Exantas Capital Corp.
Form 10-Q
November 07, 2018

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________

Commission File Number: 1-32733
EXANTAS CAPITAL CORP.
(Exact name of registrant as specified in its charter)

Maryland	20-2287134
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

717 Fifth Avenue, New York, New York 10022
(Address of principal executive offices) (Zip Code)

(212) 621-3210
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)
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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	þ
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

The number of outstanding shares of the registrant's common stock on November 2, 2018 was 31,660,622 shares.

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
INDEX TO QUARTERLY REPORT
ON FORM 10-Q

		PAGE
PART I		
Item 1:	Financial Statements	
	Consolidated Balance Sheets - September 30, 2018 (unaudited) and December 31, 2017	3
	Consolidated Statements of Operations (unaudited) Three and Nine Months Ended September 30, 2018 and 2017	5
	Consolidated Statements of Comprehensive Income (Loss) (unaudited) Three and Nine Months Ended September 30, 2018 and 2017	7
	Consolidated Statement of Changes in Stockholders' Equity (unaudited) Nine Months Ended September 30, 2018	8
	Consolidated Statements of Cash Flows (unaudited) Nine Months Ended September 30, 2018 and 2017	9
	Notes to Consolidated Financial Statements - September 30, 2018 (unaudited)	11
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	49
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	86
Item 4:	Controls and Procedures	87
PART II		
Item 1:	Legal Proceedings	88
Item 1A:	Risk Factors	90
Item 6:	Exhibits	90
SIGNATURES		93

(Back to Index)

(Back to Index)

PART I
ITEM 1. FINANCIAL STATEMENTS
EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS [1]		
Cash and cash equivalents	$ 48,053	$ 181,490
Restricted cash	6,580	22,874
Accrued interest receivable	7,466	6,859
CRE loans, net of allowances of $1,736 and $5,328	1,514,829	1,284,822
Investment securities available-for-sale	352,778	211,737
Principal paydowns receivable	44,300	76,129
Investments in unconsolidated entities	1,596	12,051
Derivatives, at fair value	2,665	602
Other assets	13,298	7,793
Assets held for sale (amounts include $17,000 and $61,841 of legacy CRE loans held for sale in continuing operations, see Note 20)	17,854	107,718
Total assets	$ 2,009,419	$ 1,912,075
LIABILITIES [2]		
Accounts payable and other liabilities	$ 12,793	$ 5,153
Management fee payable	938	1,035
Accrued interest payable	3,937	4,387
Borrowings	1,422,906	1,163,485
Distributions payable	6,474	5,581
Preferred stock redemption liability	—	50,000
Derivatives, at fair value	—	76
Accrued tax liability	239	540
Liabilities held for sale (see Note 20)	1,787	10,342
Total liabilities	1,449,074	1,240,599
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.001: 10,000,000 shares authorized 8.25% Series B Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share; 0 and 4,613,596 shares issued and outstanding	—	5
Preferred stock, par value $0.001: 10,000,000 shares authorized 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share; 4,800,000 and 4,800,000 shares issued and outstanding	5	5
Common stock, par value $0.001: 125,000,000 shares authorized; 31,657,420 and 31,429,892 shares issued and outstanding (including 422,592 and 483,073 unvested restricted shares)	32	31
Additional paid-in capital	1,082,344	1,187,911
Accumulated other comprehensive income	5,629	1,297
Distributions in excess of earnings	(527,665)	(517,773)
Total stockholders' equity	560,345	671,476
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,009,419	$ 1,912,075

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (Continued)
(in thousands, except share and per share data)

	September 30, 2018 (unaudited)	December 31, 2017
(1) Assets of consolidated variable interest entities ("VIEs") included in total assets above:		
Restricted cash	$ 5,504	$ 20,846
Accrued interest receivable	3,477	3,347
CRE loans, pledged as collateral and net of allowances of $927 and $1,330	780,302	603,110
Loans held for sale	—	13
Principal paydowns receivable	—	72,207
Other assets	132	73
Total assets of consolidated VIEs	$ 789,415	$ 699,596
(2) Liabilities of consolidated VIEs included in total liabilities above:		
Accounts payable and other liabilities	$ 41	$ 96
Accrued interest payable	656	592
Borrowings	548,526	416,655
Total liabilities of consolidated VIEs	$ 549,223	$ 417,343

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES				
Interest income:				
CRE loans	$26,496	$21,953	$74,314	$65,327
Securities	5,217	1,661	12,878	5,298
Other	123	369	261	2,464
Total interest income	31,836	23,983	87,453	73,089
Interest expense	17,322	13,853	47,865	42,454
Net interest income	14,514	10,130	39,588	30,635
Other revenue	25	130	82	2,022
Total revenues	14,539	10,260	39,670	32,657
OPERATING EXPENSES				
Management fees	2,813	4,924	8,438	10,242
Equity compensation	757	895	2,383	2,417
General and administrative	2,336	4,336	7,943	11,780
Depreciation and amortization	36	26	68	126
Impairment losses	—	—	—	177
(Recovery of) provision for loan and lease losses, net	(461)	(612)	(1,260)	518
Total operating expenses	5,481	9,569	17,572	25,260
	9,058	691	22,098	7,397
OTHER INCOME (EXPENSE)				
Equity in earnings of unconsolidated entities	454	41,047	231	41,290
Net realized and unrealized gain (loss) on investment securities available-for-sale and loans and derivatives	279	(1,465)	569	15,619
Net realized and unrealized (loss) gain on investment securities, trading	—	(9)	53	(970)
Fair value adjustments on financial assets held for sale	(1,588)	—	(6,244)	58
Loss on extinguishment of debt	—	(10,365)	—	(10,365)
Other income (expense)	57	(690)	574	(604)
Total other (expense) income	(798)	28,518	(4,817)	45,028
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	8,260	29,209	17,281	52,425
Income tax (expense) benefit	—	(4,464)	31	(5,938)
NET INCOME FROM CONTINUING OPERATIONS	8,260	24,745	17,312	46,487
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	364	(6,087)	161	(10,832)
NET INCOME	8,624	18,658	17,473	35,655
Net income allocated to preferred shares	(2,588)	(6,014)	(10,385)	(18,043)
Consideration paid in excess of carrying value of preferred shares	—	—	(7,482)	—
Net loss allocable to non-controlling interest, net of taxes	—	—	—	196
NET INCOME (LOSS) ALLOCABLE TO COMMON SHARES	$6,036	$12,644	$(394)	$17,808

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS - (Continued)
(in thousands, except share and per share data)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
NET INCOME (LOSS) PER COMMON SHARE - BASIC:				
CONTINUING OPERATIONS	$0.18	$ 0.61	$(0.02)	$ 0.93
DISCONTINUED OPERATIONS	$0.01	$ (0.20)	$0.01	$ (0.35)
TOTAL NET INCOME (LOSS) PER COMMON SHARE - BASIC	$0.19	$ 0.41	$(0.01)	$ 0.58
NET INCOME (LOSS) PER COMMON SHARE - DILUTED:				
CONTINUING OPERATIONS	$0.18	$ 0.61	$(0.02)	$ 0.92
DISCONTINUED OPERATIONS	$0.01	$ (0.20)	$0.01	$ (0.35)
TOTAL NET INCOME (LOSS) PER COMMON SHARE - DILUTED	$0.19	$ 0.41	$(0.01)	$ 0.57
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	31,229,969	30,957,232	31,186,057	30,810,259
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	31,477,398	31,815,152	31,186,057	31,017,108

The accompanying notes are an integral part of these statements
(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$8,624	$18,658	$17,473	$35,655
Other comprehensive income (loss):				
Reclassification adjustments for realized (gains) losses on investment securities available-for-sale included in net income	(282)	2,521	(65)	1,342
Unrealized gains (losses) on investment securities available-for-sale, net	1,871	(1,673)	1,969	(3,167)
Reclassification adjustments associated with unrealized losses from interest rate hedges included in net income	—	—	—	17
Unrealized gains on derivatives, net	824	136	2,428	211
Total other comprehensive income (loss)	2,413	984	4,332	(1,597)
Comprehensive income before allocation to non-controlling interests and preferred shares	11,037	19,642	21,805	34,058
Net income allocated to preferred shares	(2,588)	(6,014)	(10,385)	(18,043)
Consideration paid in excess of carrying value of preferred shares	—	—	(7,482)	—
Net loss allocable to non-controlling interest	—	—	—	196
Comprehensive income allocable to common shares	$8,449	$13,628	$3,938	$16,211

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(in thousands, except share data)
(unaudited)

	Common Stock		Series B Preferred Stock	Series C Preferred Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity
	Shares	Amount							
Balance, January 1, 2018	31,429,892	$ 31	$ 5	$ 5	$ 1,187,911	$ 1,297	$ —	$ (517,773)	$ 671,476
Stock-based compensation	236,387	1	—	—	—	—	—	—	1
Amortization of stock-based compensation	—	—	—	—	2,383	—	—	—	2,383
Retirement of common stock	(7,134)	—	—	—	(69)	—	—	—	(69)
Forfeiture of unvested stock	(1,725)	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	17,473	—	17,473
Distributions on preferred stock	—	—	—	—	—	—	(10,385)	—	(10,385)
Preferred stock redemption	—	—	(5)	—	(107,881)	—	(7,482)	—	(115,368)
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	1,904	—	—	1,904
Designated derivatives, fair value adjustment	—	—	—	—	—	2,428	—	—	2,428
Distributions on common stock	—	—	—	—	—	—	394	(9,892)	(9,498)
Balance, September 30, 2018	31,657,420	$ 32	$ —	$ 5	$ 1,082,344	$ 5,629	$ —	$ (527,665)	$ 560,345

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$17,473	$35,655
Net (income) loss from discontinued operations, net of tax	(161)	10,832
Net income from continuing operations	17,312	46,487
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:		
(Recovery of) provision for loan and lease losses, net	(1,260)	518
Depreciation, amortization and accretion	1,919	1,763
Amortization of stock-based compensation	2,383	2,417
Sale of and principal payments on syndicated corporate loans held for sale	69	1,433
Sale of and principal payments on investment securities, trading	241	4,493
Net realized and unrealized (gain) loss on investment securities, trading	(53)	970
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	(569)	(15,619)
Fair value adjustments on financial assets held for sale	6,244	(58)
Loss on extinguishment of debt	—	10,365
Impairment losses	—	177
Equity in earnings of unconsolidated entities	(231)	(41,290)
Return on investment from investments in unconsolidated entities	411	49,713
Changes in operating assets and liabilities	4,443	3,917
Net cash provided by continuing operating activities	30,909	65,286
Net cash provided by discontinued operating activities	329	139,430
Net cash provided by operating activities	31,238	204,716
CASH FLOWS FROM INVESTING ACTIVITIES:		
Origination and purchase of loans	(570,036)	(348,764)
Principal payments received on loans and leases	399,472	474,729
Proceeds from sale of loans	16,709	—
Purchase of investment securities available-for-sale	(149,100)	(121,887)
Principal payments on investment securities available-for-sale	14,325	33,779
Proceeds from sale of investment securities available-for-sale	48	33,347
Acquisition of the remaining interest in Life Care Funding, LLC	—	(5)
Return of capital from investments in unconsolidated entities	10,369	48,792
Proceeds from the sale of an investment in an unconsolidated entity	—	16,159
Settlement of derivative instruments	(46)	(1,416)
Net cash (used in) provided by continuing investing activities	(278,259)	134,734
Net cash provided by discontinued investing activities	29,712	18,720
Net cash (used in) provided by investing activities	(248,547)	153,454
CASH FLOWS FROM FINANCING ACTIVITIES:		

Retirement of common stock	(69)	(98)
Repurchase of preferred stock	(165,340)	—
Net proceeds from (repayments of) repurchase agreements	126,740	(13,824)
Proceeds from borrowings:		
Securitizations	397,452	251,449
Convertible senior notes	—	121,589
Payments on borrowings:		
Securitizations	(262,576)	(266,378)
Convertible senior notes	—	(108,690)
Payment of debt issuance costs	(9,640)	(8,253)
Distributions paid on preferred stock	(12,670)	(18,043)
Distributions paid on common stock	(6,319)	(4,685)

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(in thousands)
(unaudited)

	For the Nine Months Ended September 30,	
	2018	2017
Net cash provided by (used in) continuing financing activities	67,578	(46,933)
Net cash used in discontinued financing activities	—	(133,139)
Net cash provided by (used in) financing activities	67,578	(180,072)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(149,731)	178,098
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT BEGINNING OF PERIOD	204,364	119,425
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$54,633	$297,523
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	$41,341	$38,062
Income taxes paid in cash	$—	$517

The accompanying notes are an integral part of these statements

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(unaudited)

NOTE 1 - ORGANIZATION

Exantas Capital Corp., a Maryland corporation, and its subsidiaries (collectively, the "Company") (formerly known as Resource Capital Corp.) is a real estate investment trust ("REIT") that is primarily focused on originating, holding and managing commercial mortgage loans and commercial real estate-related debt investments. The Company is externally managed by Exantas Capital Manager Inc. (the "Manager") (formerly known as Resource Capital Manager, Inc.), which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC ("C-III"), a leading commercial real estate ("CRE") investment management and services company engaged in a broad range of activities. C-III is the beneficial owner of approximately 2.4% of the Company's outstanding common shares at September 30, 2018.

