
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): October 29, 2020



ARES COMMERCIAL REAL ESTATE CORPORATION
(Exact Name of Registrant as Specified in Charter)

Maryland
(State or Other Jurisdiction
of Incorporation)

001-35517
(Commission
File Number)

45-3148087
(IRS Employer
Identification No.)

245 Park Avenue, 42nd Floor, New York, NY 10167
(Address of Principal Executive (Zip Code)
Offices)

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

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	ACRE	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company ☐

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

Item 2.02 Results of Operations and Financial Condition.

On October 29, 2020, the registrant issued a press release announcing its financial results for the quarter ended September 30, 2020. A copy of the summary press release and the earnings presentation are attached hereto as Exhibit 99.1 and Exhibit 99.2, respectively, and incorporated herein by reference.

The information disclosed under this Item 2.02, including Exhibit 99.1 and Exhibit 99.2 hereto, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 and shall not be deemed incorporated by reference into any filing made under the Securities Act of 1933, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

Exhibit Number	Description
99.1	Press Release, dated October 29, 2020
99.2	Presentation of Ares Commercial Real Estate Corporation, dated October 29, 2020

SIGNATURE

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

ARES COMMERCIAL REAL ESTATE CORPORATION

Date: October 29, 2020

By: /s/ Tae-Sik Yoon

Name: Tae-Sik Yoon

Title: Chief Financial Officer and Treasurer



**ARES COMMERCIAL REAL ESTATE CORPORATION REPORTS
THIRD QUARTER 2020 RESULTS**

Third quarter GAAP net income of \$14.9 million or \$0.44 per diluted common share and Core Earnings⁽¹⁾ of \$10.5 million or \$0.31 per diluted common share

NEW YORK—(BUSINESS WIRE)—Ares Commercial Real Estate Corporation (the “Company”) (NYSE:ACRE), a specialty finance company engaged in originating and investing in commercial real estate assets, reported generally accepted accounting principles (“GAAP”) net income of \$14.9 million or \$0.44 per diluted common share and Core Earnings⁽¹⁾ of \$10.5 million or \$0.31 per diluted common share for the third quarter of 2020.

“This morning, we announced another quarter of consistent earnings with continued stable credit performance and liquidity position,” said Bryan Donohoe, Chief Executive Officer of ACRE. “Since the inception of ACRE, our focus on defensively positioning both our portfolio and our funding sources has enabled us to successfully navigate market downturns like the one we have experienced this year. We are now seeing an improvement in market activity and the quality of investment opportunities.”

“Our continued strategic focus on defensive, senior loans in growing, non-gateway markets continues to produce attractive results as 100% of our loans made their contractual debt service payments for the third quarter and October payment dates,” said Tae-Sik Yoon, Chief Financial Officer of ACRE.

⁽¹⁾ Core Earnings is a non-GAAP financial measure. Refer to Schedule I for further details.

COMMON STOCK DIVIDEND

On September 16, 2020, the Company declared a cash dividend of \$0.33 per common share for the third quarter of 2020. The third quarter 2020 dividend was paid on October 15, 2020 to common stockholders of record as of September 30, 2020.

ADDITIONAL INFORMATION

The Company issued a presentation of its third quarter 2020 results, which can be viewed at www.arescre.com on the Investor Resources section of our home page under Events and Presentations. The presentation is titled "Third Quarter 2020 Earnings Presentation." The Company also filed its Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 with the U.S. Securities and Exchange Commission on October 29, 2020.

CONFERENCE CALL AND WEBCAST INFORMATION

On Thursday, October 29, 2020, the Company invites all interested persons to attend its webcast/conference call at 12:00 p.m. (Eastern Time) to discuss its third quarter 2020 financial results.

All interested parties are invited to participate via telephone or the live webcast, which will be hosted on a webcast link located on the Home page of the Investor Resources section of the Company's website at <http://www.arescre.com>. Please visit the website to test your connection before the webcast. Domestic callers can access the conference call by dialing +1 (888) 317-6003. International callers can access the conference call by dialing +1 (412) 317-6061. All callers will need to enter the Participant Elite Entry Number 2414923 followed by the # sign and reference "Ares Commercial Real Estate Corporation" once connected with the operator. All callers are asked to dial in 10-15 minutes prior to the call so that name and company information can be collected. For interested parties, an archived replay of the call will be available through November 5, 2020 at 5:00 p.m. (Eastern Time) to domestic callers by dialing +1 (877) 344-7529 and to international callers by dialing +1 (412) 317-0088. For all replays, please reference conference number 10148188. An archived replay will also be available through November 5, 2020 on a webcast link located on the Home page of the Investor Resources section of the Company's website.

ABOUT ARES COMMERCIAL REAL ESTATE CORPORATION

Ares Commercial Real Estate Corporation is a specialty finance company primarily engaged in originating and investing in commercial real estate loans and related investments. Through its national direct origination platform, the Company provides a broad offering of flexible and reliable financing solutions for commercial real estate owners and operators. The Company originates senior mortgage loans, as well as subordinate financings, mezzanine debt and preferred equity, with an emphasis on providing value added financing on a variety of properties located in liquid markets across the United States. Ares Commercial Real Estate Corporation elected and qualified to be taxed as a real estate investment trust and is externally managed by a subsidiary of Ares Management Corporation. For more information, please visit www.arescre.com. The contents of such website are not, and should not be deemed to be, incorporated by reference herein.

