agent and note administrator and Wilmington Trust, National Association as trustee, which governs the issuance of approximately \$346.1 million principal balance secured floating rate notes (the "Notes") and \$32.7 million of preferred equity in the Issuer. For U.S. federal income tax purposes, the Issuer and Co-Issuer are disregarded entities.

The Notes are collateralized by interests in a pool of 15 mortgage assets having a total principal balance of \$378.8 million (the "Mortgage Assets") originated by a subsidiary of the Company. The sale of the Mortgage Assets to the Issuer is governed by a Mortgage Asset Purchase Agreement dated as of August 15, 2014, between ACRC Lender LLC and the Issuer. In connection with the securitization, the Issuer and Co-Issuer offered and sold the following classes of Notes: Class A, Class A-S, Class B, Class C and Class D Notes to third parties. A wholly owned subsidiary of the Company retained approximately \$37.4 million of the most subordinate Notes and all of the preferred equity in the Issuer. The Company, as the holder of the subordinated Notes and all of the preferred equity in the Issuer, has the obligation to absorb losses of the CLO, since the Company has a first loss position in the capital structure of the CLO. As of December 31, 2015 and 2014, the aggregate principal balance of the Offered Notes was approximately \$193.4 million and \$308.7 million, respectively.

### ***Summary of Securitization VIEs***

As the directing holder of the CMBS and the CLO, the Company has the ability to direct activities that could significantly impact the Securitization VIEs' economic performance. If an unrelated third party had the right to unilaterally remove the special servicer, then the Company would not have the power to direct activities that most significantly impact the Securitization VIEs' economic performance. In addition, there are no substantive kick-out rights of any unrelated third party to remove the special servicer without cause. The Company's subsidiaries, as directing holders, have the ability to remove the special servicer without cause. Based on these factors, the Company is determined to be the primary beneficiary of these Securitization VIEs; thus, the Securitization VIEs are consolidated into the Company's consolidated financial statements.

ACRE Capital is designated as primary servicer and ACRES as special servicer of the CMBS and the CLO. ACRES has the power to direct activities during the loan workout process on defaulted and delinquent loans, which is the activity that most significantly impacts the Securitization VIEs' economic performance. ACRE Capital and ACRES waive the servicing and special servicing fees and the Company pays its overhead costs, as with other servicing agreements.

The Securitization VIEs consolidated in accordance with FASB ASC Topic 810 are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate and note holders, as applicable. The assets and other instruments held by

the Securitization VIEs are restricted and can only be used to fulfill the obligations of the Securitization VIEs. Additionally, the obligations of the Securitization VIEs do not have any recourse to the general credit of any other consolidated entities, nor to the Company as the primary beneficiary.

The inclusion of the assets and liabilities of Securitization VIEs of which the Company is deemed the primary beneficiary has no economic effect on the Company. The Company's exposure to the obligations of Securitization VIEs is generally limited to its investment in these entities. The Company is not obligated to provide, nor has it provided, any financial support for any of these consolidated structures. As such, the risk associated with the Company's involvement in these Securitization VIEs is limited to the carrying value of its investment in the entity. As of December 31, 2015 and 2014, the Company's maximum risk of loss was \$168.8 million, which represents the carrying value of its investment in the Securitization VIEs. For the years ended December 31, 2015 and 2014, the Company incurred interest expense related to the Securitization VIEs of \$7.6 million and \$9.1 million, respectively, which is included within interest expense in the Company's consolidated statements of operations.

#### ***Investment in VIE***

On December 19, 2014, the Company and third party institutional investors formed a limited liability company, ACRC KA, which acquired \$170.0 million of preferred equity in a REIT whose assets were comprised of a portfolio of 22 multifamily, student housing, medical office and self-storage properties managed by its sponsor. The Company's investment in ACRC KA is considered to be an investment in a VIE. As of December 31, 2015 and 2014, the Company owns a controlling financial interest of 51.0% and 54.3%, respectively, of the equity shares in the VIE and the third party institutional investors own the remaining 49.0% and 45.7%, respectively, a minority financial interest. The preferred equity shares are entitled to a preferred monthly return over the term of the investment at a fixed rate of 10.95% per annum.

ACREM is the non-member manager of the VIE. Based on the terms of the ACRC KA LLC agreement, ACREM has the ability to direct activities that could significantly impact the VIE's economic performance. There are no substantive kick-out rights held by the third party institutional investors to remove ACREM as the non-member manager without cause. As ACREM serves as the manager of the Company, the Company has the right to receive benefits from the VIE that could potentially be significant. As such, the Company is deemed to be the primary beneficiary of the VIE and the party that is most closely associated with the VIE. Thus, the VIE is consolidated into the Company's consolidated financial statements and the preferred equity interests owned by the third party institutional investors are reflected as a non-controlling interest held by third parties within the Company's consolidated balance sheets.

As of December 31, 2015 and 2014, the carrying value of the preferred equity investment, which is net of unamortized fees and origination costs, was \$93.9 million and \$168.4 million, respectively, and is included within loans held for investment in the consolidated balance sheets. The risk associated solely with respect to the Company's investment in this VIE is limited to the outstanding principal of its investment in the entity. As of December 31, 2015 and 2014, the Company's maximum risk of loss solely with respect to this investment was \$48.5 million and \$92.4 million, respectively.

#### ***Unconsolidated VIEs***

The Company also holds variable interests in VIEs structured as preferred equity investments, where the Company does not have a controlling financial interest. For these structures, the Company is not deemed to be the primary beneficiary of the VIE, and the Company does not consolidate these VIEs. These preferred equity investments are accounted for as loans held for investment and are carried at cost, net of unamortized loan fees and origination costs, unless the loans are deemed

impaired, and are included within loans held for investment in the Company's consolidated balance sheets.

The Company is not obligated to provide, nor has it provided, any financial support for any of the Company's unconsolidated VIEs. As such, the risks associated with the Company's involvement in these unconsolidated VIEs are limited to the outstanding principal of the Company's investment in the entity.

The following table presents the carrying value and the maximum exposure to loss of unconsolidated VIEs as of December 31, 2015 and 2014 (\$ in thousands):

	As of December 31,	
	2015	2014
Carrying value	\$ 55,144	\$ 38,982
Maximum exposure to loss	\$ 55,704	\$ 39,608

## 17. ACQUISITIONS

### *Asset Acquisition*

On August 25, 2014, ACRE Capital entered into a MSR purchase agreement (the "Purchase Agreement") with a third party which has been accounted for as an asset acquisition under FASB ASC Topic 805, *Business Combinations* ("ASC 805"). Under the Purchase Agreement, ACRE Capital agreed to purchase the rights to service a portfolio of 46 Freddie Mac multifamily mortgage loans with a total unpaid principal balance of approximately \$370.6 million.

The aggregate purchase price was approximately \$2.2 million, which also included a premium for the Freddie Mac Program Plus® Seller/Servicer license that ACRE Capital was issued by Freddie Mac in connection with the acquisition of the Freddie Mac MSR portfolio. ACRE Capital initially recorded the acquired MSRs at fair value in the amount of \$1.3 million and subsequently accounted for these MSRs at fair value consistent with the MSR policy in Note 2 included in these consolidated financial statements. The remaining purchase price of \$941 thousand was allocated to the Freddie Mac Program Plus® Seller/Servicer license, an indefinite-lived intangible asset. See Note 5 included in these consolidated financial statements for additional information on this license.

On September 16, 2014, ACRE Capital completed the acquisition of the servicing portfolio and legal ownership of the MSRs was transferred to ACRE Capital.

### *Business Combination*

On August 30, 2013, (the "Acquisition Date"), the Company completed its acquisition of all of the outstanding common units of ACRE Capital from the Sellers. For accounting purposes, the acquisition was deemed to be effective on the close of business September 1, 2013, or the "Accounting Effective Date." Pursuant to the Purchase and Sale Agreement, dated as of May 14, 2013, by and among the Company and the Sellers, the Company paid approximately \$53.4 million in cash, subject to adjustment, and issued 588,235 shares of its common stock in a private placement exempt from registration under Section 4(2) of the Securities Act resulting in total consideration paid of approximately \$60.9 million. The transaction was accounted for as a business combination under ASC 805.

Through ACRE Capital, the Company operates its mortgage banking business. ACRE Capital primarily originates, sells and services multifamily and senior-living related loans under programs offered by Fannie Mae, Freddie Mac and HUD (including Ginnie Mae).

The Sellers provided the Company with a minimum working capital balance prior to the Accounting Effective Date. To the extent actual working capital exceeded or fell below the minimum requirement, the Company would either pay or receive funds from the Sellers. There have been no

adjustments to the gain on acquisition during the years ended December 31, 2015 and 2014. The gain on acquisition was \$4.4 million, which was recognized for the year ended December 31, 2013.

## 18. SEGMENTS

The Company's reportable segments reflect the significant components of the Company's operations that are evaluated separately by the Company's chief operating decision makers, the Company's Co-Chief Executive Officers, and have discrete financial information available. The Company organizes its segments based primarily upon the nature of the underlying products and services. The Company's Co-Chief Executive Officers and management review certain financial information, including segmented internal profit and loss statements, which are presented below on that basis. The amounts in the reportable segments included in the tables below are in conformity with GAAP and the Company's significant accounting policies as described in Note 2 included in these consolidated financial statements.

The Company operates in two reportable business segments:

- principal lending—includes all business activities of the Company, excluding the ACRE Capital business, which generally represents investments in real estate related loans and securities that are held for investment.
- mortgage banking—includes all business activities of the acquired ACRE Capital business.

The Company is primarily focused on two business segments involving CRE loans. First, in its principal lending business, the Company originates, invests in, manages and services middle-market CRE loans and other CRE related investments for its own account. These loans and other CRE related investments are generally held for investment and are secured, directly or indirectly, by office, multifamily, retail, industrial and other commercial real estate properties, or by ownership interests therein. Second, in its mortgage banking business, conducted through a wholly owned subsidiary, ACRE Capital, the Company originates, sells and retains servicing of primarily multifamily and other senior-living related CRE loans. These loans are generally held for sale.

Allocated costs between the segments include management fees and general and administrative expenses payable to the Company's Manager, both of which represent shared costs. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated.

The table below presents the Company's total assets as of December 31, 2015 by business segment (\$ in thousands):

	<u>Principal Lending</u>	<u>Mortgage Banking</u>	<u>Total</u>
Cash and cash equivalents	\$ 5,066	\$ 3,929	\$ 8,995
Restricted cash	13,083	17,297	30,380
Loans held for investment	1,174,391	—	1,174,391
Loans held for sale, at fair value	—	30,612	30,612
Mortgage servicing rights, at fair value	—	61,800	61,800
Other assets	53,191	19,613	72,804
<b>Total Assets</b>	<u>\$ 1,245,731</u>	<u>\$ 133,251</u>	<u>\$ 1,378,982</u>



The table below presents the Company's total assets as of December 31, 2014 by business segment (\$ in thousands):

	Principal Lending	Mortgage Banking	Total
Cash and cash equivalents	\$ 15,045	\$ 1,506	\$ 16,551
Restricted cash	49,679	16,442	66,121
Loans held for investment	1,462,584	—	1,462,584
Loans held for sale, at fair value	—	203,006	203,006
Mortgage servicing rights, at fair value	—	58,889	58,889
Other assets	39,959	15,045	55,004
<b>Total Assets</b>	<b>\$ 1,567,267</b>	<b>\$ 294,888</b>	<b>\$ 1,862,155</b>

The table below presents the Company's consolidated net income for the year ended December 31, 2015 by business segment (\$ in thousands):

	Principal Lending	Mortgage Banking	Total
<b>Net interest margin:</b>			
Interest income from loans held for investment	\$ 86,337	\$ —	\$ 86,337
Interest expense	(36,342)	—(2)	(36,342)
Net interest margin	49,995(1)	—	49,995
<b>Mortgage banking revenue:</b>			
Servicing fees, net	—	16,051(2)	16,051
Gains from mortgage banking activities	—	27,067	27,067
Provision for loss sharing	—	1,093	1,093
Change in fair value of mortgage servicing rights	—	(8,798)	(8,798)
Mortgage banking revenue	—	35,413	35,413
Total revenue	49,995	35,413	85,408
<b>Expenses:</b>			
Management fees to affiliate	5,397	551	5,948
Professional fees	2,018	1,073	3,091
Compensation and benefits	—	20,448	20,448
General and administrative expenses	2,830	3,965	6,795
General and administrative expenses reimbursed to affiliate	3,426	452	3,878
Total expenses	13,671	26,489	40,160
<b>Income from operations before income taxes</b>	<b>36,324</b>	<b>8,924</b>	<b>45,248</b>
Income tax expense (benefit)	(11)	1,939	1,928
<b>Net income attributable to ACRE</b>	<b>36,335</b>	<b>6,985</b>	<b>43,320</b>
Less: Net income attributable to non-controlling interests	(9,035)	—	(9,035)
<b>Net income attributable to common stockholders</b>	<b>\$ 27,300</b>	<b>\$ 6,985</b>	<b>\$ 34,285</b>

- (1) Revenues from two of the Company's borrowers in the principal lending segment represented approximately 29.1% of the Company's consolidated revenues for the year ended December 31, 2015.
- (2) Interest expense does not include interest expense related to the Intercompany Notes, as described in Note 12 included in these consolidated financial statements. Additionally, servicing fees, net

does not include servicing fee revenue related to the primary servicing of ACRE's loan portfolio by ACRE Capital, as described in Note 14 included in these consolidated financial statements. The intercompany interest expense and servicing fee revenue are eliminated from the consolidated financial statements of the Company. If intercompany interest expense and servicing fee revenue were included in the consolidated financial statements, interest expense, servicing fees, net and net income for the year ended December 31, 2015 would have been \$4.3 million, \$16.5 million and \$3.1 million, respectively, for mortgage banking.

The table below presents the Company's consolidated net income for the year ended December 31, 2014 by business segment (\$ in thousands):

	Principal Lending	Mortgage Banking	Total
<b>Net interest margin:</b>			
Interest income from loans held for investment	\$ 70,495	\$ —	\$ 70,495
Interest expense	(33,637)	—(2)	(33,637)
Net interest margin	36,858(1)	—	36,858
<b>Mortgage banking revenue:</b>			
Servicing fees, net	—	16,399	16,399
Gains from mortgage banking activities	—	17,492	17,492
Provision for loss sharing	—	1,364	1,364
Change in fair value of mortgage servicing rights	—	(7,650)	(7,650)
Mortgage banking revenue	—	27,605	27,605
Gain on sale of loans	680	—	680
Total revenue	37,538	27,605	65,143
<b>Expenses:</b>			
Management fees to affiliate	5,440	476	5,916
Professional fees	2,686	1,047	3,733
Compensation and benefits	—	18,649	18,649
Acquisition and investment pursuit costs	20	—	20
General and administrative expenses	3,003	6,249	9,252
General and administrative expenses reimbursed to affiliate	3,400	600	4,000
Total expenses	14,549	27,021	41,570
<b>Income from operations before income taxes</b>	<b>22,989</b>	<b>584</b>	<b>23,573</b>
Income tax expense (benefit)	240	(1,283)	(1,043)
<b>Net income attributable to ACRE</b>	<b>22,749</b>	<b>1,867</b>	<b>24,616</b>
Less: Net income attributable to non-controlling interests	(220)	—	(220)
<b>Net income attributable to common stockholders</b>	<b>\$ 22,529</b>	<b>\$ 1,867</b>	<b>\$ 24,396</b>

- (1) Revenues from one of the Company's borrowers in the principal lending segment represented approximately 15.8% of the Company's consolidated revenues for the year ended December 31, 2014.
- (2) Interest expense does not include interest expense related to the Intercompany Notes, as described in Note 12 included in these consolidated financial statements. The intercompany interest expense is eliminated from the consolidated financial statements of the Company. If intercompany interest expense were included in the consolidated financial statements, interest expense and net loss for

the year ended December 31, 2014 would have been \$3.7 million and \$1.8 million, respectively, for mortgage banking.