The Company has qualified, and expects to qualify in the current fiscal year, as a REIT.

In November 2016, the Company received approval from its board of directors (the "Board") to execute a strategic plan (the "Plan") to focus its strategy on CRE debt investments. The Plan contemplates disposing of certain loans underwritten prior to 2010 ("legacy CRE loans"), exiting underperforming non-core asset classes (residential real estate-related assets and commercial finance assets) and establishing a dividend policy based on sustainable earnings. As a result, the Company evaluated its residential mortgage and middle market lending segments' assets and liabilities and determined both met all of the criteria to be classified as held for sale in the fourth quarter of 2016. As a result of the reclassification, these segments are reported as discontinued operations and have been excluded from continuing operations. See Note 20 for further discussion.

The Company conducts its operations through the use of subsidiaries that it consolidates into its financial statements. The Company's core assets are consolidated through its investment in RCC Real Estate, Inc. ("RCC Real Estate"), a wholly-owned subsidiary that holds CRE loans, CRE-related securities and investments in CRE securitizations, which are consolidated as VIEs, as discussed in Note 3. Additionally, the Company consolidates investments in wholly and partially-owned qualifying REIT subsidiaries and taxable REIT subsidiaries ("TRS") that historically held whole and partially-owned equity investments in collateralized debt obligations ("CDOs"), collateralized loan obligations ("CLOs"), investments in asset-backed securities ("ABS"), an asset management service provider, life settlement contracts, middle market secured corporate loans, residential mortgage loans, residential mortgage-backed securities ("RMBS") and syndicated corporate loans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and the accounting policies set forth in Note 2 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The consolidated financial statements include the accounts of the Company, majority-owned or controlled subsidiaries and VIEs for which the Company is considered the primary beneficiary. All inter-company transactions and balances have been eliminated in consolidation.

Basis of Presentation

All adjustments necessary to present fairly the Company's financial position, results of operations and cash flows have been made.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments with original maturities of three months or less at the time of purchase. At September 30, 2018 and December 31, 2017, approximately $45.5 million and $177.5 million, respectively, of the reported cash balances exceeded the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation deposit insurance limits of $250,000 per respective depository or brokerage institution. However, all of the Company's cash deposits are held at multiple, established financial

institutions to minimize credit risk exposure.
Restricted cash includes required account balance minimums primarily for the Company's CRE CDO securitizations and derivative instruments as well as cash held in the syndicated corporate loan CDOs.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The following table provides a reconciliation of cash, cash equivalents and restricted cash on the consolidated balance sheets to the total amount shown on the consolidated statements of cash flows (dollars in thousands):

	September 30,	
	2018	2017
Cash and cash equivalents	$48,053	$282,984
Restricted cash	6,580	14,539
Total cash, cash equivalents and restricted cash shown on the Company's consolidated statements of cash flows	$54,633	$297,523

Preferred Equity Investment

Preferred equity investments, which are subordinate to any loans but senior to common equity, depending on the investment's characteristics, may be accounted for as real estate, joint ventures or as mortgage loans. The Company's preferred equity investment is accounted for as a CRE loan held for investment, is carried at cost, net of unamortized loan fees and origination costs, and is included within CRE loans on the Company's consolidated balance sheets. The Company accretes or amortizes any discounts or premiums over the life of the related loan utilizing the effective interest method. Interest and fees are recognized as income subject to recoverability, which is substantiated by obtaining annual appraisals on the underlying property.

Discontinued Operations

The results of operations of a component or a group of components of the Company that either has been disposed of or is classified as held for sale is reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results.

Income Taxes

The Company recorded a full valuation allowance against its net deferred tax assets of approximately $10.0 million at September 30, 2018 as the Company believes it is more likely than not that the deferred tax assets will not be realized. This assessment was based on the Company's cumulative historical losses and uncertainties as to the amount of taxable income that would be generated in future years by the Company's TRSs.

Recent Accounting Standards

Accounting Standards Adopted in 2018

In May 2017, the Financial Accounting Standards Board ("FASB") issued guidance to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Modification accounting should be applied unless all of the following three criteria are met: (i) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (ii) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (iii) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. Adoption did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance provides a screen to determine when an integrated set of assets and activities (a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, the guidance requires that: (i) to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output and (ii) remove the evaluation of whether a market participant could replace missing elements. The guidance also narrows the definition of an output to: the result of inputs and processes applied to those inputs that provide goods or services to customers, investment income (such as dividends or interest),

or other revenues. Adoption did not have a material impact on the Company's consolidated financial statements.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

In November 2016, the FASB issued guidance to reduce the diversity in practice of the classification and presentation of changes in restricted cash on the statement of cash flows. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Adoption did not have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued guidance to reduce the diversity in practice around the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. The guidance addresses the following eight specific cash flow issues: (i) debt prepayments or extinguishment costs; (ii) contingent consideration payments made after a business combination; (iii) proceeds from the settlement of insurance claims; (iv) proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); (v) settlement of zero-coupon debt instruments or other debt instruments with insignificant coupon rates; (vi) distributions received from equity method investees; (vii) beneficial interests in securitization transactions and (viii) separately identifiable cash flows and application of the predominance principle. Adoption did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued guidance to address certain aspects of the recognition, measurement, presentation and disclosure of financial instruments in order to provide users of financial statements with more decision-useful information. The guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements, and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. Adoption did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance that establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. At issuance, the guidance was effective for the first interim or annual period beginning after December 15, 2016. In August 2015, the FASB issued additional guidance that delayed the previous effective date by one year, resulting in the original guidance becoming effective for the first interim or annual period beginning after December 15, 2017. In 2016, the FASB issued multiple amendments to the accounting standard to provide further clarification. Exclusions from the scope of this guidance include revenues resulting from loans, investment securities available-for-sale, investment securities, trading, investments in unconsolidated entities and leases. The Company evaluated the applicability of this guidance, considering the scope exceptions, and determined that adoption did not have a material impact on its consolidated financial statements.

Accounting Standards to be Adopted in Future Periods

In August 2018, the FASB issued guidance to modify the fair value measurement disclosure requirements, including: disclosures on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, the policy for timing of transfers between levels and the narrative description of measurement uncertainty. The guidance is effective for annual reporting periods beginning

after December 15, 2019, and interim periods within that reporting period. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance.

In June 2018, the FASB issued guidance to simplify the accounting for share-based payment transactions for acquiring goods and services from nonemployees by including these payments in the scope of the guidance for share-based payments to employees. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company evaluated the applicability of this guidance and determined that, currently, adoption does not have a material impact on its consolidated financial statements.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

In February 2018, the FASB issued guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company evaluated the applicability of this guidance and determined that, currently, adoption does not have a material impact on its consolidated financial statements.

In August 2017, the FASB issued guidance to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities. Additionally, the guidance simplifies the application of the hedge accounting guidance via certain targeted improvements. In October 2018, the FASB updated the guidance to add a benchmark interest rate permitted for hedge accounting purposes. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company evaluated the applicability of this guidance and determined that, currently, adoption does not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued guidance to add the Securities and Exchange Commission ("SEC") Staff Announcement "Disclosure of the Impact that Recently Issued Accounting Standards will have on the Financial Statements of a Registrant when such Standards are Adopted in a Future Period (in accordance with Staff Accounting Bulletin Topic 11.M)." The announcement applies to the May 2014 guidance on revenue recognition from contracts with customers, the February 2016 guidance on leases and the June 2016 guidance on how credit losses for financial assets at amortized cost and certain other instruments that are measured at fair value through net income are determined. The announcement provides the SEC staff view that a registrant should evaluate certain recent accounting standards that have not yet been adopted to determine appropriate financial statement disclosures about the potential material effects of those recent accounting standards. If a registrant does not know or cannot reasonably estimate the impact that adoption of the recent accounting standards referenced in this announcement is expected to have on the financial statements, then the registrant should make a statement to that effect and consider the additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact that the recent accounting standards will have on the financial statements of the registrant when adopted. The Company completed its assessment under the new guidance on revenue recognition from contracts with customers, see "Accounting Standards Adopted in 2018." The Company is currently evaluating the impact of this guidance on leases and the measurement of credit losses on financial instruments and its impact on its consolidated financial statements.

In June 2016, the FASB issued guidance which will change how credit losses for most financial assets and certain other instruments that are measured at fair value through net income are determined. The new guidance will replace the current incurred loss approach with an expected loss model for instruments measured at amortized cost. For available-for-sale debt securities, the guidance requires recording allowances rather than reducing the carrying amount, as it is currently under the other-than-temporary impairment model. It also simplifies the accounting model for credit-impaired debt securities and loans. This guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within that reporting period, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued guidance requiring lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting will remain largely unchanged. The guidance will also require new qualitative and quantitative disclosures to help financial statement users better understand the timing, amount and uncertainty of cash flows arising from leases. This guidance will be effective for reporting periods beginning on or after December 15, 2018, and interim periods within that reporting period. Early adoption is permitted. The Company evaluated the applicability of this guidance and determined that, currently, adoption does not have a material impact on its

consolidated financial statements.
Reclassifications
Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation, including the reclassification of investment securities, trading, loans held for sale and direct financing leases to other assets on the consolidated balance sheets. These reclassifications had no effect on the reported consolidated statements of operations.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 3 - VARIABLE INTEREST ENTITIES

The Company has evaluated its securities, loans, investments in unconsolidated entities, liabilities to subsidiary trusts issuing preferred securities (consisting of unsecured junior subordinated notes), securitizations, guarantees and other financial contracts in order to determine if they are variable interests in VIEs. The Company regularly monitors these legal interests and contracts and, to the extent it has determined that it has a variable interest, analyzes the related entity for potential consolidation.

Consolidated VIEs (the Company is the primary beneficiary)

Based on management's analysis, the Company was the primary beneficiary of six and seven VIEs at September 30, 2018 and December 31, 2017, respectively (collectively, the "Consolidated VIEs").