FORWARD-LOOKING STATEMENTS

Statements included herein or on the webcast / conference call may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, which relate to future events or the Company's future performance or financial condition. These statements are not guarantees of future performance, condition or results and involve a number of risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including the returns on current and future investments, rates of repayments and prepayments on the Company's mortgage loans, availability of investment opportunities, the Company's ability to originate additional investments and completion of pending investments, the availability of capital, the availability and cost of financing, market trends and conditions in the Company's industry and the general economy, the level of lending and borrowing spreads and interest rates, commercial real estate loan volumes, the impact of the COVID-19 pandemic and the pandemic's impact on the U.S. and global economy, and the risks described from time to time in the Company's filings with the Securities and Exchange Commission (the "SEC"), including, but not limited to, the risk factors described in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K, filed with the SEC on February 20, 2020, and the risk factors described in Part II - Other Information, Item 1A. Risk Factors in the Company's Quarterly Report on Form 10-Q filed with the SEC on October 29, 2020. Any forward-looking statement, including any contained herein, speaks only as of the time of this press release and Ares Commercial Real Estate Corporation undertakes no duty to update any forward-looking statements made herein or on the webcast/conference call. Projections and forward-looking statements are based on management's good faith and reasonable assumptions, including the assumptions described herein.

INVESTOR RELATIONS CONTACTS

Ares Commercial Real Estate Corporation
Carl Drake or Veronica Mendiola Mayer
(888) 818-5298
iracre@aresmgmt.com

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of	
	September 30, 2020	December 31, 2019
	(unaudited)	
ASSETS		
Cash and cash equivalents	\$ 81,295	\$ 5,256
Restricted cash	—	379
Loans held for investment (\$495,167 and \$515,896 related to consolidated VIEs, respectively)	1,778,199	1,682,498
Current expected credit loss reserve	(25,454)	—
Loans held for investment, net of current expected credit loss reserve	1,752,745	1,682,498
Real estate owned, net	37,476	37,901
Other assets (\$896 and \$1,309 of interest receivable related to consolidated VIEs, respectively; \$61,833 and \$41,104 of other receivables related to consolidated VIEs, respectively)	77,542	58,100
Total assets	<u>\$ 1,949,058</u>	<u>\$ 1,784,134</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Secured funding agreements	\$ 791,136	\$ 728,589
Notes payable	57,848	54,708
Secured term loan	109,803	109,149
Collateralized loan obligation securitization debt (consolidated VIE)	443,860	443,177
Secured borrowings	54,617	—
Due to affiliate	2,670	2,761
Dividends payable	11,072	9,546
Other liabilities (\$368 and \$718 of interest payable related to consolidated VIEs, respectively)	8,703	9,865
Total liabilities	<u>1,479,709</u>	<u>1,357,795</u>
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at September 30, 2020 and December 31, 2019 and 33,441,937 and 28,865,610 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	329	283
Additional paid-in capital	497,421	423,619
Accumulated earnings (deficit)	(28,401)	2,437
Total stockholders' equity	<u>469,349</u>	<u>426,339</u>
Total liabilities and stockholders' equity	<u>\$ 1,949,058</u>	<u>\$ 1,784,134</u>

ARES COMMERCIAL REAL ESTATE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue:				
Interest income	\$ 30,626	\$ 28,269	\$ 91,908	\$ 86,248
Interest expense	(11,875)	(15,124)	(40,450)	(47,539)
Net interest margin	18,751	13,145	51,458	38,709
Revenue from real estate owned	3,623	6,702	10,032	16,970
Total revenue	22,374	19,847	61,490	55,679
Expenses:				
Management and incentive fees to affiliate	1,847	1,578	5,771	5,405
Professional fees	639	542	2,202	1,553
General and administrative expenses	969	1,005	2,797	3,153
General and administrative expenses reimbursed to affiliate	802	831	2,890	2,261
Expenses from real estate owned	4,046	6,838	13,976	15,644
Total expenses	8,303	10,794	27,636	28,016
Provision for current expected credit losses	(1,048)	—	22,063	—
Realized losses on loans sold	4,008	—	4,008	—
Change in unrealized losses on loans held for sale	(3,998)	—	—	—
Income before income taxes	15,109	9,053	7,783	27,663
Income tax expense, including excise tax	181	19	350	332
Net income attributable to common stockholders	\$ 14,928	\$ 9,034	\$ 7,433	\$ 27,331
Earnings per common share:				
Basic earnings per common share	\$ 0.45	\$ 0.32	\$ 0.23	\$ 0.96
Diluted earnings per common share	\$ 0.44	\$ 0.31	\$ 0.22	\$ 0.95
Weighted average number of common shares outstanding:				
Basic weighted average shares of common stock outstanding	33,337,445	28,634,514	32,852,553	28,598,807
Diluted weighted average shares of common stock outstanding	33,550,444	28,867,603	33,072,085	28,837,766
Dividends declared per share of common stock (1)	\$ 0.33	\$ 0.33	\$ 0.99	\$ 0.99

(1) There is no assurance dividends will continue at these levels or at all.

SCHEDULE I

Reconciliation of Net Income to Non-GAAP Core Earnings

The Company believes the disclosure of Core Earnings provides useful information to investors regarding the calculation of incentive fees the Company pays to its manager, Ares Commercial Real Estate Management LLC, and the Company's financial performance. Core Earnings is an adjusted non-GAAP measure that helps the Company evaluate its financial performance excluding the effects of certain transactions and GAAP adjustments that it believes are not necessarily indicative of its current loan origination portfolio and operations. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. Core Earnings is a non-GAAP measure and is defined as 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), one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between the Company's external manager and the Company's independent directors and after approval by a majority of the Company's independent directors.