The table below presents the Company's consolidated net income for the year ended December 31, 2013 by business segment (\$ in thousands):

	Principal Lending	Mortgage Banking	Total
<b>Net interest margin:</b>			
Interest income from loans held for investment	\$ 37,600	\$ —	\$ 37,600
Interest expense	(14,973)	— <sup>(2)</sup>	(14,973)
Net interest margin	22,627 <sup>(1)</sup>	—	22,627
<b>Mortgage banking revenue:</b>			
Servicing fees, net	—	5,754	5,754
Gains from mortgage banking activities	—	5,019	5,019
Provision for loss sharing	—	(6)	(6)
Change in fair value of mortgage servicing rights	—	(2,697)	(2,697)
Mortgage banking revenue	—	8,070	8,070
Gain on sale of loans	—	1,333	1,333
Total revenue	22,627	9,403	32,030
<b>Expenses:</b>			
Management fees to affiliate	4,125	116	4,241
Professional fees	2,447	477	2,924
Compensation and benefits	—	5,456	5,456
Acquisition and investment pursuit costs	4,079	—	4,079
General and administrative expenses	2,430	1,525	3,955
General and administrative expenses reimbursed to affiliate	3,394	216	3,610
Total expenses	16,475	7,790	24,265
Changes in fair value of derivatives	1,739	—	1,739
<b>Income from operations before gain on acquisition and income taxes</b>	<b>7,891</b>	<b>1,613</b>	<b>9,504</b>
Gain on acquisition	4,438	—	4,438
<b>Income from operations before income taxes</b>	<b>12,329</b>	<b>1,613</b>	<b>13,942</b>
Income tax expense	—	176	176
<b>Net income attributable to common stockholders</b>	<b>\$ 12,329</b>	<b>\$ 1,437</b>	<b>\$ 13,766</b>

- (1) Revenues from one of the Company's borrowers in the principal lending segment represented approximately 13.0% of the Company's consolidated revenues for the year ended December 31, 2013.
- (2) Interest expense does not include interest expense related to the Intercompany Notes, as described in Note 12 included in these consolidated financial statements. The intercompany interest expense is eliminated from the consolidated financial statements of the Company. If intercompany interest expense were included in the consolidated financial statements, interest expense and net income for the year ended December 31, 2013 would have been \$1.2 million and \$244 thousand, respectively, for mortgage banking.

**19. QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table summarizes the Company's quarterly financial results for each quarter of the years ended December 31, 2015 and 2014 (\$ in thousands, except per share data):

	For the three month period ended,			
	March 31	June 30	September 30	December 31
<b>2015:</b>				
Total revenue	\$ 18,437	\$ 22,131	\$ 23,916	\$ 20,924
Net income	\$ 9,295	\$ 11,263	\$ 11,710	\$ 11,052
Net income attributable to common stockholders	\$ 7,062	\$ 8,967	\$ 9,379	\$ 8,877
Net income per common share—Basic	\$ 0.25	\$ 0.31	\$ 0.33	\$ 0.31
Net income per common share—Diluted	\$ 0.25	\$ 0.31	\$ 0.33	\$ 0.31
<b>2014:</b>				
Total revenue(1)	\$ 13,758	\$ 17,413	\$ 13,180	\$ 20,792
Net income	\$ 4,755	\$ 6,638	\$ 4,102	\$ 9,121
Net income attributable to common stockholders	\$ 4,755	\$ 6,638	\$ 4,102	\$ 8,901
Net income per common share—Basic	\$ 0.17	\$ 0.23	\$ 0.14	\$ 0.31
Net income per common share—Diluted	\$ 0.17	\$ 0.23	\$ 0.14	\$ 0.31

- (1) As of December 31, 2014, the Company no longer presents other interest expense in its consolidated statements of operations. Total revenue has been adjusted from the previously filed Forms 10-Q as of March 31, June 30 and September 30, 2014 to reflect the reclassification of other interest expense. Other interest expense related to the 2015 Convertible Notes has been reclassified into interest expense, other interest expense related to the Warehouse Lines of Credit has been reclassified into gains from mortgage banking activities and other interest expense related to escrow accounts has been reclassified into servicing fees, net in the consolidated statements of operations. The impact of these reclasses is a decrease in total revenue by \$1.7 million, \$1.8 million and \$1.9 million, respectively, for the three month periods ending March 31, June 30 and September 30, 2014, respectively.

**20. COSTS ASSOCIATED WITH RESTRUCTURING ACTIVITIES**

During the three months ended March 31, 2014, the Company began restructuring and relocating certain ACRE Capital support services in order to centralize the ACRE Capital platform into one location, including the asset management team and leadership. For the years ended December 31, 2015 and 2014, the Company incurred restructuring costs in the mortgage banking segment of \$44 thousand and \$799 thousand, respectively.

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The table below presents a reconciliation of the liability attributable to restructuring costs incurred in the mortgage banking segment as of and for the years ending December 31, 2015 and 2014 (\$ in thousands):

	Employee Termination Costs
<b>Balance as of January 1, 2014</b>	\$ —
Accruals	799
Payments	(574)
<b>Balance as of December 31, 2014</b>	\$ 225
Accruals	44
Payments	(269)
<b>Balance as of December 31, 2015</b>	\$ —

The employee termination costs above are associated with employee severance compensation, retention bonuses and guaranteed bonuses to certain key employees, insurance and outplacement. The costs incurred above are included within general and administrative expenses in the Company's consolidated statements of operations. As of December 31, 2014, the restructuring was complete and all costs were measured; however, the Company recognized restructuring costs through the first quarter of 2015. This measurement included employee costs for employees that were required to render service (beyond a minimum retention period) in order to receive the termination benefits; the Company recognized a liability ratably over the service period.

## 21. SUBSEQUENT EVENTS

The Company's management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-K or would be required to be recognized in the consolidated financial statements as of and for the year ended December 31, 2015, except as disclosed below.

On January 20, 2016, the Company originated a \$56.0 million first mortgage loan on a hotel portfolio located in California. At closing, the outstanding principal balance was approximately \$56.0 million. The loan has an interest rate of LIBOR + 4.75% (plus origination and exit fees) subject to a 0.25% LIBOR floor and an initial term of three years.

On February 26, 2016, the Company amended its BAML Facility to expand the eligible assets to include loans secured by general and affordable multifamily properties.

On February 26, 2016, the Company amended its March 2014 CNB Facility to extend the maturity date to March 11, 2017. In addition, the Company continues to have one 12-month extension at its option provided that certain conditions are met and applicable extension fees are paid, which, if exercised, would extend the final maturity of the March 2014 CNB Facility to March 10, 2018.

On February 28, 2016, the Company's board of directors increased the size of the existing \$20.0 million stock repurchase program to \$30.0 million and extended the stock repurchase program through March 31, 2017. See "Market For Registrant's Common Equity, Related Stockholder Matters And Issuer Purchases Of Equity Securities—Issuer Purchases of Equity Securities" for more information on the stock repurchase program.

On March 1, 2016, the Company declared a cash dividend of \$0.26 per common share for the first quarter of 2016. The first quarter 2016 dividend is payable on April 15, 2016 to common stockholders of record as of March 31, 2016.

**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.

ARES COMMERCIAL REAL ESTATE CORPORATION

Dated: March 1, 2016

By: /s/ JOHN JARDINE

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John Jardine  
*Co-Chief Executive Officer, Director and President*

Dated: March 1, 2016

By: /s/ ROBERT L. ROSEN

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Robert L. Rosen  
*Interim Co-Chief Executive Officer and Chairman*

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

By: /s/ JOHN JARDINE Date: March 1, 2016

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John Jardine  
*Co-Chief Executive Officer, Director and President  
(Principal Executive Officer)*

By: /s/ ROBERT L. ROSEN Date: March 1, 2016

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Robert L. Rosen  
*Interim Co-Chief Executive Officer and Chairman  
(Principal Executive Officer)*

By: /s/ TAE-SIK YOON Date: March 1, 2016

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Tae-Sik Yoon  
*Chief Financial Officer and Treasurer (Principal  
Financial and Accounting Officer)*

By: /s/ MICHAEL J AROUGHETI Date: March 1, 2016

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Michael J Arougheti  
*Director*

By: /s/ CAROLINE E. BLAKELY Date: March 1, 2016

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Caroline E. Blakely  
*Director*

By: /s/ WILLIAM BROWNING Date: March 1, 2016

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William Browning  
*Director*

By: /s/ JOHN HOPE BRYANT Date: March 1, 2016

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John Hope Bryant  
*Director*

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[Conformed Copy as of May 8, 2014]

**ARES COMMERCIAL REAL ESTATE CORPORATION**

**ARTICLES OF AMENDMENT AND RESTATEMENT**

FIRST: Ares Commercial Real Estate Corporation, a Maryland corporation (the “Corporation”), desires to amend and restate its charter as currently in effect and as hereinafter amended.

SECOND: The following provisions are all the provisions of the charter of the Corporation currently in effect and as hereinafter amended:

**ARTICLE I**

**INCORPORATOR**

Christopher W. Pate, whose address is c/o Venable LLP, 750 East Pratt Street, Suite 900, Baltimore, Maryland 21202, being at least 18 years of age, formed a corporation under the general laws of the State of Maryland on September 1, 2011.

**ARTICLE II**

**NAME**

The name of the corporation (the “Corporation”) is:

Ares Commercial Real Estate Corporation

**ARTICLE III**

**PURPOSE**

The purposes for which the Corporation is formed are to engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a real estate investment trust under the Internal Revenue Code of 1986, as amended, or any successor statute

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(the “Code”)) for which corporations may be organized under the general laws of the State of Maryland as now or hereafter in force. For purposes of the charter of the Corporation (the “Charter”), “REIT” means a real estate investment trust under Sections 856 through 860 of the Code.

#### **ARTICLE IV**

##### **PRINCIPAL OFFICE IN STATE AND RESIDENT AGENT**

The address of the principal office of the Corporation in the State of Maryland is c/o CSC-Lawyers Incorporating Service Company, 7 St. Paul Street, Suite 1660, Baltimore, Maryland 21202. The name of the resident agent of the Corporation in the State of Maryland is CSC-Lawyers Incorporating Service Company, whose post office address is 7 St. Paul Street, Suite 1660, Baltimore, Maryland 21202. The resident agent is a Maryland corporation.

#### **ARTICLE V**

##### **PROVISIONS FOR DEFINING, LIMITING AND REGULATING CERTAIN POWERS OF THE CORPORATION AND OF THE STOCKHOLDERS AND DIRECTORS**

Section 5.1 Number of Directors. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. The number of directors of the Corporation is eight, which number may be increased or decreased only by the Board of Directors pursuant to the Bylaws of the Corporation (the “Bylaws”), but shall never be less than the minimum number required by the Maryland General Corporation Law (the “MGCL”). The names of the directors who shall serve until the first annual meeting of stockholders and until their successors are duly elected and qualify are:

Michael J. Arougheti

John B. Bartling, Jr.

John H. Bryant

Michael H. Diamond

Jeffrey T. Hinson

Paul G. Joubert

Robert L. Rosen

Todd Schuster

These directors may increase the number of directors and may fill any vacancy, whether resulting from an increase in the number of directors or otherwise, on the Board of Directors occurring before the first annual meeting of stockholders in the manner provided in the Bylaws.

The Corporation elects, at such time as it becomes eligible to make the election provided for under Section 3-804(c) of the MGCL, that, except as may be provided by the Board of Directors in setting the terms of any class or series of Preferred Stock (as hereinafter defined), any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy shall serve for the remainder of the full term of the class in which such vacancy occurred and until a successor is elected and qualifies.

The directors (other than any director elected solely by holders of one or more classes or series of Preferred Stock) shall be classified, with respect to the terms for which they severally hold office, into three classes, as nearly equal in number as possible as determined by the Board of Directors, one class to hold office initially for a term expiring at the next succeeding annual meeting of stockholders, another class to hold office initially for a term expiring at the second succeeding annual meeting of stockholders and another class to hold office initially for a term expiring at the third succeeding annual meeting of stockholders, with the members of each class

to hold office until their successors are duly elected and qualify. At each annual meeting of the stockholders, the successors to the class of directors whose term expires at such meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify.

Section 5.2 Extraordinary Actions. Except as specifically provided in Section 5.8 (relating to removal of directors) and in the last sentence of Article VIII, notwithstanding any provision of law permitting or requiring any action to be taken or approved by the affirmative vote of the holders of shares entitled to cast a greater number of votes, any such action shall be effective and valid if declared advisable by the Board of Directors and taken or approved by the affirmative vote of holders of shares entitled to cast a majority of all the votes entitled to be cast on the matter.

Section 5.3 Authorization by Board of Stock Issuance. The Board of Directors may authorize the issuance from time to time of shares of stock of the Corporation of any class or series, whether now or hereafter authorized, or securities or rights convertible into shares of its stock of any class or series, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable (or without consideration in the case of a stock split or stock dividend), subject to such restrictions or limitations, if any, as may be set forth in the Charter or the Bylaws.

Section 5.4 Preemptive and Appraisal Rights. Except as may be provided by the Board of Directors in setting the terms of classified or reclassified shares of stock pursuant to Section 6.4 or as may otherwise be provided by a contract approved by the Board of Directors, no holder of shares of stock of the Corporation shall, as such holder, have any preemptive right to purchase or subscribe for any additional shares of stock of the Corporation or any other security

of the Corporation which it may issue or sell. Holders of shares of stock shall not be entitled to exercise any rights of an objecting stockholder provided for under Title 3, Subtitle 2 of the MGCL or any successor statute unless the Board of Directors, upon the affirmative vote of a majority of the Board of Directors, shall determine that such rights apply, with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which holders of such shares would otherwise be entitled to exercise such rights.

Section 5.5 Indemnification. The Corporation shall have the power, to the maximum extent permitted by Maryland law in effect from time to time, to obligate itself to indemnify, and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, (a) any individual who is a present or former director or officer of the Corporation or (b) any individual who, while a director or officer of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner, member, manager or trustee of another corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in such capacity. The Corporation shall have the power, with the approval of the Board of Directors, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Corporation in any of the capacities described in (a) or (b) above and to any employee or agent of the Corporation or a predecessor of the Corporation.

Section 5.6 Determinations by Board. The determination as to any of the following matters, made in good faith by or pursuant to the direction of the Board of Directors consistent with the Charter, shall be final and conclusive and shall be binding upon the

Corporation and every holder of shares of its stock: the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its stock or the payment of other distributions on its stock; the amount of paid-in surplus, net assets, other surplus, annual or other cash flow, funds from operations, net profit, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged); any interpretation of the terms, preferences, conversion or other rights, voting powers or rights, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption of any class or series of stock of the Corporation; the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation or of any shares of stock of the Corporation; the number of shares of stock of any class of the Corporation; any matter relating to the acquisition, holding and disposition of any assets by the Corporation; or any other matter relating to the business and affairs of the Corporation or required or permitted by applicable law, the Charter or Bylaws or otherwise to be determined by the Board of Directors.