The Consolidated VIEs are CRE securitizations, CDOs and CLOs that were formed on behalf of the Company to invest in real estate-related securities, commercial mortgage-backed securities ("CMBS"), syndicated corporate loans, corporate bonds and ABS and were financed by the issuance of debt securities. The Manager and C-III Asset Management LLC ("C3AM"), a subsidiary of C-III, manage the CRE-related entities. By financing these assets with long-term borrowings through the issuance of debt securities, the Company seeks to generate attractive risk-adjusted equity returns and to match the term of its assets and liabilities. The primary beneficiary determination for each of these VIEs was made at each VIE's inception and is continually assessed.

The Company has exposure to losses on its securitizations to the extent of its investments in the subordinated debt and preferred equity of each securitization. The Company is entitled to receive payments of principal and interest on the debt securities it holds and, to the extent revenues exceed debt service requirements and other expenses of the securitizations, distributions with respect to its preferred equity interests. As a result of consolidation, the debt and equity interests the Company holds in these securitizations have been eliminated, and the Company's consolidated balance sheets reflect the assets held, debt issued by the securitizations to third parties and any accrued payables to third parties. The Company's operating results and cash flows include the gross amounts related to the securitizations' assets and liabilities as opposed to the Company's net economic interests in the securitizations. Assets and liabilities related to the securitizations are disclosed, in the aggregate, on the Company's consolidated balance sheets. For a discussion of the debt issued through the securitizations see Note 9.

Creditors of the Company's Consolidated VIEs have no recourse to the general credit of the Company, nor to each other. During the three and nine months ended September 30, 2018 and 2017, the Company did not provide any financial support to any of its VIEs nor does it have any requirement to do so, although it may choose to do so in the future to maximize future cash flows on such investments by the Company. There are no explicit arrangements that obligate the Company to provide financial support to any of its Consolidated VIEs.

The following table shows the classification and carrying values of assets and liabilities of the Company's Consolidated VIEs at September 30, 2018 (in thousands):

	CRE Securitizations	Other	Total
ASSETS			
Restricted cash	$ 5,000	$ 504	$ 5,504
Accrued interest receivable	3,477	—	3,477
CRE loans, pledged as collateral	780,302	—	780,302
Other assets	132	—	132
Total assets [(1)]	$ 788,911	$ 504	$ 789,415
LIABILITIES			
Accounts payable and other liabilities	$ 41	$ —	$ 41

Accrued interest payable	656	—	656
Borrowings	548,526	—	548,526
Total liabilities	$ 549,223	$—	$549,223

(1) Assets of each of the Consolidated VIEs may only be used to settle the obligations of each respective VIE.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

Unconsolidated VIEs (the Company is not the primary beneficiary, but has a variable interest)

Based on management's analysis, the Company is not the primary beneficiary of the VIEs discussed below since it does not have both (i) the power to direct the activities that most significantly impact the VIE's economic performance and (ii) the obligation to absorb the losses of the VIE or the right to receive the benefits from the VIE, which could be significant to the VIE. Accordingly, the following VIEs are not consolidated in the Company's financial statements at September 30, 2018. The Company's maximum exposure to risk for each of these unconsolidated VIEs is set forth in the "Maximum Exposure to Loss" column in the table below.

Unsecured Junior Subordinated Debentures

The Company has a 100% interest in the common shares of Resource Capital Trust I ("RCT I") and RCC Trust II ("RCT II"), respectively, with a value of $1.5 million in the aggregate, or 3% of each trust, at September 30, 2018. RCT I and RCT II were formed for the purposes of providing debt financing to the Company. The Company completed a qualitative analysis to determine whether or not it is the primary beneficiary of each of the trusts and determined that it was not the primary beneficiary of either trust because it does not have the power to direct the activities most significant to the trusts, which include the collection of principal and interest and protection of collateral through servicing rights. Accordingly, neither trust is consolidated into the Company's consolidated financial statements.

The Company records its investments in RCT I and RCT II's common shares of $774,000 each as investments in unconsolidated entities using the cost method, recording dividend income when declared by RCT I and RCT II. The trusts each hold subordinated debentures for which the Company is the obligor in the amount of $25.8 million for each of RCT I and RCT II. The debentures were funded by the issuance of trust preferred securities of RCT I and RCT II. The Company will continuously reassess whether it is deemed to be the primary beneficiary of the trusts.

Wells Fargo Commercial Mortgage Trust 2017-C40

In October 2017, the Company purchased 95% of the Class E, F, G, H and J certificates of Wells Fargo Commercial Mortgage Trust 2017-C40 ("C40"), a B-piece investment in a Wells Fargo Commercial Mortgage Securities, Inc., private-label, $705.4 million securitization. C3AM, a related party that is not under common control, is the special servicer of C40. The Company determined that although its investment in C40 represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounts for its various investments in C40 as investment securities available-for-sale on its consolidated financial statements.

Prospect Hackensack JV LLC

In March 2018, the Company invested $19.2 million in the preferred equity of Prospect Hackensack JV LLC ("Prospect Hackensack"), a joint venture between the Company and an unrelated third party ("Managing Member"). Prospect Hackensack was formed for the purpose of acquiring and operating a multifamily CRE property. The Managing Member manages the daily operations of the property. The Company determined that although its investment in Prospect Hackensack represented a variable interest, its investment did not provide the Company with a controlling financial interest. The Company accounts for its investment in Prospect Hackensack's preferred equity as a CRE loan on its consolidated financial statements.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The following table shows the classification, carrying value and maximum exposure to loss with respect to the Company's unconsolidated VIEs at September 30, 2018 (in thousands):

	Unsecured Junior Subordinated Debentures	C40	Prospect Hackensack	Total	Maximum Exposure to Loss
ASSETS					
Accrued interest receivable	$ 33	$ 172	$ —	$ 205	$ —
CRE loans	—	—	19,372	19,372	$ 19,372
Investment securities available-for-sale [1]	—	21,465	—	21,465	$ 21,117
Investments in unconsolidated entities	1,548	—	—	1,548	$ 1,548
Total assets	1,581	21,637	19,372	42,590	
LIABILITIES					
Accrued interest payable	693	—	—	693	N/A
Borrowings	51,548	—	—	51,548	N/A
Total liabilities	52,241	—	—	52,241	N/A
Net (liability) asset	$ (50,660)	$ 21,637	$ 19,372	$ (9,651)	N/A

(1) The Company's investment in C40 is carried at fair value and its maximum exposure to loss is the amortized cost of the investment.

At September 30, 2018, there were no explicit arrangements or implicit variable interests that could require the Company to provide financial support to any of its unconsolidated VIEs.

NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes the Company's supplemental disclosure of cash flow information (in thousands):

	For the Nine Months Ended September 30,	
	2018	2017
Non-cash continuing financing activities include the following:		
Proceeds from the private exchange of convertible senior notes	$ —	$ 22,161
Payments on the private exchange of convertible senior notes	$ —	$ (22,161)
Distributions on common stock accrued but not paid	$ 4,749	$ 1,566
Distribution on preferred stock accrued but not paid	$ 1,725	$ 4,010

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 5 - LOANS
The following is a summary of the Company's loans (dollars in thousands, except amounts in footnotes):

Description	Quantity	Principal	Unamortized (Discount) Premium, net (1)	Amortized Cost	Allowance for Loan Losses	Carrying Value (2)	Contractual Interest Rates (3)	Maturity Dates (4)(5)(6)
At September 30, 2018: CRE loans held for investment:								
Whole loans (7)(8)	78	$1,501,076	$ (8,583)	$1,492,493	$ (1,736)	$1,490,757	1M LIBOR plus 2.50% to 1M LIBOR plus 6.25%	November 2018 to October 2021
Mezzanine loan	1	4,700	—	4,700	—	4,700	10.00%	June 2028
Preferred equity investment (see Note 3) (9)(10)	1	19,545	(173)	19,372	—	19,372	11.50%	April 2025
Total CRE loans held for investment		1,525,321	(8,756)	1,516,565	(1,736)	1,514,829		
Total loans		$1,525,321	$ (8,756)	$1,516,565	$ (1,736)	$1,514,829		
At December 31, 2017: CRE loans held for investment:								
Whole loans (7)	70	$1,297,164	$ (7,014)	$1,290,150	$ (5,328)	$1,284,822	1M LIBOR plus 3.60% to 1M LIBOR plus 6.25%	February 2018 to January 2021
Total CRE loans held for investment		1,297,164	(7,014)	1,290,150	(5,328)	1,284,822		
Total loans		$1,297,164	$ (7,014)	$1,290,150	$ (5,328)	$1,284,822		

(1) Amounts include unamortized loan origination fees of $8.5 million and $6.7 million and deferred amendment fees of $295,000 and $268,000 being amortized over the life of the loans at September 30, 2018 and December 31, 2017, respectively.

(2)

Substantially all loans are pledged as collateral under various borrowings at September 30, 2018 and December 31, 2017.

(3) LIBOR refers to the London Interbank Offered Rate.

(4) Maturity dates exclude contractual extension options, subject to the satisfaction of certain terms, that may be available to the borrowers.

(5) Maturity dates exclude one whole loan, with an amortized cost of $7.0 million, in default at December 31, 2017.

(6) Maturity dates exclude one whole loan, with an amortized cost of $11.5 million, in maturity default and performing with respect to debt service due in accordance with a forbearance agreement at September 30, 2018. The loan was classified as an asset held for sale and in maturity default at December 31, 2017.

(7) Whole loans had $92.2 million and $84.1 million in unfunded loan commitments at September 30, 2018 and December 31, 2017, respectively. These unfunded loan commitments are advanced as the borrowers formally request additional funding, as permitted under the loan agreement, and any necessary approvals have been obtained.

(8) At June 30, 2018, two legacy CRE loans with amortized costs of $28.3 million were reclassified to whole loans from assets held for sale as the Company now intends to hold these loans to maturity.

(9) The interest rate on the Company's preferred equity investment pays currently at 8.00%. The remaining interest is deferred until maturity.

(10) Beginning in April 2023, the Company has the right to unilaterally force the sale of the underlying property.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The following is a summary of the contractual maturities, assuming full exercise of the extension options available to the borrowers, of the Company's CRE loans held for investment, at amortized cost (in thousands, except amounts in footnotes):

Description	2018	2019	2020 and Thereafter	Total
At September 30, 2018:				
Whole loans [1]	$ —	$80,830	$1,400,147	$1,480,977
Mezzanine loan	—	—	4,700	4,700
Preferred equity investment	—	—	19,372	19,372
Total CRE loans[1][2]	$ —	$80,830	$1,424,219	$1,505,049

Description	2018	2019	2020 and Thereafter	Total
At December 31, 2017:				
Whole loans [2]	$ —	$148,622	$1,134,528	$1,283,150

(1) Excludes one whole loan, with an amortized cost of $11.5 million, in maturity default and performing with respect to debt service due in accordance with a forbearance agreement at September 30, 2018. The loan was classified as an asset held for sale and in maturity default at December 31, 2017.
(2) Excludes one whole loan, with an amortized cost of $7.0 million, in default at December 31, 2017.

At September 30, 2018, approximately 33.1%, 20.9% and 20.1% of the Company's CRE loan portfolio was concentrated in the Southwest, Pacific and Mountain regions, respectively, based on carrying value, as defined by the National Council of Real Estate Investment Fiduciaries ("NCREIF"). At December 31, 2017, approximately 28.0%, 24.3%, and 12.5% of the Company's CRE loan portfolio was concentrated in the Southwest, Pacific and Mountain regions, respectively, based on carrying value.

