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# **Ares Commercial Real Estate Corporation – Second Quarter 2017 Earnings Presentation**

**August 3, 2017**

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# Ares Commercial Real Estate Corporation

## Second Quarter 2017 Results

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### Earnings

- Reported net income of \$6.7 million or \$0.24 per diluted common share for second quarter 2017

### Originations & Portfolio

- Originated \$320.8 million of gross new commitments for the quarter
- Investment portfolio was \$1.8 billion in originated commitments and \$1.7 billion in outstanding principal<sup>(1)</sup>
- Portfolio total weighted average unleveraged effective yield of 6.4%<sup>(2)</sup>

### Expanded Access to Capital and Liquidity

- In May 2017, amended the Wells Fargo Facility to increase the facility's commitment amount from \$325.0 million to \$500.0 million and extend the initial maturity date to December 14, 2018. The initial maturity date of the Wells Fargo Facility is subject to two 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the Wells Fargo Facility to December 14, 2020.
- In May 2017, amended the BAML Facility, which has a commitment amount of \$125.0 million, to extend the period during which the Company may request individual loans under the facility to May 24, 2018. 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. In addition, the final maturity date of individual loans was extended to May 25, 2021.
- In June 2017, amended the U.S. Bank Facility to increase the facility's commitment amount from \$125.0 million to \$186.0 million and extend the initial maturity date to July 31, 2020. The initial maturity date of the U.S. Bank Facility is subject to two 12-month extensions, each of which may be exercised at the Company's option, subject to the satisfaction of certain conditions, including payment of an extension fee, which, if both were exercised, would extend the maturity date of the U.S. Bank Facility to July 31, 2022.

### Dividends

- Paid dividend of \$0.27 per share for the second quarter of 2017

## Subsequent to Quarter-end 2017

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### Dividends

- Declared third quarter 2017 dividend of \$0.27 per share

1. The weighted average unpaid principal balance for the quarter ended June 30, 2017 was \$1.421 billion.

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 June 30, 2017 as weighted by the Outstanding Principal balance of each loan.

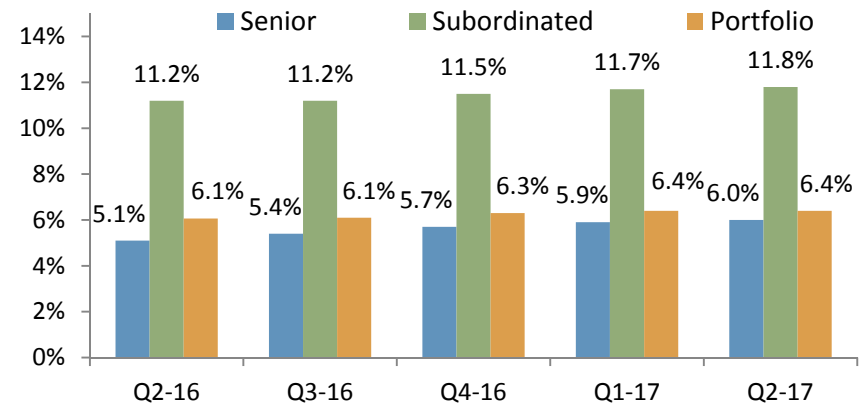


# Portfolio<sup>(1)</sup>

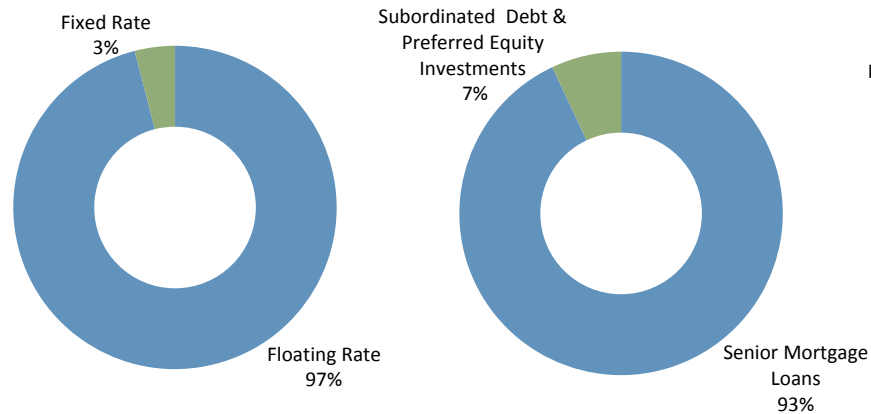
## Summary

- \$1.7 billion in outstanding principal
- Portfolio total weighted average unleveraged effective yield of 6.4%<sup>(2)</sup>
- For the \$1.5 billion of loans that have repaid since inception through second quarter 2017, the average cash flow growth on the underlying properties was in excess of 15% during our loan commitment period
- Moderate leverage – 2.9x debt to equity