Section 5.7 REIT Qualification. If the Corporation elects to qualify for federal income tax treatment as a REIT, the Board of Directors shall use its reasonable best efforts to take such actions as are necessary or appropriate to preserve the status of the Corporation as a REIT; however, if the Board of Directors determines that it is no longer in the best interests of the Corporation to continue to be qualified as a REIT, the Board of Directors may revoke or otherwise terminate the Corporation's REIT election pursuant to Section 856(g) of the Code.

The Board of Directors also may determine that compliance with any restriction or limitation on stock ownership and transfers set forth in Article VII is no longer required for REIT qualification.

Section 5.8 Removal of Directors. Subject to the rights of holders of one or more classes or series of Preferred Stock to elect or remove one or more directors, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors. For the purpose of this paragraph, “cause” shall mean, with respect to any particular director, conviction of a felony or a final judgment of a court of competent jurisdiction holding that such director caused demonstrable, material harm to the Corporation through bad faith or active and deliberate dishonesty.

Section 5.9 Investment Activities. No officer or director of the Corporation, including any officer or director who also serves as a director, officer or employee of any entity that provides investment advisory services or as a member of the investment committee or underwriting committee of any such entity, shall be obligated to offer to the Corporation the opportunity to participate in any business or investing activity or venture that is presented to such person other than in his or her capacity as an officer or director of the Corporation.

## ARTICLE VI

### STOCK

Section 6.1 Authorized Shares. The Corporation has authority to issue 500,000,000 shares of stock, consisting of 450,000,000 shares of common stock, \$0.01 par value per share (“Common Stock”), and 50,000,000 shares of preferred stock, \$0.01 par value per share (“Preferred Stock”). The aggregate par value of all authorized shares of stock having par value is

\$5,000,000. If shares of one class of stock are classified or reclassified into shares of another class of stock pursuant to Section 6.2, 6.3 or 6.4 of this Article VI, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of stock of all classes that the Corporation has authority to issue shall not be more than the total number of shares of stock set forth in the first sentence of this paragraph. The Board of Directors, with the approval of a majority of the entire Board and without any action by the stockholders of the Corporation, may amend the Charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Corporation has authority to issue.

Section 6.2 Common Stock. Subject to the provisions of Article VII and except as may otherwise be specified in the Charter, each share of Common Stock shall entitle the holder thereof to one vote. The Board of Directors may reclassify any unissued shares of Common Stock from time to time into one or more classes or series of stock.

Section 6.3 Preferred Stock. The Board of Directors may classify any unissued shares of Preferred Stock and reclassify any previously classified but unissued shares of Preferred Stock of any series from time to time, in one or more classes or series of stock.

Section 6.4 Classified or Reclassified Shares. Prior to issuance of classified or reclassified shares of any class or series, the Board of Directors by resolution shall: (a) designate that class or series to distinguish it from all other classes and series of stock of the Corporation; (b) specify the number of shares to be included in the class or series; (c) set or change, subject to the provisions of Article VII and subject to the express terms of any class or series of stock of the Corporation outstanding at the time, the preferences, conversion or other rights, voting powers,

restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Corporation to file articles supplementary with the State Department of Assessments and Taxation of Maryland (“SDAT”). Any of the terms of any class or series of stock set or changed pursuant to clause (c) of this Section 6.4 may be made dependent upon facts or events ascertainable outside the Charter (including determinations by the Board of Directors or other facts or events within the control of the Corporation) and may vary among holders thereof, provided that the manner in which such facts, events or variations shall operate upon the terms of such class or series of stock is clearly and expressly set forth in the articles supplementary or other Charter document.

Section 6.5 Stockholders’ Consent in Lieu of Meeting. Any action required or permitted to be taken at any meeting of the stockholders may be taken without a meeting by consent, in writing or by electronic transmission, in any manner permitted by the MGCL and set forth in the Bylaws.

Section 6.6 Charter and Bylaws. The rights of all stockholders and the terms of all stock are subject to the provisions of the Charter and the Bylaws.

Section 6.7 Series A Preferred Stock. 114.4578 shares of Preferred Stock are classified and designated as shares of Series A Convertible Preferred Stock (the “Series A Preferred Stock”), with the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption set forth on Annex A hereto.



## ARTICLE VII

### RESTRICTION ON TRANSFER AND OWNERSHIP OF SHARES

Section 7.1 Definitions. For the purpose of this Article VII, the following terms shall have the following meanings:

Aggregate Stock Ownership Limit. The term “Aggregate Stock Ownership Limit” shall mean 9.8% in value of the aggregate of the outstanding shares of Capital Stock and 9.8% (in value or in number of shares, whichever is more restrictive) of any class or series of shares of Capital Stock, or such other percentage determined by the Board of Directors in accordance with Section 7.2.8 of the Charter.

Beneficial Ownership. The term “Beneficial Ownership” shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

Business Day. The term “Business Day” shall mean any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in New York City are authorized or required by law, regulation or executive order to close.

Capital Stock. The term “Capital Stock” shall mean all classes or series of stock of the Corporation, including, without limitation, Common Stock and Preferred Stock.

Charitable Beneficiary. The term “Charitable Beneficiary” shall mean one or more beneficiaries of the Trust as determined pursuant to Section 7.3.6, provided that each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

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Constructive Ownership. The term “Constructive Ownership” shall mean ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

Excepted Holder. The term “Excepted Holder” shall mean any stockholder of the Corporation for whom an Excepted Holder Limit is created by the Charter or the Board of Directors pursuant to Section 7.2.7.

Excepted Holder Limit. The term “Excepted Holder Limit” shall mean for each Excepted Holder, provided that the affected Excepted Holder agrees to comply with the requirements established by the Board of Directors pursuant to Section 7.2.7 and, subject to adjustment pursuant to Section 7.2.8, the percentage limit established by the Board of Directors pursuant to Section 7.2.7.

Initial Date. The term “Initial Date” shall mean the earlier of (a) the date of the closing of the issuance of shares of Common Stock pursuant to an initial underwritten public offering of the Corporation or (b) the date on which the Corporation elects to qualify for federal income tax treatment as a REIT.

Market Price. The term “Market Price” on any date shall mean, with respect to any class or series of outstanding shares of Capital Stock, the Closing Price for such Capital Stock on such date. The “Closing Price” on any date shall mean the last reported sale price for such Capital Stock, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, for such Capital Stock, in either case as reported in

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the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if such Capital Stock is not listed or admitted to trading on the New York Stock Exchange, as reported on the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such Capital Stock is listed or admitted to trading or, if such Capital Stock is not listed or admitted to trading on any national securities exchange, the last quoted price, or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotation system that may then be in use or, if such Capital Stock is not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in such Capital Stock selected by the Board of Directors or, in the event that no trading price is available for such Capital Stock, the fair market value of the Capital Stock, as determined in good faith by the Board of Directors of the Corporation.

Person. The term “Person” shall mean an individual, corporation, partnership, limited liability company, estate, trust (including a trust qualified under Sections 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, and a group to which an Excepted Holder Limit applies.

Prohibited Owner. The term “Prohibited Owner” shall mean, with respect to any purported Transfer, any Person (other than an Excepted Holder or its Affiliates) who, but for the

provisions of this Article VII, would Beneficially Own or Constructively Own shares of Capital Stock in violation of Section 7.2.1 and, if appropriate in the context, shall also mean any Person who would have been the record owner of the shares that the Prohibited Owner would have so owned.

Restriction Termination Date. The term “Restriction Termination Date” shall mean the first day after the Initial Date on which the Board of Directors determines pursuant to Section 5.7 of the Charter that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT or that compliance with the restrictions and limitations on Beneficial Ownership, Constructive Ownership and Transfers of shares of Capital Stock set forth herein is no longer required in order for the Corporation to qualify as a REIT.

Transfer. The term “Transfer” shall mean any issuance, sale, transfer, gift, assignment, devise or other disposition, as well as any other event that causes any Person to acquire Beneficial Ownership or Constructive Ownership, or any agreement to take any such actions or cause any such events, of Capital Stock or the right to vote or receive dividends on Capital Stock, including (a) the granting or exercise of any option (or any disposition of any option), (b) any disposition of any securities or rights convertible into or exchangeable or exercisable for Capital Stock or any interest in Capital Stock or any exercise of any such conversion or exchange right and (c) Transfers of interests in other entities that result in changes in Beneficial or Constructive Ownership of Capital Stock; in each case, whether voluntary or involuntary, whether owned of record, Constructively Owned or Beneficially Owned and whether by operation of law or otherwise. The terms “Transferring” and “Transferred” shall have the correlative meanings.

Trust. The term “Trust” shall mean any trust provided for in Section 7.3.1.

Trustee. The term “Trustee” shall mean the Person unaffiliated with the Corporation and a Prohibited Owner, that is appointed by the Corporation to serve as trustee of the Trust.

Section 7.2 Capital Stock.

Section 7.2.1 Ownership Limitations. During the period commencing on the Initial Date and prior to the Restriction Termination Date, but subject to Section 7.4:

(a) Basic Restrictions.

(i) (1) No Person, other than an Excepted Holder, shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Aggregate Stock Ownership Limit and (2) no Excepted Holder shall Beneficially Own or Constructively Own shares of Capital Stock in excess of the Excepted Holder Limit for such Excepted Holder.

(ii) No Person shall Beneficially or Constructively Own shares of Capital Stock to the extent that such Beneficial or Constructive Ownership of Capital Stock would result in the Corporation being “closely held” within the meaning of Section 856(h) of the 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 (including, but not limited to, Beneficial or Constructive Ownership that would result in the Corporation owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Corporation from such tenant would cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code).

(iii) Any Transfer of shares of Capital Stock that, if effective, would result in the Capital Stock being beneficially owned by less than 100 Persons

(determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

(b) Transfer in Trust. If any Transfer of shares of Capital Stock occurs which, if effective, would result in any Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a)(i) or (ii),

(i) then that number of shares of Capital Stock the Beneficial or Constructive Ownership of which otherwise would cause such Person to violate Section 7.2.1(a)(i) or (ii) (rounded to the nearest whole share) shall be automatically transferred to a Trust for the benefit of a Charitable Beneficiary, as described in Section 7.3, effective as of the close of business on the Business Day prior to the date of such Transfer, and such Person shall acquire no rights in such shares; or

(ii) if the transfer to the Trust described in clause (i) of this sentence would not be effective for any reason to prevent the violation of Section 7.2.1(a)(i) or (ii), then the Transfer of that number of shares of Capital Stock that otherwise would cause any Person to violate Section 7.2.1(a)(i) or (ii) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock.

(iii) To the extent that, upon a transfer of shares of Capital Stock pursuant to this Section 7.2.1(b), a violation of any provision of this Article VII would nonetheless be continuing (for example where the ownership of shares of Capital Stock by a single Trust would violate the 100 stockholder requirement applicable to REITs), then shares of Capital Stock shall be transferred to that number of Trusts, each having a distinct Trustee and a Charitable Beneficiary or Beneficiaries that are distinct from those of each other Trust, such that there is no violation of any provision of this Article VII.

Section 7.2.2 Remedies for Breach. If the Board of Directors or any duly authorized committee thereof shall at any time determine in good faith that a Transfer or other event has taken place that results in a violation of Section 7.2.1 or that a Person intends to acquire or has attempted to acquire Beneficial or Constructive Ownership of any shares of Capital Stock in violation of Section 7.2.1 (whether or not such violation is intended), the Board of Directors or a committee thereof shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or other event, including, without limitation, causing the Corporation to redeem shares, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer or other event; provided, however, that any Transfer or attempted Transfer or other event in violation of Section 7.2.1 shall automatically result in the transfer to the Trust described above, and, where applicable, such Transfer (or other event) shall be void ab initio as provided above irrespective of any action (or non-action) by the Board of Directors or a committee thereof.

Section 7.2.3 Notice of Restricted Transfer. Any Person who acquires or attempts or intends to acquire Beneficial Ownership or Constructive Ownership of shares of Capital Stock that will or may violate Section 7.2.1(a) or any Person who would have owned shares of Capital Stock that resulted in a transfer to the Trust pursuant to the provisions of Section 7.2.1(b) shall immediately give written notice to the Corporation of such event or, in the case of such a proposed or attempted transaction, give at least 15 days prior written notice, and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer on the Corporation's status as a REIT.

Section 7.2.4 Owners Required To Provide Information. From the Initial Date and prior to the Restriction Termination Date:

(a) every owner of more than five percent (or such lower percentage as required by the Code or the Treasury Regulations promulgated thereunder) of the outstanding shares of Capital Stock, within 30 days after the end of each taxable year, shall give written notice to the Corporation stating the name and address of such owner, the number of shares of Capital Stock Beneficially Owned and a description of the manner in which such shares are held. Each such owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Aggregate Stock Ownership Limit; and

(b) each Person who is a Beneficial or Constructive Owner of Capital Stock and each Person (including the stockholder of record) who is holding Capital Stock for a Beneficial or Constructive Owner shall provide to the Corporation such information as the Corporation may request, in good faith, in order to determine the Corporation's status as a REIT and to comply with requirements of any taxing authority or governmental authority or to determine such compliance.

Section 7.2.5 Remedies Not Limited. Subject to Section 5.7 of the Charter, nothing contained in this Section 7.2 shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its stockholders in preserving the Corporation's status as a REIT.

Section 7.2.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7.2, Section 7.3, or any definition contained in Section 7.1, the Board of Directors shall have the power to determine the application of the provisions of this Section 7.2 or Section 7.3 or any such definition with respect to any situation based on the facts

known to it. In the event Section 7.2 or 7.3 requires an action by the Board of Directors and the Charter fails to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Section 7.1, 7.2 or 7.3. Absent a decision to the contrary by the Board of Directors (which the Board may make in its sole and absolute discretion), if a Person would have (but for the remedies set forth in Section 7.2.2) acquired Beneficial or Constructive Ownership of Capital Stock in violation of Section 7.2.1, such remedies (as applicable) shall apply first to the shares of Capital Stock which, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Capital Stock based upon the relative number of the shares of Capital Stock held by each such Person.

Section 7.2.7 Exceptions.

(a) Subject to Section 7.2.1(a)(ii), the Board of Directors, in its sole discretion, may exempt (prospectively or retroactively) a Person from the Aggregate Stock Ownership Limit and may establish or increase an Excepted Holder Limit for such Person if:

(i) the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial or Constructive Ownership of such shares of Capital Stock will violate Section 7.2.1(a)(ii);

(ii) such Person does not and represents that it will not own, actually or Constructively, an interest in a tenant of the Corporation (or a tenant of any entity owned or controlled by the Corporation) that would cause the Corporation to own, actually or Constructively, more than a 9.9% interest (as set forth in Section 856(d)(2)(B) of the Code) in



such tenant and the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain this fact (for this purpose, a tenant from whom the Corporation (or an entity owned or controlled by the Corporation) derives (and is expected to continue to derive) a sufficiently small amount of revenue such that, in the opinion of the Board of Directors, rent from such tenant would not adversely affect the Corporation's ability to qualify as a REIT shall not be treated as a tenant of the Corporation); and

(iii) such Person agrees that any violation or attempted violation of such representations or undertakings (or other action that is contrary to the restrictions contained in Sections 7.2.1 through 7.2.6) will result in such shares of Capital Stock being automatically transferred to a Trust in accordance with Sections 7.2.1(b) and 7.3.