Principal Paydowns Receivable

Principal paydowns receivable represents loan principal payments that have been received by the Company's servicers and trustees but have not been remitted to the Company. At September 30, 2018, the Company had $44.3 million of loan principal paydowns receivable, all of which was received in cash by the Company in October 2018. At December 31, 2017, the Company had $75.9 million of loan principal paydowns receivable, all of which was received in cash by the Company in January 2018.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 6 - FINANCING RECEIVABLES

The following tables show the activity in the allowance for loan losses for the nine months ended September 30, 2018 and year ended December 31, 2017 and the allowance for loan losses and recorded investments in loans at September 30, 2018 and December 31, 2017 (in thousands):

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
	Commercial Real Estate Loans	Commercial Real Estate Loans
Allowance for loan losses:		
Allowance for loan losses at beginning of period	$5,328	$3,829
(Recovery of) provision for loan losses, net	(1,260)	1,499
Loans charged-off	(2,332)	—
Allowance for loan losses at end of period	$1,736	$5,328

	September 30, 2018	December 31, 2017
	Commercial Real Estate Loans	Commercial Real Estate Loans
Allowance for loan losses ending balance:		
Individually evaluated for impairment	$—	$2,500
Collectively evaluated for impairment	$1,736	$2,828
Loans:		
Amortized cost ending balance:		
Individually evaluated for impairment	$24,072	$7,000
Collectively evaluated for impairment	$1,492,493	$1,283,150

Credit quality indicators

Commercial Real Estate Loans

CRE loans are collateralized by a diversified mix of real estate properties and are assessed for credit quality based on the collective evaluation of several factors, including but not limited to: collateral performance relative to underwritten plan, time since origination, current implied and/or reunderwritten loan-to-collateral value ratios, loan structure and exit plan. Depending on the loan's performance against these various factors, loans are rated on a scale from 1 to 5, with loans rated 1 representing loans with the highest credit quality and loans rated 5 representing loans with lowest credit quality. The factors evaluated provide general criteria to monitor credit migration in the Company's loan portfolio; as such, a loan's rating may improve or worsen, depending on new information received.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The criteria set forth below should be used as general guidelines and, therefore, not every loan will have all of the characteristics described in each category below. Loans that are performing according to their underwritten plans generally will not require an allowance for loan loss.

Risk Rating	Risk Characteristics
1	• Property performance has surpassed underwritten expectations. • Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix.
2	• Property performance is consistent with underwritten expectations and covenants and performance criteria are being met or exceeded. • Occupancy is stabilized, near stabilized or is on track with underwriting.
3	• Property performance lags behind underwritten expectations. • Occupancy is not stabilized and the property has some tenancy rollover.
4	• Property performance significantly lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. • Occupancy is not stabilized and the property has a large amount of tenancy rollover.
5	• Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Expected sale proceeds would not be sufficient to pay off the loan at maturity. • The property has a material vacancy rate and significant rollover of remaining tenants. • An updated appraisal is required.

All CRE loans are evaluated for any credit deterioration by debt asset management and certain finance personnel on at least a quarterly basis.

Whole loans are first individually evaluated for impairment; and to the extent not deemed impaired, a general reserve is established.

The allowance for loan loss is computed as (i) 1.5% of the aggregate face values of loans rated as a 3, plus (ii) 5.0% of the aggregate face values of loans rated as a 4, plus (iii) specific allowances measured and determined on loans individually evaluated, which are loans rated as a 5. While the overall risk rating is generally not the sole factor used in determining whether a loan is impaired, a loan with a higher overall risk rating would tend to have more adverse indicators of impairment, and therefore would be more likely to experience a credit loss.

The Company's mezzanine loan and preferred equity investment are evaluated individually for impairment.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

Credit risk profiles of CRE loans at amortized cost and legacy CRE loans held for sale at the lower of cost or fair value were as follows (in thousands, except amounts in footnotes):

	Rating 1	Rating 2	Rating 3 (1)	Rating 4	Rating 5 (2)	Held for Sale (3)	Total
At September 30, 2018:							
Whole loans	$—	$1,376,836	$110,808	$4,849	$—	$—	$1,492,493
Mezzanine loan (4)	—	4,700	—	—	—	—	4,700
Preferred equity investment (4)	—	19,372	—	—	—	—	19,372
Legacy CRE loans held for sale	—	—	—	—	—	17,000	17,000
	$—	$1,400,908	$110,808	$4,849	$—	$17,000	$1,533,565
At December 31, 2017:							
Whole loans	$65,589	$1,040,883	$171,841	$4,837	$7,000	$—	$1,290,150
Legacy CRE loans held for sale	—	—	—	—	—	61,841	61,841
	$65,589	$1,040,883	$171,841	$4,837	$7,000	$61,841	$1,351,991

(1) Includes one whole loan, with an amortized cost of $11.5 million, that was in maturity default at September 30, 2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at September 30, 2018.
(2) Includes one whole loan, with an amortized cost of $7.0 million, that was in default at December 31, 2017.
(3) Includes one and two legacy CRE loans that were in default with total carrying values of $17.0 million and $22.5 million at September 30, 2018 and December 31, 2017, respectively.
(4) The Company's mezzanine loan and preferred equity investment are evaluated individually for impairment.

At December 31, 2017, the Company had one CRE whole loan designated as an impaired loan with a risk rating of 5 due to short term vacancy/tenant concerns and a past due maturity of February 2017. The loan had an amortized cost of $7.0 million and a carrying value of $4.5 million at December 31, 2017. In September 2018, the note was sold for $4.7 million.

Except as previously discussed, all of the Company's CRE loans, its mezzanine loan and its preferred equity investment were current with respect to contractual principal and interest at September 30, 2018.

Loan Portfolios Aging Analysis

The following table presents the CRE loan portfolio aging analysis as of the dates indicated for CRE loans at amortized cost and legacy CRE loans held for sale at the lower of cost or fair value (in thousands, except amounts in footnotes):

	30-59 Days	60-89 Days	Greater than 90 Days (1)(2)	Total Past Due (3)	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing (2)
At September 30, 2018:							
Whole loans	$—	$ —	$11,516	$11,516	$1,480,977	$1,492,493	$ 11,516
Mezzanine loan	—	—	—	—	4,700	4,700	—
Preferred equity investment	—	—	—	—	19,372	19,372	—
Legacy CRE loans held for sale	—	—	17,000	17,000	—	17,000	—
Total loans	$—	$ —	$28,516	$28,516	$1,505,049	$1,533,565	$ 11,516

At December 31, 2017:							
Whole loans	$—	$ —	$7,000	$7,000	$1,283,150	$1,290,150	$ —
Legacy CRE loans held for sale	11,516	—	11,000	22,516	39,325	61,841	—
Total loans	$11,516	$ —	$18,000	$29,516	$1,322,475	$1,351,991	$ —

(1) Includes one whole loan, with an amortized cost of $7.0 million, that was in default at December 31, 2017.

(2) Includes one whole loan, with an amortized cost of $11.5 million, that was in maturity default at September 30, 2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at September 30, 2018.

(3) Includes one and two legacy CRE loans that were in default with total carrying values of $17.0 million and $22.5 million at September 30, 2018 and December 31, 2017, respectively.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

Impaired Loans
The following tables show impaired loans at December 31, 2017 (in thousands):

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Whole loans	$ —	$ —	$ —	$ —	$ —
Loans with a specific valuation allowance:					
Whole loans	$ 7,000	$ 7,000	$ (2,500)	$ 7,000	$ —
Total:					
Whole loans	$ 7,000	$ 7,000	$ (2,500)	$ 7,000	$ —

The Company did not have any impaired loans at September 30, 2018.
Troubled-Debt Restructurings ("TDR")
There were no TDRs for the nine months ended September 30, 2018 and 2017.

NOTE 7 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE
The following table summarizes the Company's investment securities available-for-sale, including those pledged as collateral. As of December 31, 2017, ABS may include, but are not limited to, the Company's investments in securities backed by syndicated corporate loans and other loan obligations. Investment securities available-for-sale are carried at fair value (in thousands, except amounts in the footnote):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value [1]
At September 30, 2018:				
CMBS	$ 350,179	$ 3,755	$ (1,156)	$ 352,778
Total	$ 350,179	$ 3,755	$ (1,156)	$ 352,778
At December 31, 2017:				
CMBS	$ 210,806	$ 1,947	$ (1,174)	$ 211,579
ABS	259	—	(101)	158
Total	$ 211,065	$ 1,947	$ (1,275)	$ 211,737

(1) At September 30, 2018 and December 31, 2017, $325.7 million and $169.6 million, respectively, of investment securities available-for-sale were pledged as collateral under related financings.

The following table summarizes the estimated payoff dates of the Company's investment securities available-for-sale according to their estimated weighted average life classifications (in thousands, except percentages):

	September 30, 2018			December 31, 2017		
	Amortized Cost	Fair Value	Weighted Average Coupon	Amortized Cost	Fair Value	Weighted Average Coupon
Less than one year [1]	$126,349	$126,749	5.40%	$25,475	$25,275	5.55%
Greater than one year and less than five years	70,778	70,976	5.10%	126,273	127,104	4.65%
Greater than five years and less than ten years	153,052	155,053	3.83%	59,317	59,358	3.53%
Total	$350,179	$352,778	4.65%	$211,065	$211,737	4.45%

(1) The Company expects that the payoff dates of these CMBS and ABS will either be extended or that the securities will be paid off in full.

At September 30, 2018, the contractual maturities of the CMBS investment securities available-for-sale range from June 2022 to August 2061.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The following table summarizes the fair value, gross unrealized losses and number of securities aggregated by investment category and the length of time that individual investment securities available-for-sale have been in a continuous unrealized loss position during the periods specified (in thousands, except number of securities):

	Less than 12 Months			More than 12 Months			Total		
	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities
At September 30, 2018:									
CMBS	$39,398	$ (350)	11	$6,286	$ (806)	6	$45,684	$ (1,156)	17
Total temporarily impaired securities	$39,398	$ (350)	11	$6,286	$ (806)	6	$45,684	$ (1,156)	17
At December 31, 2017:									
CMBS	$49,016	$ (888)	12	$1,308	$ (286)	4	$50,324	$ (1,174)	16
ABS	158	(101)	1	—	—	—	158	(101)	1
Total temporarily impaired securities	$49,174	$ (989)	13	$1,308	$ (286)	4	$50,482	$ (1,275)	17

The unrealized losses in the above table are considered to be temporary impairments due to market factors and are not reflective of credit deterioration.

The Company recognized no other-than-temporary impairments on its investment securities available-for-sale for the three and nine months ended September 30, 2018 and 2017.

The following table summarizes the Company's sales of investment securities available-for-sale (in thousands, except positions sold and redeemed):

	For the Three Months Ended					For the Nine Months Ended				
	Positions Sold/Redeemed	Par Amount Sold/Redeemed	Amortized Cost	Realized Gain (Loss) (1)	Proceeds (2)	Positions Sold/Redeemed	Par Amount Sold/Redeemed	Amortized Cost	Realized Gain (Loss) (1)	Proceeds (2)
September 30, 2018:										
ABS	—	$ —	$ —	$—	$—	2	$ 411	$ 265	$ (217)	$48
CMBS	2	10,000	7,821	282	8,103	2	10,000	7,821	282	8,103
Total	2	$ 10,000	$ 7,821	$282	$8,103	4	$ 10,411	$ 8,086	$ 65	$8,151
September 30, 2017:										
ABS	5	$ 18,301	$ 14,249	$(2,110)	$12,647	7	$ 27,906	$ 21,723	$ (318)	$19,881
CMBS	1	5,000	4,279	(254)	4,046	1	5,000	4,279	(254)	4,046
RMBS	3	153,519	1,274	(158)	1,116	3	153,519	1,274	(158)	1,116
Total	9	$ 176,820	$ 19,802	$(2,522)	$17,809	11	$ 186,425	$ 27,276	$ (730)	$25,043

(1) The realized losses for the three and nine months ended September 30, 2017 exclude foreign currency exchange gains and losses on ABS sales that were hedged with foreign currency forward contracts.