Reconciliation of net income attributable to common stockholders, the most directly comparable GAAP financial measure, to Core Earnings is set forth in the table below for the three and twelve months ended September 30, 2020 (\$ in thousands):

	For the three months ended September 30, 2020		For the twelve months ended September 30, 2020	
Net income attributable to common stockholders	\$	14,928	\$	17,093
Stock-based compensation		367		1,438
Incentive fees to affiliate		—		680
Depreciation of real estate owned		224		887
Provision for current expected credit losses		(1,048)		22,063
Change in unrealized losses on loans held for sale		(3,998)		—
Core Earnings	\$	10,473	\$	42,161
Net income attributable to common stockholders	\$	0.45	\$	0.54
Stock-based compensation		0.01		0.05
Incentive fees to affiliate		—		0.02
Depreciation of real estate owned		0.01		0.03
Provision for current expected credit losses		(0.03)		0.69
Change in unrealized losses on loans held for sale		(0.12)		—
Basic Core Earnings per common share	\$	0.31	\$	1.33
Net income attributable to common stockholders	\$	0.44	\$	0.53
Stock-based compensation		0.01		0.04
Incentive fees to affiliate		—		0.02
Depreciation of real estate owned		0.01		0.03
Provision for current expected credit losses		(0.03)		0.69
Change in unrealized losses on loans held for sale		(0.12)		—
Diluted Core Earnings per common share	\$	0.31	\$	1.32



Third Quarter 2020 Earnings Presentation

Important Notice

Statements included herein may 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, which may relate to future events or the future performance or financial condition of Ares Commercial Real Estate Corporation ("ACRE" or the "Company"), its external manager, Ares Commercial Real Estate Management LLC ("ACREM"), a subsidiary of Ares Management Corporation ("Ares Corp."), Ares Corp., certain of their respective subsidiaries and certain funds and accounts managed by ACREM and/or their subsidiaries. These statements are not guarantees of future results or financial condition and involve a number of risks and uncertainties. Actual results and conditions may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in ACRE's and/or Ares Corp.'s filings with the Securities and Exchange Commission ("SEC"). Any such forward-looking statements are made pursuant to the safe harbor provisions available under applicable securities laws. For a discussion regarding the potential risks and impact of the COVID-19 pandemic on ACRE, see Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operation" and Part II, Item 1A. "Risk Factors" in ACRE's Quarterly Report on Form 10-Q.

Ares Corp. is the parent to several registered investment advisers, including Ares Management LLC ("Ares Management") and ACREM. Collectively, Ares Corp., its affiliated entities, and all underlying subsidiary entities shall be referred to as "Ares" unless specifically noted otherwise.

The information contained in this presentation is summary information that is intended to be considered in the context of ACRE's SEC filings and other public announcements that ACRE or Ares may make, by press release or otherwise, from time to time. ACRE and Ares undertake no duty or obligation to publicly update or revise the forward-looking statements or other information contained in this presentation. These materials contain information about ACRE and Ares, and certain of their respective personnel and affiliates, information about their respective historical performance and general information about the market. You should not view information related to the past performance of ACRE or Ares or information about the market, as indicative of future results, the achievement of which cannot be assured.

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Third Quarter 2020 Results

Financial Results

- GAAP net income of \$14.9 million or \$0.44 per diluted common share⁽¹⁾
- Core Earnings of \$10.5 million or \$0.31 per diluted common share (inclusive of \$4.0 million or \$0.12 per share realized loss on previously announced sale of loans)⁽²⁾
- Book value per diluted common share of \$14.03 (or \$14.85 excluding CECL reserve), up from prior quarter's \$13.91 (or \$14.75 excluding CECL reserve)

Portfolio Activity

- \$38.0 million in outstanding principal funded on previously originated commitments
- \$55.1 million in full or partial loan repayments

Total Loan Portfolio

- 49 loans held for investment
- \$2.0 billion in originated commitments at closing and \$1.8 billion in outstanding principal
- Weighted average unleveraged effective yield of 6.6%⁽³⁾
- 98% of loans benefit from LIBOR floors or fixed rate⁽⁴⁾
 - For floating rates loans with LIBOR floors (95%), the weighted average LIBOR floor is 1.74%

Capital and Liquidity

- Extended the initial maturity date on the MetLife Facility to August 13, 2022
- Unrestricted cash of \$91 million⁽⁵⁾
- 2.8x Debt to Equity (including 1.8x Recourse Debt to Equity)⁽⁶⁾⁽⁷⁾

Dividends

- Common stock dividend of \$0.33 per common share for Q3-20 paid in cash on October 15, 2020⁽⁸⁾

Note: As of September 30, 2020, unless otherwise noted.
See footnotes on page 13.

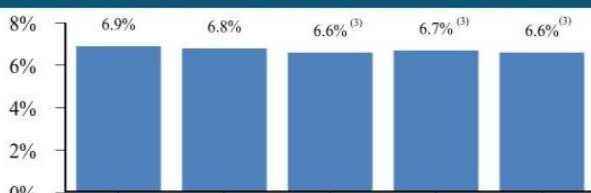
Total Loans Held for Investment Portfolio

Key Statistics

(\$ in millions)

Total loan commitments	\$2,001.6
Outstanding principal balance	\$1,789.1
Weighted average unpaid principal balance of loan portfolio ⁽⁹⁾	\$1,808.1
Total number of loans held for investment	49
Percentage of floating rate loans based on outstanding principal balance	98%
Percentage of senior loans based on outstanding principal balance	94%
Weighted average remaining life of loan portfolio	1.3 years
Weighted average remaining life of senior loans	1.3 years
Weighted average remaining life of subordinated debt and preferred equity investments	2.1 years