(b) Prior to granting any exception pursuant to Section 7.2.7(a), the Board of Directors may require a ruling from the Internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Corporation's status as a REIT. Notwithstanding the receipt of any ruling or opinion, the Board of Directors may impose such conditions or restrictions as it deems appropriate in connection with granting such exception.

(c) Subject to Section 7.2.1(a)(ii), an underwriter which participates in a public offering or a private placement of Capital Stock (or securities convertible into or exchangeable or exercisable for Capital Stock) may Beneficially Own or Constructively Own shares of Capital Stock (or securities convertible into or exchangeable or exercisable for Capital Stock) in excess of the Aggregate Stock Ownership Limit but only to the extent necessary to facilitate such public offering or private placement.

(d) The Board of Directors may only reduce the Excepted Holder Limit for an Excepted Holder: (1) with the written consent of such Excepted Holder at any time, or (2) pursuant to the terms and conditions of the agreements and undertakings entered into with such Excepted Holder in connection with the establishment of the Excepted Holder Limit for that Excepted Holder. No Excepted Holder Limit shall be reduced to a percentage that is less than the Aggregate Stock Ownership Limit.

Section 7.2.8 Increase or Decrease in Aggregate Stock Ownership Limit. Subject to Section 7.2.1(a)(ii), the Board of Directors may from time to time increase the Aggregate Stock Ownership Limit for one or more Persons and decrease the Aggregate Stock Ownership Limit for all other Persons; provided, however, that the decreased Aggregate Stock Ownership Limit will not be effective for any Person whose percentage ownership in Capital Stock is in excess of such decreased Aggregate Stock Ownership Limit until such time as such Person's percentage of Capital Stock equals or falls below the decreased Aggregate Stock Ownership Limit, but any further acquisition of Capital Stock in excess of such percentage ownership of Capital Stock will be in violation of the Aggregate Stock Ownership Limit; and provided further, that the new Aggregate Stock Ownership Limit would not allow five or fewer Persons to Beneficially Own more than 49.9% in value of the outstanding Capital Stock.

Section 7.2.9 Legend. Each certificate for shares of Capital Stock, if certificated, or any written statement of information in lieu of a certificate delivered to a holder of uncertificated shares of Capital Stock shall bear substantially the following legend:

The shares represented by this certificate are subject to restrictions on Beneficial and Constructive Ownership and Transfer for the purpose, among others, of the Corporation's maintenance of its status as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Subject to

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certain further restrictions and except as expressly provided in the Corporation's charter, (i) no Person may Beneficially Own or Constructively Own shares of Capital Stock in excess of 9.8% in value of the aggregate of the outstanding shares of Capital Stock or 9.8% (in value or in number of shares, whichever is more restrictive) of any class or series of shares of Capital Stock, unless such Person is an Excepted Holder (in which case the Excepted Holder Limit shall be applicable); (ii) no Person (other than an Excepted Holder) may Beneficially Own or Constructively Own Capital Stock that would result in the Corporation being "closely held" under Section 856(h) of the Code or otherwise cause the Corporation to fail to qualify as a REIT; and (iii) any Transfer (other than Transfers by an Excepted Holder) of shares of Capital Stock that, if effective, would result in the Capital Stock being beneficially owned by less than 100 Persons (as determined under the principles of Section 856(a)(5) of the Code) shall be void ab initio, and the intended transferee shall acquire no rights in such shares of Capital Stock. Any Person who Beneficially or Constructively Owns or attempts to Beneficially or Constructively Own shares of Capital Stock which causes or will cause a Person to Beneficially or Constructively Own shares of Capital Stock in excess or in violation of the above limitations must immediately notify the Corporation in writing (or, in the case of an attempted transaction, give at least 15 days prior written notice). If any of the restrictions on Transfer or Constructive Ownership or Beneficial Ownership as set forth in (i) and (ii) above are violated, the shares of Capital Stock in excess or in violation of the above limitations will be automatically transferred to a Trustee of a Trust for the benefit of one or more Charitable Beneficiaries. In addition, the Corporation may redeem shares upon the terms and conditions specified by the Board of Directors in its sole discretion if the Board of Directors determines that ownership or a Transfer or other event may violate the restrictions described above. Furthermore, upon the occurrence of certain events, attempted Transfers in violation of the restrictions described in (i) through (iii) above may be void ab initio. All capitalized terms in this legend have the meanings defined in the Charter of the Corporation, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Capital Stock on request and without charge. Requests for such a copy may be directed to the Secretary of the Corporation at its principal office.

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Instead of the foregoing legend, the certificate or written statement of information delivered in lieu of a certificate, if any, may state that the Corporation will furnish a full statement about certain restrictions on transferability to a stockholder on request and without charge.

Section 7.3 Transfer of Capital Stock in Trust.

Section 7.3.1 Ownership in Trust. Upon any purported Transfer or other event described in Section 7.2.1(b) that would result in a transfer of shares of Capital Stock to a Trust, such shares of Capital Stock shall be deemed to have been transferred to the Trustee as trustee of a Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in the transfer to the Trust pursuant to Section 7.2.1(b). The Trustee shall be appointed by the Corporation and shall be a Person unaffiliated with the Corporation and any Prohibited Owner. Each Charitable Beneficiary shall be designated by the Corporation as provided in Section 7.3.6.

Section 7.3.2 Status of Shares Held by the Trustee. Shares of Capital Stock held by the Trustee shall be issued and outstanding shares of Capital Stock. The Prohibited Owner shall have no rights in the shares held by the Trustee. The Prohibited Owner shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends or other distributions and shall not possess any rights to vote or other rights attributable to the shares held in the Trust.

Section 7.3.3 Dividend and Voting Rights. The Trustee shall have all voting rights and rights to dividends or other distributions with respect to shares of Capital Stock held in the Trust, which rights shall be exercised for the exclusive benefit of the Charitable

Beneficiary. Any dividend or other distribution paid prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee shall be paid by the recipient of such dividend or distribution to the Trustee upon demand and any dividend or other distribution authorized but unpaid shall be paid when due to the Trustee. Any dividend or other distribution so paid to the Trustee shall be held in trust for the Charitable Beneficiary. The Prohibited Owner shall have no voting rights with respect to shares held in the Trust and, subject to Maryland law, effective as of the date that the shares of Capital Stock have been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Prohibited Owner prior to the discovery by the Corporation that the shares of Capital Stock have been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; provided, however, that if the Corporation has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article VII, until the Corporation has received notification that shares of Capital Stock have been transferred into a Trust, the Corporation shall be entitled to rely on its share transfer and other stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of stockholders.

Section 7.3.4 Sale of Shares by Trustee. Within 20 days of receiving notice from the Corporation that shares of Capital Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares held in the Trust to a Person, designated by the Trustee, whose ownership of the shares will not violate the ownership limitations set forth in Section 7.2.1(a). Upon such sale, the interest of the Charitable Beneficiary in the shares sold shall

terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the Charitable Beneficiary as provided in this Section 7.3.4. The Prohibited Owner shall receive the lesser of (1) the price paid by the Prohibited Owner for the shares or, if the Prohibited Owner did not give value for the shares in connection with the event causing the shares to be held in the Trust ( *e.g.* , in the case of a gift, devise or other such transaction), the Market Price of the shares on the day of the event causing the shares to be held in the Trust and (2) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares held in the Trust. The Trustee may reduce the amount payable to the Prohibited Owner by the amount of dividends and other distributions which have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. Any net sales proceeds in excess of the amount payable to the Prohibited Owner shall be immediately paid to the Charitable Beneficiary. If, prior to the discovery by the Corporation that shares of Capital Stock have been transferred to the Trustee, such shares are sold by a Prohibited Owner, then (i) such shares shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Prohibited Owner received an amount for such shares that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to this Section 7.3.4, such excess shall be paid to the Trustee upon demand.

Section 7.3.5 Purchase Right in Stock Transferred to the Trustee. Shares of Capital Stock transferred to the Trustee shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that resulted in such transfer to the Trust (or, in the case of a devise or gift, the Market Price at the time of such devise or gift) and (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation may reduce the amount

payable to the Prohibited Owner by the amount of dividends and other distributions which have been paid to the Prohibited Owner and are owed by the Prohibited Owner to the Trustee pursuant to Section 7.3.3 of this Article VII. The Corporation may pay the amount of such reduction to the Trustee for the benefit of the Charitable Beneficiary. The Corporation shall have the right to accept such offer until the Trustee has sold the shares held in the Trust pursuant to Section 7.3.4. Upon such a sale to the Corporation, the interest of the Charitable Beneficiary in the shares sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Prohibited Owner.

Section 7.3.6 Designation of Charitable Beneficiaries. By written notice to the Trustee, the Corporation shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Trust such that (i) the shares of Capital Stock held in the Trust would not violate the restrictions set forth in Section 7.2.1(a) in the hands of such Charitable Beneficiary and (ii) each such organization must be described in Section 501(c)(3) of the Code and contributions to each such organization must be eligible for deduction under each of Sections 170(b)(1)(A), 2055 and 2522 of the Code.

Section 7.4 NYSE Transactions. Nothing in this Article VII shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange or any other national securities exchange or automated inter-dealer quotation system. The fact that the settlement of any transaction occurs shall not negate the effect of any other provision of this Article VII and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article VII.

Section 7.5 Enforcement. The Corporation is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article VII.

Section 7.6 Non-Waiver. No delay or failure on the part of the Corporation or the Board of Directors in exercising any right hereunder shall operate as a waiver of any right of the Corporation or the Board of Directors, as the case may be, except to the extent specifically waived in writing.

## **ARTICLE VIII**

### **AMENDMENTS**

The Corporation reserves the right from time to time to make any amendment to the Charter, now or hereafter authorized by law, including any amendment altering the terms or contract rights, as expressly set forth in the Charter, of any shares of outstanding stock. All rights and powers conferred by the Charter on stockholders, directors and officers are granted subject to this reservation. Except as otherwise provided in the next sentence and except for those amendments permitted to be made without stockholder approval under Maryland law or by specific provision in the Charter, any amendment to the Charter shall be valid only if declared advisable by the Board of Directors and approved by the affirmative vote of a majority of all the votes entitled to be cast on the matter. However, any amendment to Article V, Section 5.8 or to this sentence of the Charter shall be valid only if declared advisable by the Board of Directors and approved by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter.

## **ARTICLE IX**

### **LIMITATION OF LIABILITY**

To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of directors and officers of a corporation, no present or former director or officer of the Corporation shall be liable to the Corporation or its stockholders for money

damages. Neither the amendment nor repeal of this Article IX, nor the adoption or amendment of any other provision of the Charter or Bylaws inconsistent with this Article IX, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

THIRD: The amendment and restatement of the charter as hereinabove set forth have been duly advised by the Board of Directors and approved by the stockholders of the Corporation as required by law.

FOURTH: The current address of the principal office of the Corporation is as set forth in Article IV of the foregoing amendment and restatement of the charter.

FIFTH: The name and address of the Corporation's current resident agent are as set forth in Article IV of the foregoing amendment and restatement of the charter.

SIXTH: The number of directors of the Corporation and the names of those currently in office are as set forth in Article V of the foregoing amendment and restatement of the charter.

SEVENTH: The total number of shares of stock which the Corporation had authority to issue immediately prior to the foregoing amendment and restatement of the charter was 100,000,000, consisting of 95,000,000 shares of common stock, \$0.01 par value per share, and 5,000,000 shares of preferred stock, \$0.01 par value per share, 600 of which were classified and designated as Series A Convertible Preferred Stock. The aggregate par value of all authorized shares of stock having par value is \$1,000,000.

EIGHTH: The total number of shares of stock which the Corporation has authority to issue pursuant to the foregoing amendment and restatement of the charter is 500,000,000, consisting of 450,000,000 shares of common stock, \$0.01 par value per share, and



5,000,000 shares of preferred stock, \$0.01 par value per share, 114.4578 of which are classified and designated as Series A Convertible Preferred Stock. The aggregate par value of all authorized shares of stock having par value is \$5,000,000.

NINTH: The undersigned acknowledges these Articles of Amendment and Restatement to be the corporate act of the Corporation and as to all matters or facts required to be verified under oath, the undersigned acknowledges that, to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment and Restatement to be signed in its name and on its behalf by its Chief Executive Officer and attested to by its Secretary on this 23rd day of April, 2012.

ATTEST: ARES COMMERCIAL REAL ESTATE CORPORATION

/s/ Timothy B. Smith  
Name: Timothy B. Smith  
Title: Vice President, Secretary and Senior Associate General Counsel

By: /s/ John B. Bartling, Jr. (SEAL)  
Name: John B. Bartling, Jr.  
Title: Chief Executive Officer

ANNEX A

**SERIES A CONVERTIBLE PREFERRED STOCK**

1. *Certain Definitions* . Unless the context otherwise requires, the terms defined in this paragraph 1 shall have, for all purposes hereof, the meanings herein specified.

“ **Additional Equity** ” means any shares of Junior Stock, Parity Stock or Senior Stock issued after the first Issue Date.

“ **Business Day** ” means any day except a Saturday, a Sunday or a day on which banking institutions in New York, New York are not required to be open.

“ **Common Stock** ” means all shares now or hereafter authorized of any class of Common Stock of the Corporation and any other stock of the Corporation, howsoever designated, authorized after the first Issue Date, which has the right (subject always to prior rights of any class or series of Preferred Stock) to participate in the distribution of the assets and earnings of the Corporation without limit as to per share amount.

“ **Conversion Date** ” has the meaning set forth in subparagraph 5(e) below.

“ **Conversion Notice** ” has the meaning set forth in subparagraph 5(b) below.

“ **Conversion Price** ” means (a) if determined in connection with a pending or consummated IPO, the initial public offering price per share of Common Stock, as set forth in the final prospectus for the IPO filed with the Securities and Exchange Commission pursuant to Rule 424(b) promulgated under the Securities Act, or (b) if determined in connection with a pending or consummated Sale Transaction, the price per share attributable to the Common Stock in connection with the Sale Transaction.

“ **Coverage Ratio** ” of the Corporation, as of any date of determination, means the ratio, pro forma for the issuance of any Additional Equity and any associated transaction prompting such determination, of (a) the aggregate gross purchase price attributable to the then outstanding shares of Junior Stock to (b) the aggregate gross purchase price attributable to the then outstanding shares of Series A Preferred Stock, Parity Stock and Senior Stock, in each case excluding any accrued and unpaid dividends and dividends paid in kind (whether by the issuance of additional shares, an increase in liquidation preferences or otherwise).

“ **Defaulting Holder** ” means any holder of Series A Preferred Stock that has been deemed to be, and continues to be, a defaulting holder under section 1(c) of such holder’s Subscription Agreement.

“ **Dividend Payment Date** ” means March 31, June 30, September 30 and December 31 of each year, beginning March 31, 2012.

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“ **Dividend Period** ” means (a) the period beginning on the first Issue Date and ending on the first Dividend Payment Date and (b) each quarterly period between Dividend Payment Dates thereafter.

“ **Estimated Conversion Price** ” means (a) if determined in connection with a pending IPO, the range of the initial public offering price set forth in the marketing materials used in connection with the IPO, or (b) if determined in connection with a pending Sale Transaction, the price per share of Common Stock being paid in the Sale Transaction.

“ **IPO** ” means a *bona fide* underwritten public offering pursuant to an effective registration statement under the Securities Act, covering the offering and sale of the Common Stock.