(2) Includes unsettled proceeds of $8.1 million, received in October 2018, from the sale of two CMBS positions during the three and nine months ended September 30, 2018.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 8 - INVESTMENTS IN UNCONSOLIDATED ENTITIES

The following table summarizes the Company's investments in unconsolidated entities at September 30, 2018 and December 31, 2017 and equity in earnings of unconsolidated entities for the three and nine months ended September 30, 2018 and 2017 (in thousands, except percentages and amounts in footnotes):

				Equity in Earnings (Losses) of Unconsolidated Entities			
				For the Three Months Ended		For the Nine Months Ended	
	Ownership % at September 30, 2018	September 30, 2018	December 31, 2017	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Pelium Capital [1]	80.2%	$ 7	$ 10,503	$50	$ 54	$(180)	$ (22)
RCM Global	63.8%	41	—	(7)	(61)	—	(231)
Investment in LCC Preferred Stock [2]	—%	—	—	411	41,048	411	41,334
RRE VIP Borrower, LLC [3]	—%	—	—	—	6	—	44
Pearlmark Mezzanine Realty Partners IV, L.P. [4]	—%	—	—	—	—	—	165
Subtotal		48	10,503	454	41,047	231	41,290
Investment in RCT I and II [5]	3.0%	1,548	1,548	(829)	(689)	(2,359)	(1,989)
Total		$ 1,596	$ 12,051	$(375)	$ 40,358	$(2,128)	$ 39,301

(1) During the nine months ended September 30, 2018 and 2017, the Company received distributions of $10.4 million and $13.6 million, respectively, on its investment in Pelium Capital Partners, L.P. ("Pelium Capital").

(2) The Company's investment in LEAF Commercial Capital, Inc. ("LCC") liquidated in July 2017 as a result of the sale of LCC. Earnings for the three and nine months ended September 30, 2018 are related to the receipt of a distribution of funds formerly held in escrow accounts established as part of the sale.

(3) The Company sold its investment in RRE VIP Borrower, LLC in December 2014. Earnings for the three and nine months ended September 30, 2017 are related to insurance premium refunds with respect to the underlying sold properties in the portfolio.

(4) The Company sold its investment in Pearlmark Mezzanine Reality Partners IV, L.P. ("Pearlmark Mezz") in May 2017.

(5) During the three and nine months ended September 30, 2018 and 2017, distributions from the trusts are recorded in interest expense on the Company's consolidated statements of operations as the investments are accounted for under the cost method.

During the nine months ended September 30, 2018, investments held by Pelium Capital and RCM Global LLC were substantially liquidated.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 9 - BORROWINGS

The Company historically has financed the acquisition of its investments, including investment securities and loans, through the use of secured and unsecured borrowings in the form of securitized notes, repurchase agreements, secured term facilities, warehouse facilities, convertible senior notes and trust preferred securities issuances. Certain information with respect to the Company's borrowings is summarized in the following table (in thousands, except percentages, time periods and amounts in footnotes):

	Principal Outstanding	Unamortized Issuance Costs and Discounts	Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Value of Collateral
At September 30, 2018:						
RCC 2017-CRE5 Senior Notes	$ 158,376	$ 2,312	$ 156,064	3.30%	15.8 years	$ 277,156
XAN 2018-RSO6 Senior Notes	397,452	4,990	392,462	3.26%	16.7 years	514,225
Unsecured junior subordinated debentures	51,548	—	51,548	6.29%	17.9 years	—
4.50% Convertible Senior Notes	143,750	14,313	129,437	4.50%	3.9 years	—
6.00% Convertible Senior Notes	70,453	171	70,282	6.00%	62 days	—
8.00% Convertible Senior Notes	21,182	295	20,887	8.00%	1.3 years	—
CRE - term repurchase facilities (1)	313,516	3,696	309,820	4.33%	1.9 years	452,697
Trust certificates - term repurchase facility (2)	47,438	319	47,119	6.11%	2.0 years	118,780
CMBS - short term repurchase agreements (3)	245,287	—	245,287	3.46%	38 days	341,289
Total	$ 1,449,002	$ 26,096	$ 1,422,906	4.06%	7.9 years	$ 1,704,147

	Principal Outstanding	Unamortized Issuance Costs and Discounts	Outstanding Borrowings	Weighted Average Borrowing Rate	Weighted Average Remaining Maturity	Value of Collateral
At December 31, 2017:						
RCC 2015-CRE3 Senior Notes	$ 85,788	$ 396	$ 85,392	4.50%	14.2 years	$ 149,828
RCC 2015-CRE4 Senior Notes	90,883	407	90,476	3.65%	14.6 years	180,066
RCC 2017-CRE5 Senior Notes	244,280	3,493	240,787	2.51%	16.6 years	369,534
Unsecured junior subordinated debentures	51,548	—	51,548	5.49%	18.7 years	—

4.50% Convertible Senior Notes	143,750	16,626	127,124	4.50%	4.6 years	—
6.00% Convertible Senior Notes	70,453	928	69,525	6.00%	335 days	—
8.00% Convertible Senior Notes	21,182	466	20,716	8.00%	2.0 years	—
CRE - term repurchase facilities (1)	292,511	1,013	291,498	3.82%	222 days	432,125
Trust certificates - term repurchase facilities (2)	76,714	570	76,144	5.97%	2.1 years	214,375
CMBS - short term repurchase agreements (3)	82,647	—	82,647	2.79%	14 days	131,522
CMBS - term repurchase facilities (4)	27,628	—	27,628	3.05%	121 days	38,060
Total	$ 1,187,384	$ 23,899	$ 1,163,485	4.00%	7.3 years	$ 1,515,510

(1) Principal outstanding includes accrued interest payable of $460,000 and $534,000 at September 30, 2018 and December 31, 2017, respectively.

(2) Principal outstanding includes accrued interest payable of $104,000 and $203,000 at September 30, 2018 and December 31, 2017, respectively.

(3) Principal outstanding includes accrued interest payable of $786,000 and $279,000 at September 30, 2018 and December 31, 2017, respectively.

(4) Principal outstanding includes accrued interest payable of $46,000 at December 31, 2017.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

Securitizations

The following table sets forth certain information with respect to the Company's consolidated securitizations at September 30, 2018 (in thousands):

Securitization	Closing Date	Maturity Date	End of Designated Principal Reinvestment Period [(1)]	Total Note Paydowns Received from Closing Date through September 30, 2018
RCC 2017-CRE5	July 2017	July 2034	July 2020	$ 93,074
XAN 2018-RSO6	June 2018	June 2035	December 2020	$ —

(1) The designated principal reinvestment period is the period in which principal repayments can be utilized to purchase loans held outside of the respective securitization that represent the funded commitments of existing collateral in the respective securitization that were not funded as of the date the respective securitization was closed.

The investments held by the Company's securitizations collateralize the securitizations' borrowings and, as a result, are not available to the Company, its creditors, or stockholders. All senior notes of the securitizations held by the Company at September 30, 2018 and December 31, 2017 are eliminated in consolidation.

RCC 2015-CRE3

In August 2018, a subsidiary of the Company exercised the optional redemption feature of Resource Capital Corp. 2015-CRE3, Ltd. ("RCC 2015-CRE3"), and all of the outstanding senior notes were paid off from the payoff proceeds of certain of the securitization's assets.

RCC 2015-CRE4

In July 2018, a subsidiary of the Company exercised the optional redemption feature of Resource Capital Corp. 2015-CRE4, Ltd. ("RCC 2015-CRE4"), and all of the outstanding senior notes were paid off from the payoff proceeds of certain of the securitizations's assets.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

Repurchase and Credit Facilities

Borrowings under the Company's repurchase agreements are guaranteed by the Company or one of its subsidiaries. The following table sets forth certain information with respect to the Company's repurchase agreements (in thousands, except percentages and amounts in footnotes):

	September 30, 2018				December 31, 2017			
	Outstanding Borrowings [(1)]	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate	Outstanding Borrowings [(1)]	Value of Collateral	Number of Positions as Collateral	Weighted Average Interest Rate
CRE - Term Repurchase Facilities								
Wells Fargo Bank, N.A. [(2)]	$ 109,039	$ 170,355	10	4.21%	$ 179,347	$ 268,003	19	3.68%
Morgan Stanley Bank, N.A. [(3)]	67,886	113,831	5	4.76%	112,151	164,122	9	4.05%
Barclays Bank PLC [(4)]	132,895	168,511	8	4.22%	—	—	—	—%
Trust Certificates - Term Repurchase Facilities								
RSO Repo SPE Trust 2015 [(5)]	—	—	—	—%	26,548	89,121	2	6.98%
RSO Repo SPE Trust 2017 [(6)]	47,119	118,780	2	6.11%	49,596	125,254	2	5.43%
CMBS - Short-Term Repurchase Agreements								
RBC Capital Markets, LLC	201,635	266,182	31	3.46%	72,131	97,745	6	2.77%
JP Morgan Securities LLC	32,718	61,380	12	3.42%	10,516	33,777	2	2.93%
Deutsche Bank Securities Inc. [(7)]	10,934	13,727	10	3.61%	—	—	—	—%
CMBS - Term Repurchase Facilities								
Wells Fargo Bank, N.A.	—	—	—	—%	12,272	14,984	8	2.45%
	—	—	—	—%	15,356	23,076	14	3.53%

Deutsche Bank AG (7)				
Total	$602,226	$912,766	$477,917	$816,082

(1) Outstanding borrowings include accrued interest payable.

(2) Includes $1.9 million and $565,000 of deferred debt issuance costs at September 30, 2018 and December 31, 2017, respectively.

(3) Includes $167,000 and $448,000 of deferred debt issuance costs at September 30, 2018 and December 31, 2017, respectively.

(4) Includes $1.6 million of deferred debt issuance costs at September 30, 2018 and no deferred debt issuance costs at December 31, 2017.

(5) Includes $133,000 of deferred debt issuance costs at December 31, 2017.

(6) Includes $233,000 and $320,000 of deferred debt issuance costs at September 30, 2018 and December 31, 2017, respectively.

(7) In May 2018, the facility's term was rolled from a one-year basis, with extensions at the buyer's option, to a three-month basis. At June 30, 2018, the facility was reclassified from CMBS - term repurchase facilities to CMBS - short term repurchase agreements.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The following table shows information about the amount at risk under the repurchase facilities at September 30, 2018 (in thousands, except percentages and time periods):

	Amount at Risk (1)	Weighted Average Remaining Maturity	Weighted Average Interest Rate
At September 30, 2018:			
CRE - Term Repurchase Facilities			
Wells Fargo Bank, N.A.	$60,183	1.8 years	4.21%
Morgan Stanley Bank, N.A.	$46,322	345 days	4.76%
Barclays Bank PLC	$34,686	2.5 years	4.22%
Trust Certificates - Term Repurchase Facility			
RSO Repo SPE Trust 2017	$71,439	2.0 years	6.11%
CMBS - Short-Term Repurchase Agreements			
RBC Capital Markets, LLC	$65,173	37 days	3.46%
JP Morgan Securities LLC	$28,828	33 days	3.42%
Deutsche Bank Securities Inc.	$2,831	57 days	3.61%

(1) Equal to the total of the estimated fair value of securities or loans sold and accrued interest receivable, minus the total of the repurchase agreement liabilities and accrued interest payable.

The Company was in compliance with all covenants in each of the respective agreements at September 30, 2018.