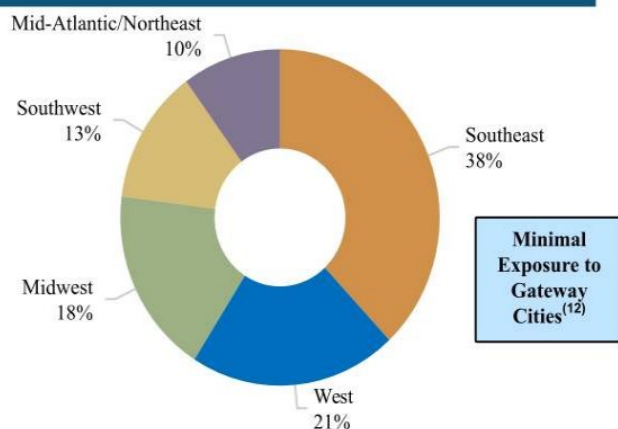
Unleveraged Effective Yield⁽¹⁰⁾ and LIBOR



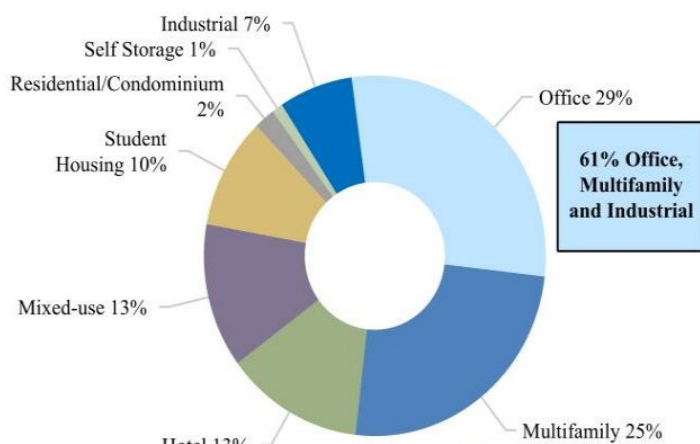
	Q3-19	Q4-19	Q1-20	Q2-20	Q3-20
Senior loans	6.5%	6.5%	6.2% ⁽³⁾	6.3% ⁽³⁾	6.2% ⁽³⁾
Sub. debt and pref. equity investments	15.0%	15.1%	13.5%	13.6%	13.4%
Avg. 1-month LIBOR	2.2%	1.8%	1.4%	0.4%	0.2%
Wtd. avg. LIBOR floor	1.7%	1.8%	1.8%	1.8%	1.7%

Note: As of September 30, 2020, unless otherwise noted.
See footnotes on page 13.

Loan Portfolio Characteristics⁽¹¹⁾



Minimal Exposure to Gateway Cities⁽¹²⁾

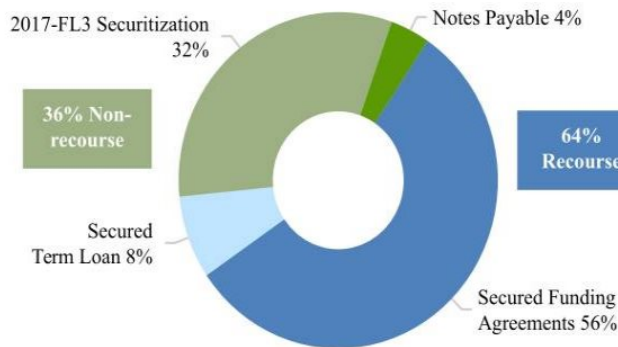


61% Office, Multifamily and Industrial

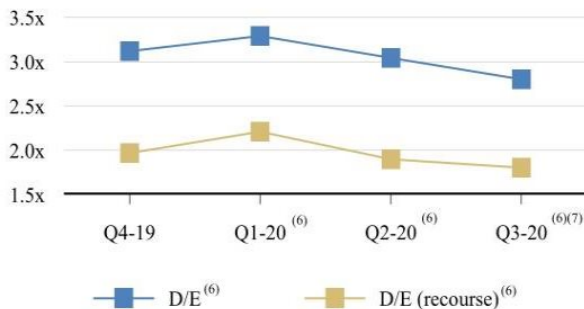


Financing Sources Overview

Financing Sources Composition⁽¹³⁾



Reducing Leverage



Note: As of September 30, 2020, unless otherwise noted.
See footnotes on page 13.

Financing Sources Detail

(\$ in millions)

Financing Sources	Total Commitments ⁽¹⁴⁾	Interest Rate	Outstanding Balance
Secured Funding Agreements			
Wells Fargo Facility	\$ 500.0	LIBOR+1.45 to 2.25%	\$ 375.3
Citibank Facility	325.0	LIBOR+1.50 to 2.25%	120.5
CNB Facility	50.0	LIBOR+2.65%	50.0
Morgan Stanley Facility	150.0	LIBOR+1.75 to 2.85%	141.2
MetLife Facility	180.0	LIBOR+2.10 to 2.50%	104.1
Subtotal	\$ 1,205.0		\$ 791.1
Asset Level Financing			
Notes Payable	\$ 84.2	LIBOR+2.50 to 3.75%	\$ 59.2
Capital Markets			
Secured Term Loan	\$ 110.0	LIBOR+5.00%	\$ 110.0
2017-FL3 Securitization	445.6	LIBOR + 1.70%	445.6
Subtotal	\$ 555.6		\$ 555.6
Total Debt	\$ 1,844.8		\$ 1,405.9