“ **Issue Date** ” means the date that a share of Series A Preferred Stock is issued by the Corporation.

“ **Junior Stock** ” means (a) for purposes of paragraphs 2 and 6 below, the Common Stock and any other class or series of stock of the Corporation not entitled to receive any dividends in any Dividend Period unless all dividends required to have been paid or declared and set apart for payment on the Series A Preferred Stock shall have been so paid or declared and set apart for payment and (b) for purposes of paragraphs 3 and 6 below, any class or series of stock of the Corporation not entitled to receive any assets upon a Liquidation until the Series A Preferred Stock shall have received the entire amount to which such stock is entitled upon such Liquidation.

“ **Liquidation** ” means any termination, liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary; *provided that* neither the consolidation or merger of the Corporation into or with another entity or entities, nor the sale or transfer of all or substantially all of the assets of the Corporation to another entity or entities shall be deemed a Liquidation.

“ **Liquidation Preference** ” means the sum of (a) the Subscription Price, (b) any dividends per share added thereto pursuant to subparagraph 2(c) below and (c) any accrued and unpaid dividends per share.

“ **Non-Converting Shares** ” has the meaning set forth in subparagraph 5(c) below.

“ **Parity Stock** ” means (a) for purposes of paragraphs 2 and 6 below, any other class or series of stock of the Corporation entitled to receive payment of dividends on a parity with the Series A Preferred Stock and (b) for purposes of paragraphs 3 and 6 below, any other class or series of stock of the Corporation entitled to receive assets upon a Liquidation on a parity with the Series A Preferred Stock.

“ **Permitted Dividends** ” means dividends payable in shares of the class or series of stock of the Corporation upon which such dividends are declared or

paid, or payable in shares of Common Stock with respect to Junior Stock other than Common Stock.

“ **Prevailing Dividend Rate** ” means (a) beginning on the first Issue Date through and including December 31, 2012, 10% per annum, (b) beginning on January 1, 2013 through and including December 31, 2013, 11% per annum, (c) beginning on January 1, 2014 through and including December 31, 2014, 12% per annum, and (d) beginning on January 1, 2015 and thereafter, 13% per annum; *provided, however*, that upon the occurrence of the Coverage Ratio exceeding 1.65:1, the Prevailing Dividend Rate, on a go forward basis after such occurrence shall be reduced to (w) for the period from the first Issue Date through and including December 31, 2012, 8% per annum, (x) for the period from January 1, 2013 through and including December 31, 2013, 9% per annum, (y) for the period from January 1, 2014 through and including December 31, 2014, 10% per annum, and (z) for the period from January 1, 2015 and thereafter, 11% per annum.

“ **Record Date** ” means, with respect to the dividend payable on March 31, June 30, September 30 and December 31, respectively, of each year, the preceding March 15, June 15, September 15 and December 15, or such other record date not more than 90 days preceding the applicable Dividend Payment Date designated by the Board of Directors with respect to the dividend payable on such respective Dividend Payment Date.

“ **Redemption Date** ” means the date fixed for redemption of the Series A Preferred Stock pursuant to paragraph 4 below or, if the Corporation shall default in the payment of the Redemption Price on such date, the date the Corporation actually makes such payment.

“ **Redemption Notice** ” has the meaning set forth in subparagraph 4(b) below.

“ **Redemption Price** ” means (a) in the case of shares of Series A Preferred Stock held by Defaulting Holders, the Subscription Price, and (b) in the case of all other shares of Series A Preferred Stock, the sum of (i) the Liquidation Preference on the Redemption Date and (ii) an amount equal to a percentage of the Subscription Price, which percentage shall be no less than 5% and no more than 10% and shall be the lowest percentage that, when applied to the calculation of the Redemption Price, would result in such holder of Series A Preferred Stock receiving a total return (taking into account the Redemption Price, all dividends paid in cash to such holder and any other cash payments made to such holder of Series A Preferred Stock pursuant to the terms of the Series A Preferred Stock or pursuant to the terms of such holder’s Subscription Agreement) on the Subscription Price of 14% unless such amount would be less than 5% of the Subscription Price (in which case 5% of the Subscription Price shall be added) or such amount would exceed 10% of the Subscription Price (in which case 10% of the Subscription Price shall be added).

“ **Sale Transaction** ” means a transaction (other than an IPO) that results in the Corporation receiving stock of a publicly traded company as a result of a consolidation or merger of the Corporation or the sale of substantially all of the Corporation’s assets.

“ **Securities Act** ” means the Securities Act of 1933, as amended.

“ **Senior Stock** ” means (a) for purposes of paragraphs 2 and 6 below, any class or series of stock of the Corporation issued after the first Issue Date ranking senior to the Series A

Preferred Stock in respect of the right to receive dividends, and (b) for purposes of paragraphs 3 and 6 below, any class or series of stock of the Corporation issued after the first Issue Date ranking senior to the Series A Preferred Stock in respect of the right to receive assets upon a Liquidation.

“**Subscription Agreement**” means, with respect to any holder of Series A Preferred Stock, the subscription agreement between the Corporation and such holder relating to such holder’s commitment to purchase shares of Series A Preferred Stock.

“**Subscription Price**” means \$50,000.00 per share.

“**Subsidiary**” means (a) a corporation more than 50% of the combined voting power of the outstanding Voting Stock of which is owned, directly or indirectly, by the Corporation, or by one or more Subsidiaries, or by the Corporation and one or more Subsidiaries, (b) a partnership of which the Corporation, or one or more other Subsidiaries, or the Corporation and one or more Subsidiaries, directly or indirectly, is the general partner and has the power to direct the policies management and affairs or (c) any other person (other than a corporation) in which the Corporation, or one or more Subsidiaries, or the Corporation and one or more Subsidiaries, directly or indirectly, has at least a majority ownership interest and power to direct the policies, management and affairs thereof.

“**Transaction Target Date**” means (a) if determined in connection with a pending IPO, the date that the IPO is expected to be consummated, or (b) if determined in connection with a pending Sale Transaction, the date that the Sale Transaction is expected to be consummated, in each case, as estimated by the Corporation.

“**Voting Stock**” means, with respect to any person, capital stock of such person that ordinarily has voting power for the election of directors (or persons performing similar functions) of such person, whether at all times or only so long as no senior class of securities has such voting power by reason of any contingency.

2. *Dividends* .

(a) Subject to the prior preferences and other rights of any Senior Stock, the holders of Series A Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors and declared by the Corporation out of funds legally available for that purpose, dividends at the Prevailing Dividend Rate, compounded quarterly as provided below, and no more. Such dividends shall begin to accrue on the Issue Date and shall be payable on each Dividend Payment Date, *provided that* if any such payment date is not a Business Day then such dividend shall be payable on the next Business Day. The dividends per share of Series A Preferred Stock for any full quarterly period shall be computed by multiplying the Prevailing Dividend Rate for such Dividend Period by the Liquidation Preference per share and dividing the result by four. Dividends payable for any period less than a full quarterly Dividend Period shall be computed on the basis of a 360-day year of twelve 30-day months and the actual number of days elapsed for any period less than one month. Dividends shall be payable in cash to extent of available cash from earnings after payment of current liabilities and such reserves as the Board of

Directors may establish in its sole discretion; *provided, however*, that cash dividends payable to a Defaulting Holder shall be retained by the Corporation until such time, if ever, that such holder ceases to be a Defaulting Holder. Dividends shall be paid to the holders of record of the Series A Preferred Stock as their names appear on the share register of the Corporation on the corresponding Record Date.

(b) If full cash dividends are not paid or made available to the holders of all outstanding shares of Series A Preferred Stock and of any Parity Stock, and funds available shall be insufficient to permit payment in full in cash to all such holders of the preferential amounts to which they are then entitled, the entire amount available for payment of cash dividends shall be distributed among the holders of the Series A Preferred Stock and of any Parity Stock ratably in proportion to the full amount to which they would otherwise be respectively entitled, and any remainder not paid in cash to the holders of the Series A Preferred Stock shall be added to the Liquidation Preference pursuant to subparagraph 2(c) below; *provided, however*, that cash dividends payable to a Defaulting Holder shall be retained by the Corporation until such time, if ever, that such holder ceases to be a Defaulting Holder.

(c) If, on any Dividend Payment Date, the holders of the Series A Preferred Stock (other than Defaulting Holders) shall not have received the full accrued dividends provided for in subparagraph 2(a) above, then the unpaid portion of such dividends (other than cash dividends payable to Defaulting Holders that have been retained by the Corporation pursuant to subparagraphs 2(a) and 2(b) above) shall be paid by adding such amount to the Liquidation Preference on the relevant Dividend Payment Date; *provided*, that any such addition to the Liquidation Preference shall not result in a Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a) of the Charter in lieu of paying such dividend in cash..

(d) So long as any shares of Series A Preferred Stock shall be outstanding, the Corporation shall not (i) declare or pay any dividend or make any distribution on any Junior Stock, whether in cash, property or otherwise (other than Permitted Dividends), or (ii) purchase or redeem, or permit any Subsidiary to purchase or redeem any Junior Stock, or pay or make available any monies for a sinking fund for the purchase or redemption of any Junior Stock (other than a redemption, purchase or other acquisition of Junior Stock made for purposes of an employee incentive or benefit plan of the Corporation, or a redemption, purchase or other acquisition of Junior Stock, if such redemption, purchase or acquisition is necessary in order for the Corporation to qualify, or continue to qualify, as a real estate investment trust under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended), unless all dividends to which the holders of Series A Preferred Stock (other than Defaulting Holders) shall have been entitled for all previous Dividend Periods shall have been paid (including by an increase in the Liquidation Preference pursuant to subparagraph 2(c) above) or declared and a sum of money sufficient for the payment thereof set apart.

3. *Distributions Upon Liquidation, Dissolution or Winding Up*. Upon a Liquidation, subject to the prior preferences and other rights of any Senior Stock, but before any distribution or payment shall be made to the holders of Junior Stock, the holders of the Series A Preferred Stock (other than Defaulting Holders) shall be entitled to be paid, to the extent possible the

Liquidation Preference on the date of determination. If such payment shall have been made in full to the holders of the Series A Preferred Stock, and if payment shall have been made in full to the holders of any Senior Stock and Parity Stock of all amounts to which such holders shall be entitled, the remaining assets and funds of the Corporation shall be distributed among the holders of Junior Stock, according to their respective shares and priorities with shares of Series A Preferred Stock held by Defaulting Holders being entitled to be paid an amount equal to the Subscription Price and having the same rank and priority as shares of Common Stock. If, upon any such Liquidation, the net assets of the Corporation distributable among the holders of all outstanding shares of the Series A Preferred Stock and of any Parity Stock shall be insufficient to permit the payment in full to such holders of the preferential amounts to which they are entitled, then the entire net assets of the Corporation remaining after the distributions to holders of any Senior Stock of the full amounts to which they may be entitled shall be distributed among the holders of the Series A Preferred Stock (other than Defaulting Holders) and of any Parity Stock ratably in proportion to the full amounts to which they would otherwise be respectively entitled.

4. *Optional Redemption by the Corporation .*

(a) The Series A Preferred Stock shall not be redeemed in whole or in part prior to June 30, 2012. On and after July 1, 2012, the Series A Preferred Stock may be redeemed by the Corporation in cash at any time in whole (but not in part) at the option of the Corporation, at the Redemption Price as of the Redemption Date; *provided*, that any such redemption shall not result in a Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a) of the Charter.

(b) A notice of the Corporation's intent to redeem the Series A Preferred Stock (the "**Redemption Notice**") shall be sent by or on behalf of the Corporation, by first class mail, postage prepaid, to the holders of record of the shares to be redeemed at their respective addresses as they shall appear on the records of the Corporation, not less than five days nor more than 60 days prior to the Redemption Date (i) notifying such holders of the election of the Corporation to redeem such shares and (ii) stating the expected date of redemption and the Redemption Price payable as of such date. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series A Preferred Stock except as to the holder to whom notice was defective or not given.

(c) If a Redemption Notice shall have been given as hereinbefore provided, and the Corporation shall not default in the payment of the Redemption Price, then each holder of shares called for redemption shall be entitled to all preferences and relative and other rights accorded herein until and including the Redemption Date. From and after the Redemption Date the shares called for redemption shall no longer be outstanding, and all rights of the holders of such shares shall cease and terminate, except the right of the holders of such shares to receive the Redemption Price to be paid hereunder.

(d) For the avoidance of doubt, nothing in this Section 4 shall prohibit the Corporation from effecting the, and the Corporation shall to the extent not prohibited by law be entitled at any time and from time to time to, repurchase in the open market, in privately negotiated transactions or through tender offers or other transactions any amount of the then



outstanding shares of Series A Preferred Stock that it desires to repurchase at such sums and on such conditions as shall be negotiated between or among the Corporation and one or more holders of Series A Preferred Stock.

5. *Conversion Rights* . The Series A Preferred Stock shall be convertible into Common Stock as follows:

(a) *Automatic Conversion* . Each outstanding share of Series A Preferred Stock (other than Non-Converting Shares) shall automatically be converted, without any further act of the Corporation or its stockholders, into fully paid and nonassessable shares of Common Stock upon the consummation of an IPO or Sale Transaction in accordance with this subparagraph 5; *provided* , that such automatic conversion shall not result in a Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a) of the Charter.

(b) *Conversion Notice* . Not less than 15 Business Days prior to the Transaction Target Date, the Corporation shall send or cause to be sent, by first class mail, postage prepaid, or by electronic delivery (including by facsimile and electronic mail) to the holders of record of the Series A Preferred Stock, at their respective addresses as they shall appear on the records of the Corporation, a notice that the Corporation expects the Series A Preferred Stock to automatically convert into Common Stock pursuant to subparagraph 5(a) above (the “ **Conversion Notice** ”). The Conversion Notice shall state (i) the Transaction Target Date and (ii) Estimated Conversion Price. In the event that the IPO or Sale Transaction is not consummated within 90 days after the Transaction Target Date, prior to any automatic conversion, the Corporation shall send or cause to be sent, by first class mail, postage prepaid, or by electronic delivery (including by facsimile and electronic mail) to the holders of record of the Series A Preferred Stock, at their respective addresses as they shall appear on the records of the Corporation, a new Conversion Notice with a revised Transaction Target Date and Estimated Conversion Price.

(c) *Election for Optional Redemption* . Holders of Series A Preferred Stock (other than Defaulting Holders) may elect to have their shares of Series A Preferred Stock redeemed, in whole or in part, in lieu of being converted pursuant to subparagraph 5(a) above, by delivering a signed notice of such an election, by first class mail, postage prepaid, or by electronic delivery (including by facsimile and electronic mail) to the Corporation within 10 Business Days after the date of the Conversion Notice (or an amended Conversion Notice), which notice shall (i) state the name of such holder, as it appears on the records of the Corporation, (ii) state the total number of shares of Series A Preferred Stock held by such holder and (iii) state the number of shares of Series A Preferred Stock that such holder elects to have redeemed in lieu of being converted pursuant to subparagraph 5(a) above (the “ **Non-Converting Shares** ”); *provided* , that such optional redemption shall not result in a Person Beneficially Owning or Constructively Owning shares of Capital Stock in violation of Section 7.2.1(a) of the Charter. Upon the consummation of an IPO or Sale Transaction, the Non-Converting Shares shall be redeemed by the Corporation at the Redemption Price on the Conversion Date using proceeds from the IPO or Sale Transaction.