CRE - Term Repurchase Facilities

In February 2012, a wholly-owned subsidiary of the Company entered into a master repurchase and securities agreement (the "2012 Facility") with Wells Fargo Bank, N.A. ("Wells Fargo") to finance the origination of CRE loans. In July 2018, the subsidiary entered into an amended and restated master repurchase agreement (the "2018 Facility"), in exchange for an extension fee and other reasonable costs, that maintained the $400.0 million maximum facility amount and extended the term of the facility to July 2020 with three one-year extension options exercisable at the Company's discretion. The 2018 Facility charges interest rates of one-month LIBOR plus spreads from 1.75% to 2.50%.

The 2018 Facility, consistent with the 2012 Facility, contains customary events of default. The remedies for such events of default are also customary for this type of transaction and include the acceleration of all obligations of the Company to repay the purchase price for purchased assets.

The 2018 Facility, consistent with the 2012 Facility, also contains margin call provisions relating to a decline in the market value of a security. Under these circumstances, Wells Fargo may require the Company to transfer cash in an amount sufficient to eliminate any margin deficit resulting from such a decline.

Consistent with the guaranty agreement dated February 2012, the Company continues to guarantee the payment and performance of its subsidiaries' obligations to the lender through an amended and restated guaranty agreement dated in July 2018 (the "2018 Guaranty"), including all reasonable expenses that are incurred by the lender in connection with the enforcement of the 2018 Facility. The 2018 Guaranty includes covenants that, among other requirements, stipulate certain thresholds, including: required liquidity, required capital, total indebtedness to total equity, EBITDA to interest expense, and total indebtedness.

In September 2015, an indirect wholly-owned subsidiary of the Company entered into a master repurchase and securities agreement (the "Morgan Stanley Facility") with Morgan Stanley Bank, N.A. ("Morgan Stanley") to finance the origination of CRE loans. In September 2018, the Company entered into an amendment to the Morgan Stanley

Facility, which reduced its maximum capacity to $67.9 million and extended the maturity date through September 2019.
In October 2018, an indirect wholly-owned subsidiary of the Company entered into a master repurchase agreement (the "JPMorgan Chase Facility") with JPMorgan Chase Bank, N.A. ("JPMorgan Chase") to finance the origination of CRE loans. The JPMorgan Chase Facility has a maximum facility amount of $250.0 million, charges interest of one-month LIBOR plus a spread between 2.00% and 2.25% and matures in October 2021, subject to two one-year extension options in accordance with the facility's terms. The Company paid a structuring fee to JPMorgan Chase as well as other reasonable closing costs.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The JPMorgan Chase Facility contains margin call provisions that provide JPMorgan Chase with certain rights if the value of purchased assets declines. Under these circumstances, JPMorgan Chase may require the Company to transfer cash in an amount necessary to eliminate such margin deficit or repurchase the asset(s) that resulted in the margin call. In connection with the JPMorgan Chase Facility, the Company guaranteed the payment and performance under the JPMorgan Chase Facility pursuant to a guarantee agreement (the "JPMorgan Chase Guarantee") subject to a limit of 25% of the then currently unpaid aggregate repurchase price of all purchased assets. The JPMorgan Chase Guarantee includes certain financial covenants required of the Company, including required liquidity, required capital, ratios of total indebtedness to equity and EBITDA requirements. Also, RCC Real Estate, the direct owner of the wholly-owned subsidiary, executed a pledge agreement with JPMorgan Chase pursuant to which it pledged and granted to JPMorgan Chase a continuing security interest in any and all of its right, title and interest in and to the wholly-owned subsidiary, including all distributions, proceeds, payments, income and profits from its interests in the wholly-owned subsidiary. The JPMorgan Chase Facility specifies events of default, subject to certain materiality thresholds and grace periods, customary for this type of financing arrangement. The remedies for such events of default are also customary for this type of financing arrangement and include the acceleration of the principal amount outstanding under the JPMorgan Chase Facility and the liquidation by JPMorgan Chase of purchased assets then subject to the JPMorgan Chase Facility.

Trust Certificates - Term Repurchase Facilities

In November 2015, a subsidiary entered into a repurchase and securities agreement (the "2015 Term Repurchase Trust Facility") with RSO Repo SPE Trust 2015, a structure that provides financing under a structured sale of trust certificates to qualified institutional buyers through an offering led by Wells Fargo Securities, LLC. In July 2018, the 2015 Term Repurchase Trust Facility was paid off as a result of the exercise of the optional redemption of RCC 2015-CRE4.

Contractual maturity dates of the Company's borrowings' principal outstanding by category and year are presented in the table below at September 30, 2018 (in thousands):

	Total	2018	2019	2020	2021	2022 and Thereafter
At September 30, 2018:						
CRE securitizations	$555,828	$—	$—	$—	$—	$ 555,828
Unsecured junior subordinated debentures	51,548	—	—	—	—	51,548
4.50% Convertible Senior Notes	143,750	—	—	—	—	143,750
6.00% Convertible Senior Notes	70,453	70,453	—	—	—	—
8.00% Convertible Senior Notes	21,182	—	—	21,182	—	—
Repurchase and credit facilities	606,241	245,287	68,052	158,386	134,516	—
Total	$1,449,002	$315,740	$68,052	$179,568	$134,516	$ 751,126

NOTE 10 - SHARE ISSUANCE AND REPURCHASE

In January 2018, the Company redeemed all shares of its 8.50% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") and 930,983 shares of its 8.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") at redemption prices of $25.00 per share plus accrued but unpaid distributions. The total redemption cost of $50.0 million was reported as a preferred stock redemption liability on the consolidated balance sheet at December 31, 2017.

In March 2018, the Company redeemed all remaining shares of its Series B Preferred Stock at a redemption price of $25.00 per share, or $115.3 million, plus accrued but unpaid distributions, resulting in a preferred stock redemption charge of $7.5 million on the consolidated statement of operations for the nine months ended September 30, 2018.

On or after July 30, 2024, the Company may, at its option, redeem its 8.625% Fixed-to-Floating Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock"), in whole or in part, at any time and from time to time, for cash at $25.00 per share, plus accrued and unpaid dividends, if any, to the redemption date. Effective July 30, 2024 and thereafter, the Company will pay cumulative distributions on the Series C Preferred Stock at a floating rate equal to three-month LIBOR plus 5.927% per annum based on the $25.00 liquidation preference, provided that such floating rate shall not be less than the initial rate of 8.625% at any date of determination.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

Under a share repurchase plan authorized by the Board in August 2015, the Company was authorized to repurchase up to $50.0 million of its outstanding equity and debt securities. In March 2016, the Company's Board approved a new securities repurchase program for up to $50.0 million of its outstanding securities, which replaced the August 2015 repurchase plan. During the three and nine months ended September 30, 2018 and 2017, the Company did not repurchase any shares of its common or preferred stock through this program. At September 30, 2018, $44.9 million remains available under this repurchase plan.

At September 30, 2018, the Company had 4.8 million shares of Series C Preferred Stock outstanding, with a weighted average issuance price, excluding offering costs, of $25.00.

NOTE 11 - SHARE-BASED COMPENSATION

The following table summarizes the Company's restricted common stock transactions:

	Non-Employee Directors	Non-Employees [(1)]	Former Employees	Total
Unvested shares at January 1, 2018	34,565	419,541	28,967	483,073
Issued	27,032	209,355	—	236,387
Vested	(33,193)	(238,792)	(23,158)	(295,143)
Forfeited	—	(1,725)	—	(1,725)
Unvested shares at September 30, 2018	28,404	388,379	5,809	422,592

(1) Non-employees are employees of C-III or Resource America, Inc. ("Resource America").

The Company is required to value any unvested shares of restricted common stock granted to non-employees at the current market price. The fair values at grant date of the shares of restricted common stock granted to non-employees during the nine months ended September 30, 2018 and 2017 were $2.0 million and $2.7 million, respectively. The fair values at grant date of shares of restricted common stock issued to the Company's eight non-employee directors during the nine months ended September 30, 2018 and 2017 were $255,000 and $325,000, respectively.

At September 30, 2018, the total unrecognized restricted common stock expense for non-employees was $1.8 million, with a weighted average amortization period remaining of 2.0 years. At December 31, 2017, the total unrecognized restricted common stock expense for non-employees was $1.4 million, with a weighted average amortization period remaining of 2.0 years.

The following table summarizes restricted common stock grants during the nine months ended September 30, 2018:

Grant Date	Shares	Vesting per Year	Vesting Date(s)
January 18, 2018	209,355	33.3%	January 18, 2019, January 18, 2020 and January 18, 2021
February 1, 2018	3,727	100.0%	February 1, 2019
March 8, 2018	16,302	100.0%	March 8, 2019
June 1, 2018	3,493	100.0%	June 1, 2019
June 6, 2018	3,510	100.0%	June 6, 2019

The following table summarizes the status of the Company's vested stock options at September 30, 2018:

Vested Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Vested at January 1, 2018	10,000	$ 25.60		
Vested	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		

Vested at September 30, 2018	10,000	$ 25.60	2.63	$	—

There were no options granted during the nine months ended September 30, 2018 or 2017. The outstanding stock options have contractual terms of ten years and will expire in 2021.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The components of equity compensation expense for the periods presented are as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Restricted shares granted to non-employees [1]	$ 685	$ 817	$2,166	$2,207
Restricted shares granted to non-employee directors	72	78	217	210
Total equity compensation expense [2]	$ 757	$ 895	$2,383	$2,417

(1) Non-employees are employees of C-III or Resource America.

(2) Amounts exclude equity compensation expense for employees of Primary Capital Mortgage, LLC ("PCM"), which is included in net income (loss) from discontinued operations, net of tax on the consolidated statements of operations during the three and nine months ended September 30, 2017.

Under the Company's Third Amended and Restated Management Agreement ("Management Agreement"), incentive compensation is paid quarterly. Up to 75% of the incentive compensation is paid in cash and at least 25% is paid in the form of an award of common stock, recorded in management fee on the consolidated statements of operations. The Manager received no incentive management fee for the three and nine months ended September 30, 2018. The Manager earned approximately 51,300 shares as incentive compensation valued at approximately $539,000 for the three and nine months ended 2017.

All equity awards, apart from incentive compensation under the Management Agreement, are discretionary in nature and subject to approval by the compensation committee of the Company's Board.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 12 - EARNINGS PER SHARE

The following table presents a reconciliation of basic and diluted earnings (losses) per share for the periods presented as follows (in thousands, except share and per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income from continuing operations	$8,260	$24,745	$17,312	$46,487
Net income allocated to preferred shares	(2,588)	(6,014)	(10,385)	(18,043)
Consideration paid in excess of carrying value of preferred shares	—	—	(7,482)	—
Net loss allocable to non-controlling interest, net of taxes	—	—	—	196
Net income (loss) from continuing operations allocable to common shares	5,672	18,731	(555)	28,640
Net income (loss) from discontinued operations, net of tax	364	(6,087)	161	(10,832)
Net income (loss) allocable to common shares	$6,036	$12,644	$(394)	$17,808
Net income (loss) per common share - basic:				
Weighted average number of shares outstanding	31,229,969	30,857,232	31,186,057	30,810,259
Continuing operations	$0.18	$0.61	$(0.02)	$0.93
Discontinued operations	0.01	(0.20)	0.01	(0.35)
Net income (loss) per common share - basic	$0.19	$0.41	$(0.01)	$0.58
Net income (loss) per common share - diluted:				
Weighted average number of shares outstanding	31,229,969	30,857,232	31,186,057	30,810,259
Additional shares due to assumed conversion of dilutive instruments	247,429	257,920	—	206,849
Adjusted weighted-average number of common shares outstanding	31,477,398	31,115,152	31,186,057	31,017,108
Continuing operations	$0.18	$0.61	$(0.02)	$0.92
Discontinued operations	0.01	(0.20)	0.01	(0.35)
Net income (loss) per common share - diluted	$0.19	$0.41	$(0.01)	$0.57
Potentially dilutive shares excluded from calculation due to anti-dilutive effect [(1)]	14,937,427	12,215,259	14,937,427	10,085,439

(1) Potentially dilutive shares issuable in connection with the potential conversion of the Company's 4.50% convertible senior notes due 2022 ("4.50% Convertible Senior Notes"), 6.00% convertible senior notes due 2018 ("6.00% Convertible Senior Notes") and 8.00% convertible senior notes due 2020 ("8.00% Convertible Senior Notes") (see Note 9) were not included in the calculation of diluted net income (loss) per share because the effect would be anti-dilutive.