Debt to equity ratio excluding CECL reserve ⁽⁷⁾	2.8x
Recourse debt to equity ratio excluding CECL reserve ⁽⁷⁾	1.8x
Longer excess wtd. average remaining term of financing agreements vs. loans ⁽¹⁵⁾	1.9 years
LIBOR floor on outstanding financing	18%
Weighted average LIBOR floor on outstanding financing	0.95%
Q3-20 weighted average borrowings ⁽⁹⁾	\$1,455.1 million

None of ACRE's financings contain margin call provisions based on changes in market spreads



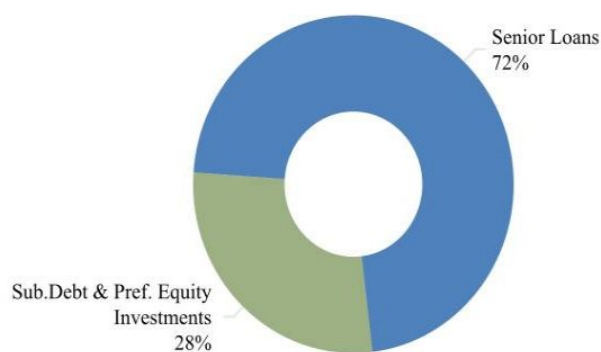
Current Expected Credit Losses

Current Expected Credit Loss Reserve

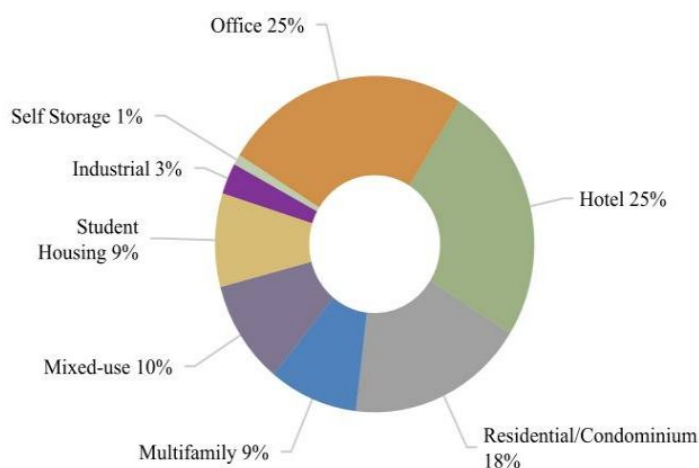
(\$ in thousands)

Balance at 6/30/20	\$	28,161
Provision for CECL		(1,048)
Balance at 9/30/20	\$	<u>27,113</u>

Current Expected Credit Loss Reserve by Loan Type



Current Expected Credit Loss Reserve by Property Type



- No specific loan impairments on loan portfolio
- Weighted average loan risk rating of 3.0 with 91% of unpaid principal balance rated 3 or higher⁽¹⁶⁾
- Consistent macro-economic forecast utilized quarter over quarter given the degree of uncertainty in economic outlook
- Reduction in provision for CECL of \$1.0 million (bifurcated between funded commitments of \$0.6 million and unfunded commitments of \$0.4 million) primarily attributable to changes to loan portfolio

Note: As of September 30, 2020, unless otherwise noted.
See footnotes on page 13.

Appendix

Loans Held for Investment Portfolio Details

(\$ in millions)

#	Loan Type	Location	Origination Date	Current Loan Commitment	Outstanding Principal	Carrying Value	Interest Rate	LIBOR Floor	Unleveraged ⁽¹⁰⁾ Effective Yield	Maturity Date	Payment Terms ⁽¹⁷⁾
Office Loans:											
1	Senior	Diversified	Jan 2020	\$132.6	\$108.6	\$108.2	L+3.65%	1.6%	5.7%	Jan 2023	I/O
2	Senior	IL	Nov 2017	82.0	69.6	69.6	L+3.75%	1.3%	5.6%	Dec 2020	I/O
3	Senior	NC	Mar 2019	84.0	61.0	60.8	L+4.25%	2.4%	8.4%	Mar 2021	I/O
4	Senior	IL	May 2018	59.6	57.3	57.2	L+3.95%	2.0%	6.3%	Jun 2021	I/O
5	Senior	GA	Nov 2019	56.2	40.2	39.7	L+3.05%	2.0%	5.7%	Dec 2022	I/O
6	Subordinated	IL	Mar 2020	37.5	34.5	34.2	L+8.00%	1.5%	10.0%	Mar 2023	I/O
7	Senior	CA	Oct 2019	37.2	31.1	30.8	L+3.35%	2.0%	6.0%	Nov 2022	I/O
8	Senior	IL	Dec 2019	41.9	28.0	27.7	L+3.80%	1.8%	6.2%	Jan 2023	I/O
9	Senior	CA	Nov 2018	22.8	22.8	22.8	L+3.40%	2.3%	6.2%	Nov 2021	I/O
10	Senior	NC	Apr 2019	30.5	22.1	21.5	L+3.52%	2.3%	6.8%	May 2023	I/O
11	Subordinated	NJ	Mar 2016	17.0	17.0	16.5	12.00%	—%	12.8%	Jan 2026	I/O
12	Senior	TX	Apr 2019	28.2	15.8	15.6	L+4.05%	2.5%	7.6%	Nov 2021	I/O
13	Senior	NC	Oct 2018	13.5	8.6	8.5	L+4.00%	2.1%	6.7%	Nov 2022	I/O
14	Subordinated	CA	Nov 2017	3.1	2.9	2.9	L+8.25%	1.3%	9.7%	Nov 2021	I/O
Total Office				\$646.1	\$519.5	\$516.0					
Multifamily Loans:											
15	Senior	FL	Jun 2020	\$91.8	\$91.3	\$90.7	L+5.00%	0.8%	6.7%	Jun 2022	I/O
16	Senior	TX	Sep 2019	75.0	75.0	74.7	L+2.85%	2.0%	5.0%	Oct 2022	I/O
17	Senior	FL	Jun 2020	46.7	46.2	46.0	L+5.00%	0.8%	6.6%	Jun 2022	I/O
18	Senior	FL	Dec 2018	43.5	43.3	43.1	L+2.60%	2.4%	5.5%	Jan 2022	I/O
19	Senior	NJ	Mar 2020	41.0	41.0	40.8	L+3.05%	1.5%	4.9%	Mar 2022	I/O
20	Senior	KS	Oct 2019	35.8	35.8	35.5	L+3.25%	1.9%	5.5%	Nov 2022	I/O
21	Senior	NY	Dec 2017	30.1	30.1	30.1	L+3.20%	1.4%	4.9%	Dec 2020	I/O
22	Senior	PA	Dec 2018	30.3	29.4	29.2	L+3.00%	2.4%	5.9%	Dec 2021	I/O
23	Senior	TX	Sep 2017	27.5	27.5	27.5	L+3.20%	1.2%	4.9%	Oct 2021	I/O
24	Senior	WA	Feb 2020	19.0	18.6	18.5	L+3.00%	1.7%	5.1%	Mar 2023	I/O
25	Senior	SC	Aug 2019	34.6	9.1	8.8	L+6.50%	2.2%	10.1%	Sep 2022	I/O
Total Multifamily				\$475.3	\$447.3	\$444.9					