(d) *Conversion Price* . Each share of Series A Preferred Stock (other than Non-Converting Shares) shall be converted into a number of shares of Common Stock determined by dividing (i) the Liquidation Preference as of the Conversion Date by (ii) the Conversion Price; *provided, however* , that shares of Series A Preferred Stock held by Defaulting Holders shall be converted into a number of shares of Common Stock determined by dividing (i) the Subscription Price by (ii) the Conversion Price.

(e) *Mechanics of Conversion* . Upon the consummation of an IPO or Sale Transaction, the outstanding shares of Series A Preferred Stock (other than Non-Converting Shares) shall be converted automatically without any further action by the holders of such shares. Conversion shall be deemed to have been effected on the date of the consummation of the IPO or Sale Transaction (the “ **Conversion Date** ”). The person in whose name the shares of Common Stock are to be issued shall be deemed to have become a holder of record of such Common Stock on the applicable Conversion Date.

As promptly as practicable after the Conversion Date, the Corporation shall deliver to each former holder of Series A Preferred Stock (other than Non-Converting Shares) (i) a certificate or certificates for the number of full shares of Common Stock to which such holder is entitled or, at the Corporation’s option, confirmation of the book entry into the stock ledger of the Corporation for the number of full shares of Common Stock issuable to such holder upon conversion of the Series A Preferred Stock and (ii) a check or cash with respect to any fractional interest in a share of Common Stock as provided in subparagraph 5(f) below.

(f) *Fractional Shares* . No fractional shares of Common Stock or scrip shall be issued upon conversion of shares of Series A Preferred Stock. If more than one share of Series A Preferred Stock shall be surrendered for conversion at any one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Series A Preferred Stock so surrendered. Instead of any fractional shares of Common Stock that would otherwise be issuable upon conversion of any shares of Series A Preferred Stock, the Corporation shall pay a cash adjustment in respect of such fractional interest in an amount equal to that fractional interest of the Conversion Price.

(g) *Costs* . The Corporation shall pay all documentary, stamp, transfer or other transactional taxes attributable to the issuance or delivery of shares of Common Stock upon conversion of any shares of Series A Preferred Stock; *provided that* the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificate for such shares in a name other than that of the holder of the shares of Series A Preferred Stock in respect of which such shares are being issued, and no such issue or delivery shall be made unless and until the person requesting such issuance has paid to the Corporation the amount of any such tax, or has established to the reasonable satisfaction of the Corporation that such tax has been or will be paid.

6. *Voting Rights* .

(a) The holders of Series A Preferred Stock shall have no voting rights except as set forth herein.

(b) Without the consent of the holders of at least a majority of the shares of Series A Preferred Stock then outstanding, given in writing or by electronic transmission or by vote at a meeting of the holders of the Series A Preferred Stock called for such purpose, the Corporation will not amend, alter or repeal any provision of the Charter, including the terms of the Series A Preferred Stock (in any such case, whether by merger, consolidation or otherwise), if such action materially and adversely affects the rights, preferences or privileges of the Series A Preferred Stock; *provided, however*, with respect to such action, so long as the Series A Preferred Stock remains outstanding with the terms thereof materially unchanged or the holders of shares of Series A Preferred Stock receive equity securities of the successor or survivor of such action with substantially identical rights as the Series A Preferred Stock, taking into account that the Corporation may not be the surviving entity or the surviving entity may not be a corporation, such action shall not be deemed to materially and adversely affect such rights, preferences or privileges of the Series A Preferred Stock and in such case the holders of shares of Series A Preferred Stock shall not have any voting rights with respect to such action unless the number of authorized shares of Series A Preferred Stock is increased to a number greater than 125; *provided, further*, that Defaulting Holders shall not be entitled to any voting rights and shares of Series A Preferred Stock held by Defaulting Holders shall be excluded in calculating whether a majority of the shares of Series A Preferred Stock have consented.

(c) Without the consent of the holders of at least a majority of the shares of Series A Preferred Stock then outstanding, given in writing or by electronic transmission or by vote at a meeting of the holders of the Series A Preferred Stock called for such purpose, the Corporation will not issue shares of any other class of Parity Stock that would result in the Coverage Ratio being less than 1:1; provided, however, that Defaulting Holders shall not be entitled to any voting rights and shares of Series A Preferred Stock held by Defaulting Holders shall be excluded in calculating whether a majority of the shares of Series A Preferred Stock have consented.

(d) Without the consent of the holders of at least a majority of the shares of Series A Preferred Stock then outstanding, given in writing or by electronic transmission or by vote at a meeting of the holders of the Series A Preferred Stock called for such purpose, the Corporation will not issue shares of any other class of Senior Stock; provided, however, that Defaulting Holders shall not be entitled to any voting rights and shares of Series A Preferred Stock held by Defaulting Holders shall be excluded in calculating whether a majority of the shares of Series A Preferred Stock have consented. Notwithstanding anything to the contrary herein, no consent of the holders of the Series A Preferred Stock shall be required for the Corporation to issue any indebtedness, other than indebtedness that is convertible into a class of Senior Stock.

7. *Exclusion of Other Rights*. The shares of Series A Preferred Stock shall not have any preferences or relative, participating, optional or other special rights, other than those specifically set forth herein. The shares of Series A Preferred Stock shall have no preemptive or subscription rights.

8. *Headings of Subdivisions*. The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

9. *Severability of Provisions* . If any right, preference or limitation of the Series A Preferred Stock set forth in the terms thereof (as may be amended from time to time) is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other rights, preferences and limitations set forth in the terms thereof (as so amended) which can be given effect without the invalid, unlawful or unenforceable right, preference or limitation shall, nevertheless, remain in full force and effect, and no right, preference or limitation herein set forth shall be deemed dependent upon any other such right, preference or limitation unless so expressed herein.

10. *Status of Reacquired Shares* . Shares of Series A Preferred Stock which have been issued and reacquired in any manner shall (upon compliance with any applicable provisions of the laws of the State of Maryland) have the status of authorized and unissued shares of Preferred Stock, undesignated as to series, and, subject to the provisions hereof, may be redesignated and reissued by the Board of Directors.

**AMENDMENT NO. 2  
TO  
BRIDGE LOAN WAREHOUSING CREDIT AND SECURITY AGREEMENT**

THIS AMENDMENT NO. 2 (this “Amendment”) is entered into as of February 26, 2016, by and among ACRC LENDER B LLC, a Delaware limited liability company (the “Borrower”), the Persons party to the Credit Agreement (as defined herein) from time to time as lenders (the “Lenders”), and BANK OF AMERICA, N.A., a national banking association, as a Lender and in its capacity as administrative agent for the Lenders under the Credit Agreement (in its capacity as administrative agent, the “Administrative Agent”).

**RECITALS**

Reference is made to the following:

WHEREAS, the Borrower, the Lenders and the Administrative Agent are parties to that certain Bridge Loan Warehousing Credit and Security Agreement, dated as of May 27, 2015 (as amended, restated, supplemented, extended, renewed or otherwise modified from time to time, the “Credit Agreement”). Capitalized terms used herein and not otherwise defined herein shall have the same meanings herein as ascribed to them in the Credit Agreement;

WHEREAS, the Borrower has requested that the Lenders and the Administrative Agent add MF Property (as defined below) as a type of Property; and

WHEREAS, in response to such request, the parties have agreed to amend the Credit Agreement solely upon the terms and conditions set forth herein, it being the intention of the parties that such amendments shall not constitute a novation of the obligations of the Borrower under the Credit Agreement and the other Loan Documents.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the Borrower, the Lenders and the Administrative Agent, the parties hereto agree as follows:

Section 1.        Amendments to Credit Agreement.

Section 1.1.        Additional Definition. The Credit Agreement is hereby amended by adding the following definition to Section 12.1 of the Credit Agreement in the appropriate alphabetical order:

“‘MF Property’ means a Multifamily Property consisting of general or affordable multifamily housing that is not an AL Property, an IL Property, a SN Property, student housing, a manufactured housing community or other dedicated housing.”

Section 1.2.        Definition of Applicable Margin. The definition of “Applicable Margin” set forth in Section 12.1 of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

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“‘ Applicable Margin ’ means, with respect to LIBOR Loans and Alternative Base Rate Loans, the applicable interest rate margin per annum with respect to each Warehousing Advance, as determined pursuant to the below pricing grid, based on whether the Warehousing Advance relates to an AL Property, an IL Property, a MF Property or a SN Property:

<u>Type of Property</u>	<u>Applicable Margin</u>
AL Property	250bps
IL Property	225bps
MF Property	225bps
SN Property	275bps”

Section 1.3. Definition of Property. The definition of “Property” set forth in Section 12.1 of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“‘ Property ’ means an AL Property, an IL Property, a MF Property or a SN Property.”

Section 1.4. Definition of Underwriting Guidelines. The definition of “Underwriting Guidelines” set forth in Section 12.1 of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“‘ Underwriting Guidelines ’ means Borrower’s policies and procedures for underwriting Mortgage Loans secured by Multifamily Properties, constituting AL Properties, IL Properties, MF Properties or SN Properties for a Targeted Permanent Loan Program, as in effect on the date of this Agreement, a copy of which has been provided to and approved by Administrative Agent, as the same may be modified from time to time in accordance with this Agreement.”

Section 1.5. Warehousing Advance Debt Service Coverage Ratio Covenants.

(a) Section 3.3(f) of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“(f) If the Warehousing Advance Debt Service Coverage Ratio with respect to any Pledged Loan is less than (i) 1.50 to 1.00 for an AL Property, (ii) 1.40 to 1.00 for an IL Property, (iii) 1.20 to 1.00 for a MF Property, or (iv) 1.60 to 1.00 for a SN Property, as of the

last day of any Fiscal Quarter, the Borrower shall prepay the related Warehousing Advance, within five (5) Business Days after such testing was required to be reported, by at least an amount such that, if such prepayment had been made as of the applicable testing date, the Warehousing Advance Debt Service Coverage Ratio with respect to such Pledged Loan would have been at least (w) 1.50 to 1.00 for an AL Property, (x) 1.40 to 1.00 for an IL Property, (y) 1.20 to 1.00 for a MF Property, or (z) 1.60 to 1.00 for a SN Property, as of such quarterly testing date.”

(b) Section 8.1(w) of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“(w) As of the date of closing of the Mortgage Loan against which a Warehousing Advance is being made and as of the date such Warehousing Advance is made the Warehousing Advance Debt Service Coverage Ratio must be at least (i) 1.50 to 1.00 with respect any AL Property, (ii) 1.40 to 1.00 for any IL Property, (iii) 1.20 to 1.00 for any MF Property, and (iv) 1.60 to 1.00 for any SN Property. For the purposes of calculating Warehousing Advance Debt Service Coverage Ratio, (y) the Property EBITDA shall be determined on a trailing twelve month basis, and (z) the Testing Debt Service Amount shall be determined using the total outstanding amount of the related Warehousing Advances for the subject Mortgage Loan.”

Section 1.6. Warehousing Advance-to-Mortgage Loan Ratio Covenant. Section 3.3(g) of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“(g) If the Warehousing Advance-to-Mortgage Loan Ratio exceeds (i) 65% for any AL Property, (ii) 70% for any IL Property, (iii) 80% for any MF Property, or (iv) 65% for any SN Property, as of the last day of the second or fourth Fiscal Quarters of any Fiscal Year, Borrower shall prepay such Warehousing Advance, within five (5) Business Days after such quarterly testing date was required to be reported, by at least an amount such that, if such prepayment had been made as of the applicable testing date, the Warehousing Advance-to-Mortgage Loan Ratio would not exceed (w) 65% for any AL Property, (x) 70% for any IL Property, (y) 80% for any MF Property, or (z) 65% for any SN Property, as of such semi-annual testing date.”

Section 1.7. Warehousing Advance-to-Appraised Value Ratio Covenants.

(a) Section 5.2(k) of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“(k) The Warehousing Advance-to-Appraised Value Ratio with respect to such Warehousing Advance and the related Pledged Loan shall not exceed (i) 52% for any AL Property, (ii) 56% for any IL Property, (iii) 64% for any MF Property, and (iv) 52% for any SN Property.”

(b) Section 5.3(g) of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“(g) The Warehousing Advance-to-Appraised Value Ratio with respect to such Subsequent Warehousing Advance and the related Pledged Loan shall not exceed (i) 52% for any AL Property, (ii) 56% for any IL Property, (iii) 64% for any MF Property, and (iv) 52% for any SN Property.”

Section 1.8. Underlying Debt Service Coverage Ratio Covenant. Section 8.1(x) of the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“(x) As of the date of closing of the Mortgage Loan against which a Warehousing Advance is being made and as of the date such Warehousing Advance is made the Underlying Debt Service Coverage Ratio must be at least (i) 1.30 to 1.00 for an IL Property, (ii) 1.40 to 1.00 for an AL Property, (iii) 1.00 to 1.00 for a MF Property, and (iv) 1.50 to 1.00 for a SN Property. For the purposes of calculating Underlying Debt Service Coverage Ratio, (y) the Property EBITDA shall be determined on a trailing twelve month basis, and (z) the Mortgage Loan debt service shall be determined based on the then outstanding principal amount of such Mortgage Loan taking into account any Mortgage Loan advance then being made.”

Section 1.9. Amendment to Exhibit A. Exhibit A to the Credit Agreement is hereby amended by deleting Schedule 1 contained therein in its entirety and replacing it with Schedule 1 attached hereto as Exhibit A.

Section 1.10. Amendment to Exhibit B. Exhibit B to the Credit Agreement is hereby amended by adding “ MF Property” directly below the reference to “Independent Living” contained therein.

Section 1.11. Amendment to Exhibit C. Exhibit C to the Credit Agreement is hereby amended by adding “, MF Property” directly after the reference to “IL Property” contained in Section II.1 therein.

Section 1.12. Amendments to Exhibit E.

(a) Section B(f) of Exhibit E to the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:



“(f) Advance Rate: The amount of the Warehousing Advance (including the aggregate cumulative amount of Warehousing Advances made with respect to a Multiple Advance Mortgage Loan) will not exceed either (a) (i) 52% for any AL Property, (ii) 56% for any IL Property, (iii) 64% for any MF Property, or (iv) 52% for any SN Property, of the most recent “as is” appraised value of the Mortgaged Property with respect to the particular Mortgage Loan based upon a third party MAI appraisal, reviewed and approved by the Administrative Agent; and (b) (i) 65% for any AL Property, (ii) 70% for any IL Property, (iii) 80% for any MF Property, or (iv) 65% for any SN Property, of the outstanding principal amount of the Mortgage Note (as may be applicable with respect to any Warehousing Advance, the ‘Advance Rate’).”

following: (b) Section B(g) of Exhibit E to the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the

“(g) Warehousing Advance Debt Service Coverage Ratio: The Warehousing Advance Debt Service Coverage Ratio must be at least (a) 1.50 to 1.00 for any AL Property, (b) 1.40 to 1.00 for any IL Property, (c) 1.20 to 1.00 for any MF Property, or (d) 1.60 to 1.00 for any SN Property, as of the Advance Date. For purposes of calculating Warehousing Advance Debt Service Coverage Ratio, (i) the Property NOI shall be determined on a trailing twelve (12) month basis, annualized and normalized, and (ii) the Testing Debt Service Amount shall be determined using the total outstanding principal amount of the related Warehousing Advance(s) with respect to the subject Mortgage Loan.”

following: (c) Section B(h) of Exhibit E to the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the

“(h) Maximum Underlying Loan-to-Value Ratio and Loan-to-Cost Ratio: The Underlying Loan-to-Value Ratio may not exceed 80%, and the Loan-to-Cost Ratio (other than for any MF Property) may not exceed 80%. The Loan-to-Cost Ratio for any MF Property may not exceed 90%.”

following: (d) Section B(i) of Exhibit E to the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the

“(i) Underlying Debt Service Coverage Ratio: The Underlying Debt Service Coverage Ratio must be at least (a) 1.40 to 1.00 for any AL Property, (b) 1.30 to 1.00 for any IL Property, (c) 1.00 to 1.00 for any MF Property, or (d) 1.50 to 1.00 for any SN Property. For purposes of calculating Underlying Debt Service Coverage Ratio, (i) the Property EBITDA shall be determined on a trailing

twelve (12) month basis, annualized and normalized, and (ii) the Mortgage Loan debt service shall be determined based on the outstanding principal amount of such Mortgage Loan.”