NOTE 13 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in each component of accumulated other comprehensive income for the nine months ended September 30, 2018 (in thousands):

	Net Unrealized Gain on Derivatives	Net Unrealized Gain (Loss) on Investment Securities Available-for-Sale	Accumulated Other Comprehensive Income (Loss)

Balance at January 1, 2018	$ 602	$ 695	$ 1,297
Other comprehensive income (loss) before reclassifications	2,428	1,969	4,397
Amounts reclassified from accumulated other comprehensive income (1)	—	(65)	(65)
Balance at September 30, 2018	$ 3,030	$ 2,599	$ 5,629

(1) Amounts reclassified from accumulated other comprehensive income are reclassified to net realized and unrealized gain (loss) on investment securities available-for-sale and loans and derivatives on the Company's consolidated statements of operations.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 14 - RELATED PARTY TRANSACTIONS
Relationship with C-III and Certain of its Subsidiaries. The Manager is a wholly-owned subsidiary of Resource America, which is a wholly-owned subsidiary of C-III, a leading CRE investment management and services company engaged in a broad range of activities, including primary and special loan servicing, loan origination, fund management, CDO management, principal investment, zoning due diligence, investment sales and multifamily property management. C-III is indirectly controlled and partially owned by Island Capital Group LLC ("Island Capital"), of which Andrew L. Farkas, the Company's Chairman, is the managing member. Mr. Farkas is also chairman and chief executive officer of C-III. In addition, Robert C. Lieber, the Company's Chief Executive Officer, is an executive managing director of both C-III and Island Capital. Matthew J. Stern, the Company's President, is a senior managing director of both C-III and Island Capital. Jeffrey P. Cohen, who is a member of the Company's Board, is an executive managing director of C-III and president of Island Capital. Those officers and the Company's other executive officers are also officers of the Company's Manager, Resource America, C-III and/or affiliates of those companies. At September 30, 2018, C-III indirectly beneficially owned 766,718, or 2.4%, of the Company's outstanding common shares.
The Company has a Management Agreement with the Manager, amended and restated on December 14, 2017, pursuant to which the Manager provides the day-to-day management of the Company's operations and receives substantial fees. For the three and nine months ended September 30, 2018, the Manager earned base management fees of approximately $2.8 million and $8.4 million, respectively. For the three and nine months ended September 30, 2017, the Manager earned base management fees of $2.7 million and $8.0 million, respectively. No incentive management fees were earned for the three and nine months ended September 30, 2018. For the three and nine months ended September 30, 2017, the Manager earned incentive management fees of $2.2 million, of which $1.6 million was paid in cash and approximately $539,000 was paid in common stock. At September 30, 2018 and December 31, 2017, $938,000 and $1.0 million, respectively, of base management fees were payable by the Company to the Manager. The Manager and its affiliates provide the Company with a Chief Financial Officer and a sufficient number of additional accounting, finance, tax and investor relations professionals. The Company reimburses the Manager's and its affiliates' expenses for (a) the wages, salaries and benefits of the Chief Financial Officer, (b) a portion of the wages, salaries and benefits of accounting, finance, tax and investor relations professionals, in proportion to such personnel's percentage of time allocated to the Company's operations, and (c) personnel principally devoted to the Company's ancillary operating subsidiaries. The Company reimburses out-of-pocket expenses and certain other costs incurred by the Manager and its affiliates that relate directly to the Company's operations. For the three and nine months ended September 30, 2018, the Company reimbursed the Manager $1.2 million and $4.0 million, respectively, for all such compensation and costs. For the three and nine months ended September 30, 2017, the Company reimbursed the Manager $1.2 million and $4.2 million, respectively, for all such compensation and costs. At September 30, 2018 and December 31, 2017, the Company had payables to Resource America and its subsidiaries pursuant to the Management Agreement aggregating approximately $373,000 and $629,000, respectively. The Company's base management fee payable and expense reimbursements payable are recorded in management fee payable and accounts payable and other liabilities on the consolidated balance sheets, respectively.
At September 30, 2018, the Company retained equity in five securitizations that were structured for the Company by the Manager, although three of the securitizations had been substantially liquidated as of September 30, 2018. Under the Management Agreement, the Manager was not separately compensated by the Company for executing these transactions and is not separately compensated for managing the securitization entities and their assets.
Relationship with Resource Real Estate, LLC. Resource Real Estate, LLC ("Resource Real Estate"), an indirect wholly-owned subsidiary of Resource America and C-III, originates, finances and manages the Company's CRE loan portfolio. The Company reimburses Resource Real Estate for loan origination costs associated with all loans

originated. At September 30, 2018 and December 31, 2017, the Company had receivables from Resource Real Estate for loan deposits of $488,000 and $185,000, respectively.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

Resource Real Estate served as special servicer for the following liquidated real estate securitization transactions, which provided financing for CRE loans: (i) Resource Capital Corp. CRE Notes 2013, Ltd. ("RCC CRE Notes 2013"), a $307.8 million securitization that closed in December 2013 and liquidated in December 2016; (ii) Resource Capital Corp. 2014-CRE2, Ltd. ("RCC 2014-CRE2"), a $353.9 million securitization that closed in July 2014 and liquidated in August 2017; (iii) RCC 2015-CRE3, a $346.2 million securitization that closed in February 2015 and liquidated in August 2018; and (iv) RCC 2015-CRE4, a $312.9 million securitization that closed in August 2015 and liquidated in July 2018. Resource Real Estate serves as special servicer for Resource Capital Corp. 2017-CRE5, Ltd. ("RCC 2017-CRE5"), a $376.7 million securitization that closed in July 2017. With respect to each specially serviced mortgage loan, Resource Real Estate receives a special servicing fee, payable monthly and on an asset-by-asset basis, equal to the product of (a) the special servicing fee rate, 0.25% per annum, multiplied by (b) the outstanding principal balance of such specially serviced mortgage loan. Resource Real Estate did not earn any special servicing fees during the three and nine months ended September 30, 2018 and 2017.

Relationship with C3AM and C-III Commercial Mortgage. C3AM serves as the primary servicer for RCC 2017-CRE5 and Exantas Capital Corp. 2018-RSO6, Ltd. ("XAN 2018-RSO6"), a $514.2 million securitization that closed in June 2018, and receives a servicing fee, payable monthly and on an asset-by-asset basis, equal to the product of (a) the servicing fee rate, 0.05% per annum, multiplied by (b) the outstanding principal balance of each mortgage loan for each securitization. C3AM serves as special servicer for C40 and XAN 2018-RSO6, under which it receives a special servicing fee equal to the product of (a) the special servicing fee rate, 0.25% per annum, multiplied by (b) the outstanding principal balance of such specially serviced mortgage loan. During the three and nine months ended September 30, 2018, C3AM earned approximately $109,000 and $217,000, respectively, in servicing fees. During the three and nine months ended September 30, 2017, C3AM earned approximately $46,000 in servicing fees. C3AM did not earn any special servicing fees during the three and nine months ended September 30, 2018 and 2017. The Company had payables to C3AM of approximately $29,000 and $14,000 at September 30, 2018 and December 31, 2017, respectively.

In October 2017, C-III Commercial Mortgage LLC contributed loans to collateralize the C40 securitization, amounting to 10.2% of the total collateral pool value to the securitization.

NOTE 15 - DISTRIBUTIONS

For the quarters ended September 30, 2018 and 2017, the Company declared and subsequently paid dividends of $0.15 and $0.05 per common share, respectively.

In order to qualify as a REIT, the Company must currently distribute at least 90% of its taxable income. In addition, the Company must distribute 100% of its taxable income in order to not be subject to corporate federal income taxes on retained income. The Company anticipates it will distribute substantially all of its taxable income to its stockholders. Because taxable income differs from cash flow from operations due to non-cash revenues or expenses (such as provisions for loan and lease losses and depreciation), in certain circumstances the Company may generate operating cash flow in excess of its distributions or, alternatively, may be required to borrow funds to make sufficient distribution payments.

The Company's 2018 dividends are, and will be, determined by the Company's Board, which will also consider the composition of any dividends declared, including the option of paying a portion in cash and the balance in additional shares of common stock.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The following tables present dividends declared (on a per share basis) for the nine months ended September 30, 2018, year ended December 31, 2017 and for the period from January 1, 2018 through March 26, 2018 with respect to the Company's Series B Preferred Stock:

	Common Stock		
	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share
2018			
March 31	April 27	$ 1,584	$ 0.05
June 30	July 27	$ 3,165	$ 0.10
September 30	October 26	$ 4,749	$ 0.15
2017			
March 31	April 27	$ 1,568	$ 0.05
June 30	July 28	$ 1,567	$ 0.05
September 30	October 27	$ 1,566	$ 0.05
December 31	January 26, 2018	$ 1,572	$ 0.05

	Series A Preferred Stock			Series B Preferred Stock			Series C Preferred Stock		
	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share	Date Paid	Total Dividend Paid (in thousands)	Dividend Per Share
2018									
March 26	N/A	N/A	N/A	March 26	$ 1,480	$0.320830	N/A	N/A	N/A
March 31	N/A	N/A	N/A	N/A	N/A	N/A	April 30	$ 2,588	$0.539063
June 30	N/A	N/A	N/A	N/A	N/A	N/A	July 30	$ 2,588	$0.539063
September 30	N/A	N/A	N/A	N/A	N/A	N/A	October 30	$ 2,588	$0.539063
2017									
March 31	May 1	$ 568	$0.531250	May 1	$ 2,859	$0.515625	May 1	$ 2,588	$0.539063
June 30	July 31	$ 568	$0.531250	July 31	$ 2,859	$0.515625	July 31	$ 2,588	$0.539063
September 30	October 30	$ 568	$0.531250	October 30	$ 2,859	$0.515625	October 30	$ 2,588	$0.539063
December 31	January 30, 2018	$ 568	$0.531250	January 30, 2018	$ 2,859	$0.515625	January 30, 2018	$ 2,588	$0.539063

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the Company's financial instruments carried at fair value on a recurring basis based upon the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
At September 30, 2018:				
Assets:				
Investment securities available-for-sale	$ —	$—	$352,778	$352,778
Derivatives	—	2,665	—	2,665
Total assets at fair value	$ —	$2,665	$352,778	$355,443
At December 31, 2017:				
Assets:				
Investment securities available-for-sale	$ —	$—	$211,737	$211,737
Derivatives	—	602	—	602
Total assets at fair value	$ —	$602	$211,737	$212,339
Liabilities:				
Derivatives	$ —	$76	$—	$76
Total liabilities at fair value	$ —	$76	$—	$76

In accordance with guidance on fair value measurements and disclosures, the Company is not required to disclose quantitative information with respect to unobservable inputs contained in fair value measurements that are not developed by the Company. As a consequence, the Company has not disclosed such information associated with fair values obtained for investment securities available-for-sale and derivatives from third-party pricing sources.