See footnotes on page 13.

Loans Held for Investment Portfolio Details

(\$ in millions)

(\$ in millions)

#	Loan Type	Location	Origination Date	Current Loan Commitment	Outstanding Principal	Carrying Value	Interest Rate	LIBOR Floor	Unleveraged Effective Yield ⁽¹⁰⁾	Maturity Date	Payment Terms ⁽¹⁷⁾
Hotel Loans:											
26	Senior	OR/WA	May 2018	\$68.1	\$68.1	\$67.6	L+3.45%	1.9%	4.6% ⁽¹⁸⁾	May 2021	I/O
27	Senior	Diversified	Sep 2018	64.3	60.8	60.6	L+3.60%	2.1%	6.2%	Sep 2021	I/O
28	Senior	CA	Dec 2017	40.0	40.0	40.0	L+4.12%	1.4%	5.9%	Jan 2021	I/O
29	Senior	MI	Nov 2015	34.2	34.2	34.1	L+3.95%	0.3%	4.3%	Jul 2022	I/O
30	Senior	IL	Apr 2018	32.9	32.9	32.4	L+4.40%	1.9%	—% ⁽¹⁹⁾	May 2021	I/O
Total Hotel				\$239.5	\$236.0	\$234.7					
Mixed-Use Loans:											
31	Senior	FL	Feb 2019	\$99.0	\$99.0	\$98.7	L+4.25%	2.5%	7.8%	Feb 2021	I/O
32	Senior	CA	Mar 2018	56.1	51.2	51.0	L+4.00%	1.9%	6.2%	Apr 2022	I/O
33	Senior	TX	Sep 2019	42.2	35.2	34.9	L+3.75%	2.3%	6.7%	Sep 2022	I/O
34	Senior	CA	Feb 2020	39.6	22.5	22.2	L+4.10%	1.7%	6.5%	Mar 2023	I/O
35	Subordinated	IL	May 2018	15.9	15.9	15.8	L+12.25%	1.5%	14.5%	Nov 2021	I/O
Total Mixed-Use				\$252.8	\$223.8	\$222.6					
Student Housing Loans:											
36	Senior	TX	Dec 2017	\$41.0	\$41.0	\$40.9	L+4.75%	—%	5.4%	Jan 2021	I/O
37	Senior	CA	Jun 2017	41.0	39.7	39.7	L+3.95%	1.2%	5.2%	Jul 2021	I/O
38	Senior	NC	Feb 2019	30.0	30.0	29.9	L+3.15%	2.3%	5.9%	Feb 2022	I/O
39	Senior	TX	Dec 2017	25.1	24.6	24.3	L+3.45%	1.6%	5.5%	Feb 2023	I/O
40	Senior	AL	Feb 2017	24.1	24.1	23.0	L+4.45%	0.8%	—% ⁽¹⁹⁾	Dec 2020	I/O
41	Senior	FL	Jul 2019	22.0	22.0	21.9	L+3.25%	2.3%	5.9%	Aug 2022	I/O
Total Student Housing				\$183.2	\$181.4	\$179.7					

See footnotes on page 13.