(e) Section B(k)(iii) of Exhibit E to the Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

“(iii) (A) Based upon the updated appraised value of the Mortgaged Property, and the updated assessment, the Advance Rate would not be exceeded, (B) the Warehousing Advance Debt Service Coverage Ratio as of the last day of the calendar month of the otherwise expiring Warehouse Period is at least (i) 1.50 to 1.00 for any AL Property, (ii) 1.40 to 1.00 for any IL Property, (iii) 1.20 to 1.00 for any MF Property, or (iv) 1.60 to 1.00 for any SN Property, and (C) the Mortgaged Property must continue to satisfy, on a proforma basis as of the maturity date of the Pledged Loan, the requirements of the Targeted Permanent Loan Program, unless the Borrower makes a partial prepayment of the Warehousing Advance in an amount necessary so that all of the preceding conditions in this clause (iii) are satisfied.”

Section 2. Ratification. Except as hereby amended, the Credit Agreement, all other Loan Documents and each provision thereof are hereby ratified and confirmed in every respect and shall continue in full force and effect, and this Amendment shall not be, and shall not be deemed to be, a waiver of any Default or Event of Default, or of any covenant, term or provision of the Credit Agreement or the other Loan Documents.

Section 3. Representations and Warranties. The Borrower represents and warrants to the Lenders as of the effective date of this Amendment that, assuming the due execution and delivery of this Amendment: (a) no Default or Event of Default is in existence, from and after, or will result from, the execution and delivery of this Amendment or the consummation of any transactions contemplated hereby; (b) each of the representations and warranties of the Borrower in the Credit Agreement and the other Loan Documents is true and correct in all material respects on the effective date of this Amendment (except for representations and warranties limited as to time or with respect to a specific event, which representations and warranties shall continue to be limited to such time or event); and (c) this Amendment and the Credit Agreement (as amended by this Amendment) are legal, valid and binding agreements of the Borrower and are enforceable against it in accordance with their terms, except as enforceability may be limited by applicable insolvency, bankruptcy or other Laws affecting creditors' rights generally, or general principles of equity, whether such enforceability is considered in a proceeding in equity or at law.

Section 4. Conditions Precedent. The representations, warranties, covenants and agreements set forth in this Amendment are conditional and this Amendment shall not be effective until the Administrative Agent receives (a) fully-executed counterpart originals of this Amendment, and (b) payment by the Borrower of all of the Administrative Agent's fees, costs and expenses associated with the preparation, negotiation, execution and delivery and

administration of this Amendment and the Credit Agreement accrued through the date hereof, including, without limitation, the Administrative Agent's reasonable attorney fees.

Section 5. Counterparts. This Amendment may be executed and delivered in any number of counterparts with the same effect as if the signatures on each counterpart were upon the same instrument.

Section 6. Amendment as Loan Document. Each party hereto agrees and acknowledges that this Amendment constitutes a "Loan Document" under and as defined in the Credit Agreement.

Section 7. Successors and Assigns. This Amendment shall be binding upon each of the Borrower, the Lenders, the Administrative Agent and their respective successors and assigns, and shall inure to the benefit of each of the Lenders' and the Administrative Agent's respective successors and assigns.

Section 8. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

Section 9. Expenses. The Borrower agrees to promptly reimburse the Administrative Agent and the Lenders for all reasonable expenses, including, without limitation, reasonable fees and expenses of outside legal counsel, it has heretofore incurred or hereafter incurs in connection with the preparation, negotiation and execution of this Amendment and all other instruments, documents and agreements executed and delivered in connection with this Amendment.

Section 10. Integration. This Amendment contains the entire understanding of the parties hereto with regard to the subject matter contained herein. This Amendment supersedes all prior or contemporaneous negotiations, promises, covenants, agreements and representations of every nature whatsoever with respect to the matters referred to in this Amendment, all of which have become merged and finally integrated into this Amendment. Each of the parties hereto understands that in the event of any subsequent litigation, controversy or dispute concerning any of the terms, conditions or provisions of this Amendment, no party shall be entitled to offer or introduce into evidence any oral promises or oral agreements between the parties relating to the subject matter of this Amendment not included or referred to herein and not reflected by a writing included or referred to herein.

Section 11. No Course of Dealing. The Administrative Agent and the Lenders have entered into this Amendment on the express understanding with the Borrower that in entering into this Amendment the Administrative Agent and the Lenders are not establishing any course of dealing with the Borrower. The Administrative Agent's and the Lenders' rights to require performance pursuant to and in accordance with all of the terms and conditions of the Credit Agreement and the other Loan Documents shall not in any way be impaired by the execution of this Amendment. None of the Administrative Agent and the Lenders shall be obligated in any manner to execute any further amendments or waivers and if such waivers or amendments are requested in the future, assuming the terms and conditions thereof are satisfactory to them, the Administrative Agent and the Lenders may require the payment of fees in connection therewith.

Section 12. Governing Law; Jurisdiction; Waiver of Jury Trial. This Amendment shall be governed by the provisions of the Credit Agreement pertaining to governing law, jurisdiction and waiver of jury trial. In furtherance of the foregoing, the provisions of Sections 11.5, 11.11 and 11.12 of the Credit Agreement are hereby incorporated by reference, mutatis mutandis.

[Remainder of Page Intentionally Left Blank]

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IN WITNESS WHEREOF, the parties have caused this Amendment No. 2 to Bridge Loan Warehousing Credit and Security Agreement to be duly executed by their duly authorized officers or representatives, all as of the date first above written.

**BORROWER :**

**ACRC LENDER B LLC ,**  
a Delaware limited liability company

By: /s/ Anton Feingold  
Name: Anton Feingold  
Title: Vice President

**ADMINISTRATIVE AGENT AND  
SOLE LENDER :**

**BANK OF AMERICA, N.A ,**  
a national banking association,

By: /s/ Andrew Blomstedt  
Name: Andrew Blomstedt  
Title: SVP

By executing this Amendment No. 2 in the space provided below, the Guarantor hereby ratifies and confirms the Guaranty in every respect and acknowledges that the Guaranty continues in full force and effect, and that the consent and agreements set forth therein do not establish any course of dealing among the parties.

**GUARANTOR :**

**ARES COMMERCIAL REAL ESTATE CORPORATION**

By: /s/ Anton Feingold  
Name: Anton Feingold  
Title: Vice President

Signature Page to Amendment No. 2 to  
Bridge Loan Warehousing Credit and Security Agreement

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**EXHIBIT A**

Schedule 1 to Exhibit A

[See attached.]

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**Approval Request**

Project Borrower  
 Project / Sponsor Name  
 Borrower Contact info.  
 Project Address  
 Project completion date  
 Borrower maximum loan amount (may not exceed \$35,000,000)  
 Construction Escrow Holdback  
 Underwritten FHA, Fannie Mae or Freddie Mac Permanent Loan Amount  
 Requested Warehousing Advance Amount for Single Advance Mortgage Loan(1) (may not be less than \$5,000,000 and may not exceed \$24,500,000)  
 Requested Total Approved Warehousing Advance Amount for Multiple Advance Mortgage Loan (may not be less than \$5,000,000 and may not exceed \$24,500,000)  
 Anticipated Warehousing Advance date  
 Borrower Loan Initial Maturity  
 Borrower Loan Extended Maturity

**Warehousing Advance Request Review:**

<b>Item</b>	<b>Guideline</b>	<b>Actual / Comment</b>	<b>Complies (Y or N)</b>
Targeted Permanent Loan Program	Must be Fannie Mae, Freddie Mac, HUD or FHA		
Applicable Expected Permanent Loan Amount	Must be equal to or greater than the aggregate outstanding Warehousing Advances for the specific Mortgage Loan		
Warehousing Advance Amount	An amount not to exceed (i) (w) 52% for any AL Property, (x) 56% for any IL Property, (y) 64% for any MF Property, or (z) 52% for any SN Property, of the most recent "as is"		

(1) A Warehousing Advance Request must be delivered to Lender in accordance with Section 2.1(b) of the Agreement.

appraised value of the Mortgaged Property related to the particular Mortgage Loan based upon a third party MAI appraisal, reviewed and approved by the Administrative Agent; and (ii) (w) 65% for any AL Property, (x) 70% for any IL Property, (y) 80% for any MF Property, or (z) 65% for any SN Property, of the outstanding principal amount of the Mortgage Note (as may be applicable with respect to any Warehousing Advance, the "Advance Rate").

Warehousing Advance Debt Service Coverage Ratio must be equal to or greater than (A) 1.50x for any AL Property, (B) 1.40x for any IL Property, (C) 1.20x for any MF Property, and (D) 1.60x for any SN Property

Borrower Loan Amount

Underlying Debt Service Coverage Ratio must be equal to or greater than (i) 1.40x for any AL Property, (ii) 1.30x for any IL Property, (iii) 1.00x for any MF Property, and (iv) 1.50x for any SN Property

Each of the Loan-to-Cost Ratio (other than for any MF Property) and Underlying Loan-to-Value Ratio must be less than or equal to 80%. The Loan-to-Cost Ratio for any MF Property must be less than or equal to 90%.

Pro forma Property NOI

Must be reasonably believed by Borrower to be sufficient for Targeted Permanent Loan Program

Amount of Borrower Loan designated for Property rehab

≤ 15% of Cost

Subordinate

Not permitted, other than (i)

N/A

N/A

Financing/Mezz Financing	customary trade payables; and, (ii) to the extent approved by the Administrative Agent, (a) accounts receivable or other working capital facilities or (b) mezzanine financing directly or indirectly affecting or related to the related Mortgaged Property or the direct or indirect ownership interests in the related mortgagor
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FIRREA Compliant Appraisal Report	Required	Appraisal Dated:
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Environmental Report	Required	ESA Dated:
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Property Condition Report	Required	PCR Dated:
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**AMENDMENT NUMBER THREE TO CREDIT AGREEMENT**

**THIS AMENDMENT NUMBER THREE TO CREDIT AGREEMENT** (this “Amendment”), dated as of February 26, 2016 is entered into by and among, on the one hand, the several banks and other financial institutions and lenders from time to time party hereto (such lenders, together with their respective successors and permitted assigns, are referred to hereinafter each individually as a “Lender” and, collectively, as the “Lenders”), and **CITY NATIONAL BANK**, a national banking association, as administrative agent for the Lenders (in such capacity, together with its successors and assigns in such capacity, “Agent”), and, on the other hand, **ACRC LENDER LLC**, a Delaware limited liability company (the “Borrower”), and in light of the following:

**W I T N E S S E T H**

**WHEREAS**, Borrower, Lenders, and Agent are parties to that certain Credit Agreement, dated as of March 12, 2014 (as amended, restated, supplemented, or otherwise modified from time to time, the “Credit Agreement”);

**WHEREAS**, Borrower has requested that Agent and Lenders make certain amendments to the Credit Agreement; and

**WHEREAS**, upon the terms and conditions set forth herein, Agent and Lenders are willing to make certain amendments to the Credit Agreement.

**NOW, THEREFORE**, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Defined Terms. All initially capitalized terms used herein and not otherwise defined herein (including the preamble and recitals hereof) shall have the meanings ascribed thereto in the Credit Agreement.

2. Amendments to the Credit Agreement.

(a) Section 3.3 of the Credit Agreement is hereby amended and modified by amending and restating Section 3.3 as follows:

“3.3 Maturity Date. This Agreement shall continue in full force and effect for a term ending on the earlier of (the “Initial Maturity Date”): (a) March 11, 2017, and (b) such earlier date on which the Loans shall become due and payable in accordance with the terms of this Agreement and the other Loan Documents; provided, however, that to the extent no Event of Default or Unmatured Event of Default has occurred and is continuing at any time on or after December 31, 2016, Borrower shall have the option at any time prior to the Initial Maturity Date (the “Second One Year Extension Option”) to extend the term of this Agreement for a one (1) year period beyond the Initial Maturity Date (the “Extended Maturity Date”) to March 10, 2018, so long as Borrower (i) pays any and all fees that are required to be paid in connection therewith pursuant to the terms of the Fee Letter, and (ii) provides written notice to Agent of the exercise by Borrower of the Second One Year Extension Option.”

3. Conditions Precedent to Amendment. The satisfaction of each of the following shall constitute conditions precedent to the effectiveness of the Amendment (such date being the “Third Amendment Effective Date”):

(a) Agent shall have received this Amendment, duly executed by the parties hereto, and the same shall be in full force and effect.

(b) Agent shall have received the reaffirmation and consent of Guarantor attached hereto as Exhibit A, duly executed and delivered by an authorized officer of Guarantor.

(c) After giving effect to this Amendment, the representations and warranties herein and in the Credit Agreement and the other Loan Documents shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that are already qualified or modified by materiality in the text thereof) on and as of the date hereof as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date).

(d) No litigation, inquiry, other action or proceeding (governmental or otherwise), or injunction or other restraining order prohibiting, directly or indirectly, the consummation of the transactions contemplated herein shall be pending or, to Borrower's knowledge, overtly threatened that could reasonably be expected to have: (i) a material adverse effect on Borrower's ability to repay the Loans or (ii) a Material Adverse Effect on Borrower.

(e) After giving effect to this Amendment, no Event of Default or Unmatured Event of Default shall have occurred and be continuing or shall result from the consummation of the transactions contemplated herein.

(f) Agent shall have received, in immediately available funds, the Third Amendment Fee referred to in Section 7 hereof.

(g) All other documents and legal matters in connection with the transactions contemplated by this Amendment shall have been delivered, executed, or recorded and shall be in form and substance reasonably satisfactory to Agent.

4. Representations and Warranties. Borrower hereby represents and warrants to Agent and the Lenders as follows:

(a) It is a duly organized and validly existing limited liability company in good standing under the law of the State of Delaware and is duly qualified to conduct business in all jurisdictions where its failure to do so could reasonably be expected to have a Material Adverse Effect on Borrower.

(b) It has all requisite limited liability company power to execute and deliver this Agreement and the other Loan Documents to which it is a party, and to borrow the sums provided for in this Agreement. Borrower has all governmental licenses, authorizations, consents, and approvals necessary to own and operate its Assets and to carry on its businesses as now conducted and as proposed to be conducted, other than licenses, authorizations, consents, and approvals that are not currently required or the failure to obtain which could not reasonably be expected to have a Material Adverse Effect on the Loan Parties, taken as a whole. The execution, delivery, and performance of this Amendment and the other Loan Documents have been duly authorized by Borrower and all necessary limited liability company action in respect thereof has been taken, and the execution, delivery, and performance thereof do not require any consent or approval of any other Person that has not been obtained (except for such consents or approvals as could not reasonably be expected to have a Material Adverse Effect on the Loan Parties, taken as a whole).