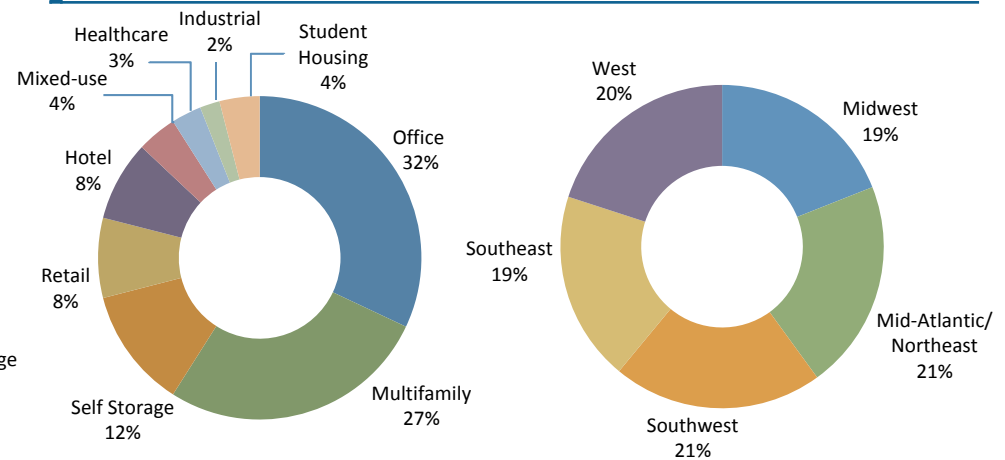
## Unleveraged Effective Yield<sup>(2)(3)</sup>



## Loan Portfolio Characteristics<sup>(3)</sup>



## Portfolio Diversification<sup>(3)</sup>

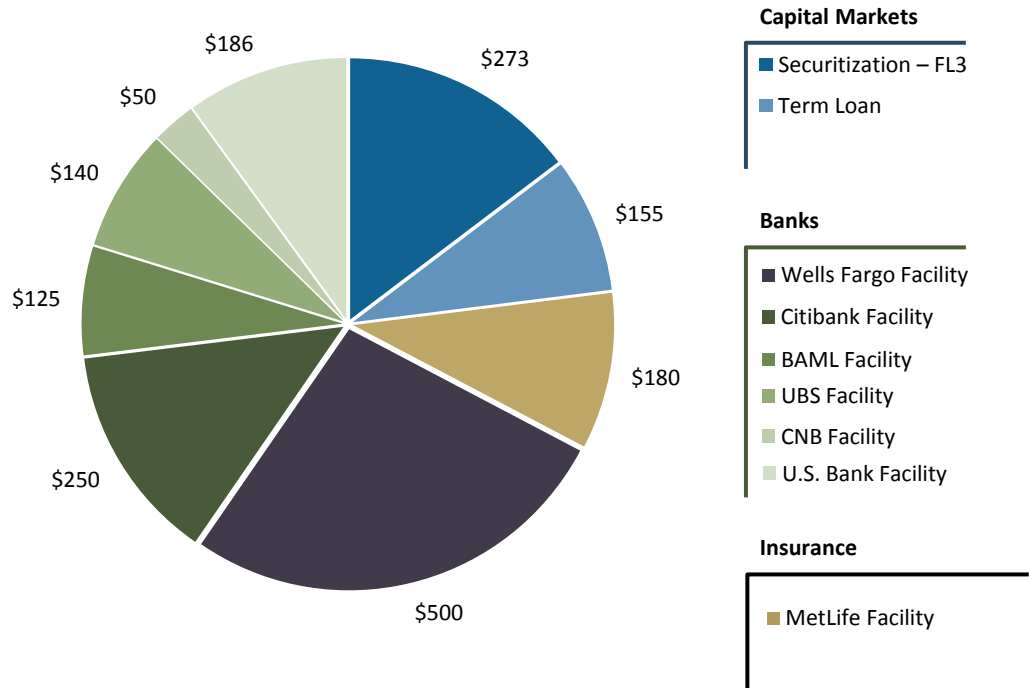


1. Data as of June 30, 2017.
2. Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premium or discount) and assumes no dispositions, early prepayments 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 June 30, 2017 as weighted by the Outstanding Principal balance of each loan.
3. Calculated based on outstanding principal balance.

# Deep Sources of Diverse Funding Enhances ACRE's Portfolio

**Diverse Sources of Liquidity from Banks, Insurance Cos, Capital Markets Providers and Private Capital<sup>(1)(2)(5)</sup>**

**Disciplined Approach to Funding**



- **Match funded**
  - Portfolio has weighted average remaining life of ~2.0 years<sup>(3)</sup>
  - The Company's financing agreements have a weighted average remaining term of ~3.0 years assuming the Company exercises available renewal options<sup>(4)</sup>
- **Diverse sources of liquidity provide additional strength to the Company's competitive position**
  - \$1.9 billion of capacity<sup>(2)</sup>

1. Dollars in millions of borrowing capacity.
2. Capacity data is as of June 30, 2017. Ability to draw on available capacity is subject to available collateral and lender approvals.
3. Data as of June 30, 2017.
4. Comprised of Secured Funding Agreements and Term Loan as of June 30, 2017 that are used for funding ACRE's loans held for investment.
5. The weighted average borrowings for the quarter ended June 30, 2017 was \$1.046 billion.