Loans Held for Investment Portfolio Details

(\$ in millions)

(\$ in millions)

#	Loan Type	Location	Origination Date	Current Loan Commitment	Outstanding Principal	Carrying Value	Interest Rate	LIBOR Floor	Unleveraged Effective Yield ⁽¹⁰⁾	Maturity Date	Payment Terms ⁽¹⁷⁾
Industrial Loans:											
42	Senior	NY	Jan 2020	\$56.5	\$49.8	\$49.6	L+5.00%	1.6%	8.3%	Feb 2021	I/O
43	Senior	NC	May 2019	40.5	34.8	34.6	L+4.05%	1.6%	5.9%	Mar 2024	I/O
44	Senior	CA	Nov 2019	26.6	21.5	21.4	L+4.50%	1.9%	7.3%	Dec 2021	I/O
45	Senior	CA	Aug 2019	19.6	13.5	13.3	L+3.75%	2.0%	6.3%	Mar 2023	I/O
Total Industrial				\$143.2	\$119.6	\$118.9					
Residential/Condominium Loans:											
46	Senior	CA	Jan 2018	\$13.7	\$13.7	\$13.7	13.00%	—%	13.0%	Feb 2021	I/O
47	Subordinated	NY	Oct 2018	16.8	16.8	16.8	L+14.00%	2.3%	18.0%	May 2021	I/O
48	Subordinated	HI	Aug 2018	11.5	11.5	11.5	14.00%	—%	17.0%	Oct 2020	I/O
Total Residential/Condominium				\$42.0	\$42.0	\$42.0					
Self Storage Loans:											
49	Senior	FL	Feb 2019	\$19.5	\$19.5	\$19.4	L+3.50%	2.0%	6.0%	Mar 2022	I/O
Total Self Storage				\$19.5	\$19.5	\$19.4					
Loan Portfolio Total/Weighted Average				\$2,001.6	\$1,789.1	\$1,778.2		1.7% ⁽²⁰⁾	6.3%		

See footnotes on page 13.

Consolidated Balance Sheets

	As of	
	September 30, 2020 (unaudited)	December 31, 2019
ASSETS		
Cash and cash equivalents	\$ 81,295	\$ 5,256
Restricted cash	—	379
Loans held for investment (\$495,167 and \$515,896 related to consolidated VIEs, respectively)	1,778,199	1,682,498
Current expected credit loss reserve	(25,454)	—
Loans held for investment, net of current expected credit loss reserve	1,752,745	1,682,498
Real estate owned, net	37,476	37,901
Other assets (\$896 and \$1,309 of interest receivable related to consolidated VIEs, respectively; \$61,833 and \$41,104 of other receivables related to consolidated VIEs, respectively)	77,542	58,100
Total assets	<u>\$ 1,949,058</u>	<u>\$ 1,784,134</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Secured funding agreements	\$ 791,136	\$ 728,589
Notes payable	57,848	54,708
Secured term loan	109,803	109,149
Collateralized loan obligation securitization debt (consolidated VIE)	443,860	443,177
Secured borrowings	54,617	—
Due to affiliate	2,670	2,761
Dividends payable	11,072	9,546
Other liabilities (\$368 and \$718 of interest payable related to consolidated VIEs, respectively)	8,703	9,865
Total liabilities	<u>1,479,709</u>	<u>1,357,795</u>
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at September 30, 2020 and December 31, 2019 and 33,441,937 and 28,865,610 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	329	283
Additional paid-in capital	497,421	423,619
Accumulated earnings (deficit)	(28,401)	2,437
Total stockholders' equity	<u>469,349</u>	<u>426,339</u>
Total liabilities and stockholders' equity	<u>\$ 1,949,058</u>	<u>\$ 1,784,134</u>

Consolidated Statements of Operations

	For the Three Months Ended				
	9/30/2020	6/30/2020	3/31/2020	12/31/2019	9/30/2019
(\$ in thousands, except share and per share data)					
Revenue:					
Interest income	\$ 30,626	\$ 29,835	\$ 31,448	\$ 28,536	\$ 28,269
Interest expense	(11,875)	(13,042)	(15,534)	(15,044)	(15,124)
Net interest margin	18,751	16,793	15,914	13,492	13,145
Revenue from real estate owned	3,623	1,189	5,220	8,088	6,702
Total revenue	22,374	17,982	21,134	21,580	19,847
Expenses:					
Management and incentive fees to affiliate	1,847	2,152	1,773	1,959	1,578
Professional fees	639	660	903	641	542
General and administrative expenses	969	959	868	1,035	1,005
General and administrative expenses reimbursed to affiliate	802	1,038	1,051	764	831
Expenses from real estate owned	4,046	3,254	6,676	7,338	6,838
Total expenses	8,303	8,063	11,271	11,737	10,794
Provision for current expected credit losses	(1,048)	(4,007)	27,117	—	—
Realized losses on loans sold	4,008	—	—	—	—
Change in unrealized losses on loans held for sale	(3,998)	3,998	—	—	—
Income (loss) before income taxes	15,109	9,928	(17,254)	9,843	9,053
Income tax expense, including excise tax	181	160	9	183	19
Net income (loss) attributable to common stockholders	<u>\$ 14,928</u>	<u>\$ 9,768</u>	<u>\$ (17,263)</u>	<u>\$ 9,660</u>	<u>\$ 9,034</u>
Earnings (loss) per common share:					
Basic earnings (loss) per common share	<u>\$ 0.45</u>	<u>\$ 0.29</u>	<u>\$ (0.54)</u>	<u>\$ 0.34</u>	<u>\$ 0.32</u>
Diluted earnings (loss) per common share	<u>\$ 0.44</u>	<u>\$ 0.29</u>	<u>\$ (0.54)</u>	<u>\$ 0.33</u>	<u>\$ 0.31</u>
Weighted average number of common shares outstanding:					
Basic weighted average shares of common stock outstanding	33,337,445	33,316,933	31,897,952	28,640,363	28,634,514
Diluted weighted average shares of common stock outstanding	33,550,444	33,539,580	31,897,952	28,872,975	28,867,603
Dividends declared per share of common stock⁽⁸⁾	<u>\$ 0.33</u>	<u>\$ 0.33</u>	<u>\$ 0.33</u>	<u>\$ 0.33</u>	<u>\$ 0.33</u>

See footnotes on page 13.