(c) The execution, delivery, and performance by Borrower of this Amendment and the other Loan Documents to which it is a party, do not and will not: (i) violate (A) any provision of any

federal (including the Exchange Act), state, or local law, rule, or regulation (including Regulations T, U, and X of the Federal Reserve Board) binding on any Loan Party, (B) any order of any domestic Governmental Authority, court, arbitration board, or tribunal binding on any Loan Party, or (C) the Governing Documents of any Loan Party, or (ii) contravene any provisions of, result in a breach of, constitute (with the giving of notice or the lapse of time) a default under, or result in the creation of any Lien (other than a Permitted Lien) upon any of the Assets of any Loan Party pursuant to, any Contractual Obligation of any Loan Party, or (iii) require termination of any Contractual Obligation of any Loan Party, or (iv) constitute a tortious interference with any Contractual Obligation of any Loan Party, in each case, except as could not reasonably be expected to have a Material Adverse Effect on the Loan Parties, taken as a whole.

(d) Other than such as may have previously been obtained, filed, or given, as applicable, no consent, license, permit, approval, or authorization of, exemption by, notice to, report to or registration, filing, or declaration with, any Governmental Authority is required in connection with the execution, delivery, and performance by the Loan Parties of this Amendment or the Loan Documents to which they are a party, in each case, except as could not reasonably be expected to have a Material Adverse Effect on the Loan Parties, taken as a whole.

(e) This Amendment and the other Loan Documents to which Borrower is a party, when executed and delivered by Borrower, will constitute the legal, valid, and binding obligations of Borrower, enforceable against Borrower in accordance with their terms except as the enforceability hereof or thereof may be affected by: (i) bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the enforcement of creditors' rights generally, and (ii) equitable principles of general applicability (whether considered in a proceeding in equity or law).

(f) No litigation, inquiry, other action or proceeding (governmental or otherwise), or injunction or other restraining order prohibiting, directly or indirectly, the consummation of the transactions contemplated herein shall be pending or, to Borrower's knowledge, overtly threatened that could reasonably be expected to have: (i) a material adverse effect on Borrower's ability to repay the Loans or (ii) a Material Adverse Effect on Borrower.

(g) No Event of Default or Unmatured Event of Default has occurred and is continuing as of the date of the effectiveness of this Amendment.

(h) No event or development has occurred as of the date of the effectiveness of this Amendment which could reasonably be expected to result in a Material Adverse Effect with respect to any Loan Party.

(i) The representations and warranties set forth in this Amendment, in the Credit Agreement, as amended by this Amendment and after giving effect to this Amendment, and the other Loan Documents to which Borrower is a party are true, correct and complete in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the date hereof, as though made on such date (except to the extent that such representations and warranties relate solely to an earlier date).

(j) This Amendment has been entered into without force or duress, of the free will of Borrower, and the decision of Borrower to enter into this Amendment is a fully informed decision and Borrower is aware of all legal and other ramifications of each such decision.

(k) It has read and understands this Amendment, has consulted with and been represented by independent legal counsel of its own choosing in negotiations for and the preparation of

this Amendment, has read this Amendment in full and final form, and has been advised by its counsel of its rights and obligations hereunder.

5. **GOVERNING LAW; JURISDICTION AND VENUE; WAIVER OF TRIAL BY JURY**. THIS AMENDMENT SHALL BE SUBJECT TO THE PROVISIONS REGARDING GOVERNING LAW, JURISDICTION AND VENUE, AND WAIVER OF TRIAL BY JURY SET FORTH IN SECTIONS 11.6 — 11.8 OF THE CREDIT AGREEMENT, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, *MUTATIS MUTANDIS*.

6. Counterpart Execution. This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission shall be equally effective as delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Amendment, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

7. Amendment Fee. Pursuant to the Fee Letter, on or before the Third Amendment Effective Date, Borrower shall pay to Agent the One Year Extension Fee (as such term is defined in the Fee Letter) in an amount equal to 0.25% times the Maximum Revolver Amount (“Third Amendment Fee”) in immediately available funds, which Third Amendment Fee shall be fully earned and non-refundable on the Third Amendment Effective Date.

8. Effect on Loan Documents.

(a) The Credit Agreement, as amended hereby, and each of the other Loan Documents shall be and remain in full force and effect in accordance with their respective terms and hereby are ratified and confirmed in all respects. The execution, delivery, and performance of this Amendment shall not operate, except as expressly set forth herein, as a modification or waiver of any right, power, or remedy of Agent or any Lender under the Credit Agreement or any other Loan Document. Except for the amendments to the Credit Agreement expressly set forth herein, the Credit Agreement and the other Loan Documents shall remain unchanged and in full force and effect. The modifications set forth herein are limited to the specifics hereof (including facts or occurrences on which the same are based), shall not apply with respect to any facts or occurrences other than those on which the same are based, shall neither excuse any future non-compliance with the Loan Documents nor operate as a waiver of any Event of Default or Unmatured Event of Default, shall not operate as a consent to any waiver, consent or further amendment or other matter under the Loan Documents, and shall not be construed as an indication that any future waiver or amendment of covenants or any other provision of the Credit Agreement will be agreed to, it being understood that the granting or denying of any waiver or amendment which may hereafter be requested by Borrower remains in the sole and absolute discretion of Agent and the Lenders. To the extent that any terms or provisions of this Amendment conflict with those of the Credit Agreement or the other Loan Documents, the terms and provisions of this Amendment shall control.

(b) Upon and after the effectiveness of this Amendment, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “herein”, “hereof” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to “the Credit Agreement”, “thereunder”, “therein”, “thereof” or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified and amended hereby.

(c) To the extent that any of the terms and conditions in any of the Loan Documents shall contradict or be in conflict with any of the terms or conditions of the Credit Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Credit Agreement as modified or amended hereby.

(d) This Amendment is a Loan Document.

(e) The rules of construction set forth in Section 1.2 of the Credit Agreement are incorporated herein by this reference, *mutatis mutandis* .

9. Entire Agreement. This Amendment, and the terms and provisions hereof, the Credit Agreement and the other Loan Documents constitute the entire understanding and agreement between the parties hereto with respect to the subject matter hereof and supersede any and all prior or contemporaneous amendments or understandings with respect to the subject matter hereof, whether express or implied, oral or written.

10. Integration. This Amendment, together with the other Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

11. Reaffirmation of Obligations. Borrower hereby reaffirms its obligations under each Loan Document to which it is a party. Borrower hereby further ratifies and reaffirms the validity and enforceability of all of the liens and security interests heretofore granted, pursuant to and in connection with the Security Agreement or any other Loan Document to Agent, on behalf and for the benefit of each member of the Lender Group, as collateral security for the obligations under the Loan Documents in accordance with their respective terms, and acknowledges that all of such liens and security interests, and all collateral heretofore pledged as security for such obligations, continues to be and remain collateral for such obligations from and after the date hereof. Borrower hereby further does grant to Agent, a security interest in the Collateral (as defined in the Security Agreement) in order to secure all of its present and future Obligations.

12. Ratification. Borrower hereby restates, ratifies and reaffirms each and every term and condition set forth in the Credit Agreement and the Loan Documents to which it is a party effective as of the date hereof and as amended hereby.

13. Severability. In case any provision in this Amendment shall be invalid, illegal or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first above written.

**ACRC LENDER LLC**,  
a Delaware limited liability company, as Borrower

By: /s/ Anton Feingold  
Name: Anton Feingold  
Title: Vice President

[SIGNATURE PAGE TO AMENDMENT NUMBER THREE TO CREDIT AGREEMENT]

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**CITY NATIONAL BANK** ,  
a national banking association,  
as Agent and as a Lender

By: /s/ Brandon L. Feitelson  
Name: Brandon L. Feitelson  
Title: Senior Vice President

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[SIGNATURE PAGE TO AMENDMENT NUMBER THREE TO CREDIT AGREEMENT]

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Exhibit A

**REAFFIRMATION AND CONSENT**

Reference is hereby made to that certain **AMENDMENT NUMBER THREE TO CREDIT AGREEMENT**, dated as of February 26, 2016 (the "Amendment"), by and among on the one hand, the lenders from time to time party thereto (such lenders, together with their respective successors and permitted assigns, are referred to hereinafter each individually as a "Lender" and collectively as the "Lenders") and **CITY NATIONAL BANK**, a national banking association, as the arranger and administrative agent for the Lenders (in such capacity, together with its successors and assigns in such capacity, "Agent"), and, on the other hand, **ACRC LENDER LLC**, a Delaware limited liability company ("Borrower"). All capitalized terms used herein but not otherwise defined herein shall have the meanings ascribed to them in that certain Credit Agreement dated as of March 12, 2014 (as amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), by and among Borrower, Agent, and Lenders. The undersigned Guarantor hereby (a) represents and warrants to Agent that the execution, delivery, and performance of this Reaffirmation and Consent have been duly authorized by Guarantor and all necessary corporate action in respect thereof has been taken, and the execution, delivery, and performance of this Reaffirmation and Consent does not require any consent or approval of any other Person that has not been obtained (except for such consents or approvals as could not reasonably be expected to have a Material Adverse Effect on the Loan Parties, taken as a whole); (b) consents to the amendment of the Credit Agreement as set forth in the Amendment; (c) acknowledges and reaffirms its obligations owing to the Agent and the Lenders under any Loan Documents to which it is a party; (d) restates, ratifies and reaffirms each and every term and condition set forth in the Credit Agreement and other Loan Documents to which it is a party effective as of the date of the Amendment; (e) confirms that all Debt of the Guarantor evidenced by the Loan Documents to which it is a party is unconditionally owing by it to Agent and the Lenders, without offset, defense, withholding, counterclaim or deduction of any kind, nature or description whatsoever; and (f) agrees that each of the Loan Documents to which it is a party is and shall remain in full force and effect.

Although the undersigned has been informed of the matters set forth herein and has acknowledged and agreed to same, the undersigned understands that neither Agent nor any Lender has any obligation to inform it of such matters in the future or to seek its acknowledgment or agreement to future amendments, and nothing herein shall create such a duty.

Delivery of an executed counterpart of this Reaffirmation and Consent by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Reaffirmation and Consent. Any party delivering an executed counterpart of this Reaffirmation and Consent by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Reaffirmation and Consent but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Reaffirmation and Consent.

The validity of this Reaffirmation and Consent, its construction, interpretation and enforcement, and the rights of the parties hereunder, shall be determined under, governed by, and construed in accordance with the law of the State of New York.

[signature pages follow]



IN WITNESS WHEREOF, the undersigned has caused this Reaffirmation and Consent to be executed as of the date of the Amendment.

**ARES COMMERCIAL REAL ESTATE CORPORATION**,  
a Maryland corporation

By \_\_\_\_\_  
Name:  
Title:

[SIGNATURE PAGE TO REAFFIRMATION AND CONSENT TO AMENDMENT NUMBER THREE TO CREDIT AGREEMENT]

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**SUBSIDIARIES OF ARES COMMERCIAL REAL ESTATE CORPORATION**

<u>Name</u>	<u>Jurisdiction</u>
ACRC Holdings LLC	Delaware
ACRC Lender LLC	Delaware
ACRC Lender C LLC	Delaware
ACRC 2013-FL1 Depositor LLC	Delaware
ACRC Lender U LLC	Delaware
ACRC Lender U TRS LLC	Delaware
ACRC Lender U Mezz LLC	Delaware
ACRC Lender W LLC	Delaware
ACRC Lender W TRS LLC	Delaware
ACRC 2013-FL1 Holder LLC	Delaware
ACRC Champions Investor LLC	Delaware
ACRE Commercial Mortgage Trust 2013-FL1	New York
ACRE Capital Holdings LLC	Delaware
ACRE Capital LLC	Michigan
ACRE Capital Corporation	Delaware
ACRC Lender B LLC	Delaware
ACRC Lender ML LLC	Delaware
ACRC CP Investor LLC	Delaware
ACRC KA Investor LLC	Delaware
ACRC KA JV Investor LLC	Delaware
ACRC 2013-FL1B Holder LLC	Delaware
ACRC 2014-FL2 Holder LLC	Delaware
ACRE Commercial Mortgage 2014-FL2 LLC	Delaware
ACRC Commercial Mortgage 2014-FL2 Ltd.	Cayman
ACRC Mezz Holdings LLC	Delaware
ACRC Warehouse Holdings LLC	Delaware

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QuickLinks

[Exhibit 21.1](#)

[SUBSIDIARIES OF ARES COMMERCIAL REAL ESTATE CORPORATION](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-188496) of Ares Commercial Real Estate Corporation, and
- (2) Registration Statement (Form S-8 No. 333-181077) pertaining to the Ares Commercial Real Estate Corporation 2012 Equity Incentive Plan of our report dated March 1, 2016, with respect to the consolidated financial statements of Ares Commercial Real Estate Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2015.

/s/ Ernst & Young LLP

Los Angeles, California  
March 1, 2016

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QuickLinks

[Exhibit 23.1](#)

[Consent of Independent Registered Public Accounting Firm](#)

**Certification of Co-Chief Executive Officer  
of Period Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, John Jardine, certify that:

1. I have reviewed this annual report on Form 10-K of Ares Commercial Real Estate Corporation;
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;
  - (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: March 1, 2016

/s/ JOHN JARDINE

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John Jardine  
*Co-Chief Executive Officer, Director and President*

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QuickLinks

[Exhibit 31.1](#)

[Certification of Co-Chief Executive Officer of Period Report Pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\)](#)

**Certification of Co-Chief Executive Officer  
of Period Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, Robert L. Rosen, certify that:

1. I have reviewed this annual report on Form 10-K of Ares Commercial Real Estate Corporation;
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;
  - (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: March 1, 2016

/s/ ROBERT L. ROSEN

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Robert L. Rosen  
*Interim Co-Chief Executive Officer and Chairman*

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QuickLinks

[Exhibit 31.2](#)

[Certification of Co-Chief Executive Officer of Period Report Pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\)](#)

**Certification of Chief Financial Officer  
of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)**

I, Tae-Sik Yoon, certify that:

1. I have reviewed this annual report on Form 10-K of Ares Commercial Real Estate Corporation;
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;
  - (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: March 1, 2016

/s/ TAE-SIK YOON

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Tae-Sik Yoon  
*Chief Financial Officer and Treasurer*

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QuickLinks

[Exhibit 31.3](#)

[Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14\(a\) and Rule 15d-14\(a\)](#)

**Certification of Co-Chief Executive Officers and Chief Financial Officer  
Pursuant to  
18 U.S.C Section 1350**

In connection with the annual report on Form 10-K of Ares Commercial Real Estate Corporation (the "Company") for the year ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), John Jardine, as Co-Chief Executive Officer of the Company, Robert L. Rosen, as Interim Co-Chief Executive Officer of the Company, and Tae Sik Yoon, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 1, 2016

/s/ JOHN JARDINE

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John Jardine  
*Co-Chief Executive Officer, Director and President*

/s/ ROBERT L. ROSEN

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Robert L. Rosen  
*Interim Co-Chief Executive Officer and Chairman*

/s/ TAE-SIK YOON

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Tae-Sik Yoon  
*Chief Financial Officer and Treasurer*

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Ares Commercial Real Estate Corporation and will be retained by Ares Commercial Real Estate Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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QuickLinks

[Exhibit 32.1](#)

[Certification of Co-Chief Executive Officers and Chief Financial Officer Pursuant to 18 U.S.C Section 1350](#)