# Investment Capacity & Liquidity

## Available Capital and Liquidity for Growth

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- As of August 2, 2017, the Company had approximately \$111 million in capital, either in cash or in undrawn capacity expected to be available under its secured funding agreements
- After holding in reserve \$10 million in liquidity requirements, the Company expects to have approximately \$101 million in capital available to fund new loans, fund outstanding commitments on existing loans and for other working capital and general corporate purposes<sup>(1)</sup>
- Assuming that the Company uses all such amount as capital to make new senior loans and the Company is able to leverage such amount under its secured funding agreements at a debt-to-equity ratio of 2.5:1, the Company would have the capacity to fund approximately \$350 million of additional senior loans<sup>(1)(2)</sup>

1. As of August 2, 2017.

2. Assumes that \$10 million in capital available is held in reserve for liquidity requirement.

# Appendix

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

	As of	
	June 30, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
Cash and cash equivalents (\$8 related to consolidated VIEs as of December 31, 2016)	\$ 5,723	\$ 47,270
Restricted cash	379	375
Loans held for investment (\$341,158 and \$21,514 related to consolidated VIEs, respectively)	1,641,435	1,313,937
Other assets (\$857 and \$203 of interest receivable related to consolidated VIEs, respectively)	15,033	12,121
Total assets	<u>\$ 1,662,570</u>	<u>\$ 1,373,703</u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Secured funding agreements	\$ 809,737	\$ 780,713
Secured term loan	151,112	149,878
Collateralized loan obligation securitization debt (consolidated VIE)	270,759	—
Due to affiliate	2,625	2,699
Dividends payable	7,718	7,406
Other liabilities (\$352 of interest payable related to consolidated VIEs as of June 30, 2017)	3,637	3,334
Total liabilities	<u>1,245,588</u>	<u>944,030</u>
<b>EQUITY</b>		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at June 30, 2017 and December 31, 2016, and 28,582,690 and 28,482,756 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	283	283
Additional paid-in capital	420,251	420,056
Accumulated deficit	(3,552)	(1,310)
Total stockholders' equity	<u>416,982</u>	<u>419,029</u>
Non-controlling interests in consolidated VIEs	—	10,644
Total equity	<u>416,982</u>	<u>429,673</u>
Total liabilities and equity	<u>\$ 1,662,570</u>	<u>\$ 1,373,703</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 June 30,		For the six months ended June 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
<b>Net interest margin:</b>				
Interest income from loans held for investment	\$ 22,643	\$ 18,929	\$ 43,770	\$ 37,679
Interest expense	(12,232)	(8,415)	(23,020)	(16,940)
Net interest margin	10,411	10,514	20,750	20,739
<b>Expenses:</b>				
Management and incentive fees to affiliate	1,654	1,338	3,466	2,690
Professional fees	428	535	819	1,025
General and administrative expenses	640	686	1,282	1,409
General and administrative expenses reimbursed to affiliate	949	660	1,897	1,557
Total expenses	3,671	3,219	7,464	6,681
<b>Income from continuing operations before income taxes</b>	<b>6,740</b>	<b>7,295</b>	<b>13,286</b>	<b>14,058</b>
Income tax expense, including excise tax	27	3	95	7
<b>Net income from continuing operations</b>	<b>6,713</b>	<b>7,292</b>	<b>13,191</b>	<b>14,051</b>
Net income from operations of discontinued operations, net of income taxes	—	2,689	—	2,355
<b>Net income attributable to ACRE</b>	<b>6,713</b>	<b>9,981</b>	<b>13,191</b>	<b>16,406</b>
Less: Net income attributable to non-controlling interests	—	(1,288)	(25)	(2,577)
<b>Net income attributable to common stockholders</b>	<b>\$ 6,713</b>	<b>\$ 8,693</b>	<b>\$ 13,166</b>	<b>\$ 13,829</b>
<b>Basic earnings per common share:</b>				
Continuing operations	\$ 0.24	\$ 0.21	\$ 0.46	\$ 0.40
Discontinued operations	—	0.09	—	0.08
<b>Net income</b>	<b>\$ 0.24</b>	<b>\$ 0.31</b>	<b>\$ 0.46</b>	<b>\$ 0.49</b>
<b>Diluted earnings per common share:</b>				
Continuing operations	\$ 0.24	\$ 0.21	\$ 0.46	\$ 0.40
Discontinued operations	—	0.09	—	0.08
<b>Net income</b>	<b>\$ 0.24</b>	<b>\$ 0.31</b>	<b>\$ 0.46</b>	<b>\$ 0.48</b>
<b>Weighted average number of common shares outstanding:</b>				
Basic weighted average shares of common stock outstanding	28,475,853	28,428,703	28,472,356	28,479,015
Diluted weighted average shares of common stock outstanding	28,546,624	28,495,833	28,514,867	28,548,944
Dividends declared per share of common stock	\$ 0.27	\$ 0.26	\$ 0.54	\$ 0.52