Reconciliation of Net Income to Non-GAAP Core Earnings⁽²⁾

	For the Three Months Ended				
	9/30/2020	6/30/2020	3/31/2020	12/31/2019	9/30/2019
(\$ in thousands, except per share data)					
Net income (loss) attributable to common stockholders	\$ 14,928	\$ 9,768	\$ (17,263)	\$ 9,660	\$ 9,034
Stock-based compensation	367	365	225	482	479
Incentive fees to affiliate	—	303	—	378	—
Depreciation of real estate owned	224	224	221	219	207
Provision for current expected credit losses	(1,048)	(4,007)	27,117	—	—
Change in unrealized losses on loans held for sale	(3,998)	3,998	—	—	—
Core Earnings	\$ 10,473	\$ 10,651	\$ 10,300	\$ 10,739	\$ 9,720
Net income (loss) attributable to common stockholders	\$ 0.45	\$ 0.29	\$ (0.54)	\$ 0.34	\$ 0.32
Stock-based compensation	0.01	0.01	0.01	0.02	0.02
Incentive fees to affiliate	—	0.01	—	0.01	—
Depreciation of real estate owned	0.01	0.01	0.01	0.01	0.01
Provision for current expected credit losses	(0.03)	(0.12)	0.85	—	—
Change in unrealized losses on loans held for sale	(0.12)	0.12	—	—	—
Basic Core Earnings per common share	\$ 0.31	\$ 0.32	\$ 0.32	\$ 0.38	\$ 0.34
Net income (loss) attributable to common stockholders	\$ 0.44	\$ 0.29	\$ (0.54)	\$ 0.33	\$ 0.31
Stock-based compensation	0.01	0.01	0.01	0.02	0.02
Incentive fees to affiliate	—	0.01	—	0.01	—
Depreciation of real estate owned	0.01	0.01	0.01	0.01	0.01
Provision for current expected credit losses	(0.03)	(0.12)	0.84	—	—
Change in unrealized losses on loans held for sale	(0.12)	0.12	—	—	—
Diluted Core Earnings per common share	\$ 0.31	\$ 0.32	\$ 0.32	\$ 0.37	\$ 0.34

See footnotes on page 13.

Footnotes

1. Inclusive of \$1.0 million or \$0.03 per diluted common share benefit for CECL.
2. The Company believes the disclosure of Core Earnings provides useful information to investors regarding the calculation of incentive fees the Company pays to its manager, Ares Commercial Real Estate Management LLC, and the Company's financial performance. Core Earnings is an adjusted non-GAAP measure that helps the Company evaluate its financial performance excluding the effects of certain transactions and GAAP adjustments that it believes are not necessarily indicative of its current loan origination portfolio and operations. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. Core Earnings is defined as 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), one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between the Company's manager and the Company's independent directors and after approval by a majority of the Company's independent directors.
3. Excludes impact of loans on non-accrual status as of September 30, 2020, June 30, 2020 and March 31, 2020, respectively. Including non-accrual loans, total weighted average Unleveraged Effective Yield for total loans held for investment and senior loans would be 6.3% and 5.9% for September 30, 2020, 6.4% and 6.0% for June 30, 2020 and 6.2% and 5.9% for March 31, 2020, respectively.
4. Based on September 30, 2020 ending spot one month LIBOR rate of 0.14825%.
5. As of October 28, 2020.
6. Excluding the current expected credit losses ("CECL").
7. Debt to equity ratio of 3.0x and 1.9x (recourse) including CECL reserve.
8. There is no assurance dividends will continue at these levels or at all.
9. During the quarter ended September 30, 2020.
10. 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, premiums or discounts) 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 for investment by the Company as weighted by the outstanding principal balance of each loan.
11. Based on outstanding principal balance of loans held for investment.
12. Gateway cities represent the following metro areas: San Francisco, Los Angeles, Boston-Cambridge, New York, Chicago and Washington DC.
13. Based on outstanding principal balance.
14. Represents total commitments. Ability to draw on available capacity is subject to available collateral and lender approvals.
15. Assumes exercise of extension options on financing agreements.
16. Percentage calculated based on the unpaid principal balance, excluding the CECL Reserve, of the Company's loans held for investment within each risk rating. The portfolio assessment and risk levels have been classified according to the Company's proprietary methodology on a scale of 1.0 (very low risk) to 5.0 (impaired/loss likely). Risk factors include property type, geographic and local market dynamics, physical condition, leasing and tenant profile, projected cash flow, loan structure and exit plan, loan-to-value ratio, debt service coverage ratio, project sponsorship, and other factors deemed necessary. The assumptions underlying this proprietary methodology are subject to change, may not prove to be true and actual risks may be different than the classifications presented herein. Accordingly, no representation or warranty is made in respect of this information. For more information on risk ratings, see Part I, Item 1. "Notes to Consolidated Financial Statements (unaudited)," "Note 4 - Current Expected Credit Losses" in ACRE's Quarterly Report on Form 10-Q.
17. I/O = interest only, P/I = principal and interest.
18. At origination, the Oregon/Washington loan was structured as both a senior and mezzanine loan with the Company holding both positions. The mezzanine position of this loan, which had an outstanding principal balance of \$13.1 million as of September 30, 2020, was on non-accrual status as of September 30, 2020 and therefore, the Unleveraged Effective Yield presented is for the senior position only as the mezzanine position is non-interest accruing.
19. Loan was on non-accrual status as of September 30, 2020 and therefore, there is no Unleveraged Effective Yield as the loan is non-interest accruing.
20. The weighted average floor is calculated based on loans with LIBOR floors.