The following table presents additional information about the Company's assets that are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs (in thousands, except amount in footnote):

	CMBS	ABS	Total
Balance, January 1, 2018	$211,579	$158	$211,737
Included in earnings	2,492	(217)	2,275
Purchases	159,116	—	159,116
Sales	(8,103)	(48)	(8,151)
Paydowns	(14,132)	—	(14,132)
Capitalized interest	—	7	7
Included in OCI	1,826	100	1,926
Balance, September 30, 2018	$352,778	$—	$352,778

The Company reclassified securities and loans held for sale, measured at fair value utilizing Level 3 inputs, into other assets on its consolidated balance sheets that did not have any balances at September 30, 2018 and had balances of $178,000 and $13,000, respectively, at December 31, 2017.

Legacy CRE loans are measured at the lower of cost or market on a nonrecurring basis. To determine fair value of the legacy CRE loans, the Company primarily uses appraisals obtained from third-parties as a practical expedient. The Company may also use the present value of estimated cash flows, market price, if available, or other determinants of the fair value of the collateral less estimated disposition costs. During the three and nine months ended September 30, 2018, the Company recorded losses of$1.6 million and $6.3 million, respectively, on one legacy CRE loan, which included protective advances to cover borrower operating losses of $600,000 and $772,000, respectively, to adjust the

loan to the average value of two appraisals, less estimated costs to repair the underlying collateral, equal to $17.0 million at September 30, 2018. The loan had a carrying value of $22.5 million at December 31, 2017. The capitalization rates used in the updated appraisals were 9.25% and 9.75% at September 30, 2018.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The Company is required to disclose the fair value of financial instruments for which it is practicable to estimate that value. The fair values of the Company's short-term financial instruments such as cash and cash equivalents, restricted cash, accrued interest receivable, principal paydowns receivable, accrued interest payable and distributions payable approximate their carrying values on the consolidated balance sheets. The fair values of the Company's investment securities available-for-sale are reported in Note 7. The fair values of the Company's derivative instruments are reported in Note 17.

The fair values of the Company's loans held for investment are measured by discounting the expected future cash flows using the current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Fair values of loans with variable interest rates are expected to approximate fair value. Fair values of loans with fixed rates are calculated using the net present values of future cash flows, discounted at market rates. The Company's CRE loans have interest rates from 4.61% to 8.36% and 5.06% to 7.63% at September 30, 2018 and December 31, 2017, respectively.

The fair value of the Company's mezzanine loan is measured by discounting the expected cash flows using the future expected coupon rate. The Company's mezzanine loan is discounted at a rate of 10.63%.

The fair value of the Company's preferred equity investment is measured by discounting the expected cash flows using the future expected coupon rates. The Company's preferred equity investment is discounted at a rate of 12.78%.

Senior notes in CRE securitizations are valued using dealer quotes, typically sourced from the dealer who underwrote the applicable CRE securitization.

The fair values of the junior subordinated notes RCT I and RCT II are estimated by using a discounted cash flow model with discount rates of 11.34% and 11.34%, respectively.

The fair value of the convertible notes is determined using a discounted cash flow model that discounts the expected future cash flows using current interest rates on similar debts that do not have a conversion option. The 6.00% Convertible Senior Notes are discounted at a rate of 4.54%, the 8.00% Convertible Senior Notes are discounted at a rate of 4.92% and the 4.50% Convertible Senior Notes are discounted at a rate of 7.17%.

Repurchase agreements are variable rate debt instruments indexed to LIBOR that reset periodically and, as a result, their carrying value approximates their fair value, excluding deferred debt issuance costs.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The fair values of the Company's remaining financial instruments that are not reported at fair value on the consolidated balance sheets are reported in the following table (in thousands):

		Fair Value Measurements			
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets of Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At September 30, 2018:					
Assets:					
CRE whole loans held for investment	$1,490,757	$1,501,076	$ —	$ —	$ 1,501,076
Legacy CRE loans held for sale	$17,000	$17,000	$ —	$ —	$ 17,000
CRE mezzanine loan	$4,700	$4,700	$ —	$ —	$ 4,700
CRE preferred equity investment	$19,372	$19,545	$ —	$ —	$ 19,545
Liabilities:					
Senior notes in CRE securitizations	$548,526	$556,930	$ —	$ —	$ 556,930
Junior subordinated notes	$51,548	$29,200	$ —	$ —	$ 29,200
Convertible notes	$220,606	$235,385	$ —	$ —	$ 235,385
Repurchase agreements	$602,226	$606,155	$ —	$ —	$ 606,155
At December 31, 2017:					
Assets:					
CRE whole loans held for investment	$1,284,822	$1,294,664	$ —	$ —	$ 1,294,664
Legacy CRE loans held for sale	$61,841	$62,841	$ —	$ —	$ 62,841
Liabilities:					
Senior notes in CRE securitizations	$416,655	$420,084	$ —	$ —	$ 420,084
Junior subordinated notes	$51,548	$26,574	$ —	$ —	$ 26,574
Convertible notes	$217,365	$235,385	$ —	$ —	$ 235,385
Repurchase agreements	$477,917	$479,383	$ —	$ —	$ 479,383

NOTE 17 - MARKET RISK AND DERIVATIVE INSTRUMENTS

The Company is affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company's financial performance and are referred to as "market risks." When deemed appropriate, the Company uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risk managed by the Company through the use of derivative instruments is interest rate risk.

The Company may hold various derivatives in the ordinary course of business, including interest rate swaps. Interest rate swaps are contracts between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices.

A significant market risk to the Company is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond the Company's control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on interest-earning assets and the interest expense incurred in connection with the interest-bearing liabilities. Changes in the level of interest rates also can affect the value of the Company's interest-earning assets and the Company's ability to realize gains from the sale of these assets. A decline in the value of the Company's interest-earning assets pledged as collateral for borrowings could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

The Company seeks to manage the extent to which net income changes as a function of changes in interest rates by matching adjustable-rate assets with variable-rate borrowings. The Company seeks to mitigate the potential impact on net income (loss) of adverse fluctuations in interest rates incurred on its borrowings by entering into hedging agreements.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The Company classifies its interest rate risk hedges as cash flow hedges, which are hedges that eliminate the risk of changes in the cash flows of a financial asset or liability. The Company records changes in fair value of derivatives designated and effective as cash flow hedges in accumulated other comprehensive income, and records changes in fair value of derivatives designated and ineffective as cash flow hedges in earnings.

At September 30, 2018 and December 31, 2017, the Company had 18 and seven, respectively, interest rate swap contracts outstanding whereby the Company paid a weighted average fixed rate of 2.51% and 2.08%, respectively, and received a variable rate equal to one-month LIBOR. The aggregate notional amount of these contracts was $85.0 million and $41.8 million at September 30, 2018 and December 31, 2017, respectively. The counterparty for the Company's designated interest rate hedge contracts at September 30, 2018 and December 31, 2017 was Wells Fargo.

At September 30, 2018 and December 31, 2017, the estimated fair value of the Company's assets related to interest rate swaps was $2.7 million and $602,000, respectively. The Company had aggregate unrealized gains of $2.7 million and $602,000 on its active interest rate swaps at September 30, 2018 and December 31, 2017, respectively, which are recorded in accumulated other comprehensive income on the consolidated balance sheets.

In September 2018, the Company elected to partially terminate one interest rate swap and recognized a gain of $366,000 in accumulated other comprehensive income on the consolidated balance sheets, to be amortized into earnings over the remaining life of the remaining debt. The Company incurred interest expense of $18,000 during the nine months ended September 30, 2017 to fully amortize the remaining accumulated other comprehensive loss on a swap agreement that was terminated in April 2016. The Company did not record any interest expense for the three and nine months ended September 30, 2018 and the three months ended September 30, 2017 relating to amortization of accumulated other comprehensive income (loss) for terminated swap agreements.

The Company had a master netting agreement with Wells Fargo at September 30, 2018. Regulations promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 mandate that the Company clear certain new interest rate swap transactions through a central counterparty. Transactions that are centrally cleared result in the Company facing a clearing house, rather than a swap dealer, as counterparty. Central clearing requires the Company to post collateral in the form of initial and variation margin to satisfy potential future obligations. At September 30, 2018, the Company had centrally cleared interest rate swaps with fair values in an asset position of $2.7 million. At December 31, 2017, the Company had centrally cleared interest rate swap contracts with a fair value in an asset position of $602,000.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The following tables present the fair value of the Company's derivative financial instruments as well as their classification on the Company's consolidated balance sheets and on the consolidated statements of operations for the periods presented:

Fair Value of Derivative Instruments at September 30, 2018 (in thousands)

	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging [(1)]	$ 85,011	Derivatives, at fair value	$ 2,665

	Liability Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging	$ 85,011	Accumulated other comprehensive income	$ 3,030

(1) Interest rate swap contracts are accounted for as cash flow hedges.

Fair Value of Derivative Instruments at December 31, 2017 (in thousands, except amount in footnotes)

	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging [(1)]	$ 41,750	Derivatives, at fair value	$ 602

	Liability Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Forward contracts - foreign currency, hedging [(2)(3)]	$ 3,602	Derivatives, at fair value	$ 76
Interest rate swap contracts, hedging	$ 41,750	Accumulated other comprehensive income	$ 602

(1) Interest rate swap contracts are accounted for as cash flow hedges.
(2) Foreign currency forward contracts are accounted for as fair value hedges.
(3) Notional amount is presented on a currency converted basis. The base currency notional amount of the Company's foreign currency hedging forward contracts in a liability position was €3.0 million at December 31, 2017.

The Effect of Derivative Instruments on the Consolidated Statements of Operations for the
Nine Months Ended September 30, 2018 (in thousands)

Derivatives	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) [1]
Interest rate swap contracts, hedging	Interest expense	$ (141)

(1) Negative values indicate a decrease to the associated consolidated statements of operations line items.

The Effect of Derivative Instruments on the Consolidated Statements of Operations for the Nine Months Ended September 30, 2017 (in thousands)

Derivatives	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) [1]
Interest rate swap contracts, hedging	Interest expense	$ (53)
Forward contracts - foreign currency, hedging	Net realized and unrealized gain (loss) on investment securities available-for-sale and loans and derivatives	$ (1,998)

(1) Negative values indicate a decrease to the associated consolidated statements of operations line items.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 18 - OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a summary of the Company's offsetting of derivative assets (in thousands, except amounts in footnotes):

	(i) Gross Amounts of Recognized Assets	(ii) Gross Amounts Offset on the Consolidated Balance Sheets	(iii) = (i) - (ii) Net Amounts of Assets Included on the Consolidated Balance Sheets	(iv) Gross Amounts Not Offset on the Consolidated Balance Sheets		(v) = (iii) - (iv) Net Amount
				Financial Instruments	Cash Collateral Pledged	
At September 30, 2018:						
Derivatives, at fair value [1]	$ 2,665	$ —	$ 2,665	$ —	$ —	$ 2,665
At December 31, 2017:						
Derivatives, at fair value [1]	$ 602	$ —	$ 602	$ —	$ —	$ 602

(1) The Company posted cash margin of $1.0 million and $1.9 million related to interest rate swap contracts outstanding at September 30, 2018 and December 31, 2017, respectively.

The following table presents a summary of the Company's offsetting of financial liabilities and derivative liabilities (in thousands, except amounts in footnotes):

	(i) Gross Amounts of Recognized Liabilities	(ii) Gross Amounts Offset on the Consolidated Balance Sheets	(iii) = (i) - (ii) Net Amounts of Liabilities Included on the Consolidated Balance Sheets	(iv) Gross Amounts Not Offset on the Consolidated Balance Sheets		(v) = (iii) - (iv) Net Amount
				Financial Instruments [1]	Cash Collateral Pledged	
At September 30, 2018:						
Repurchase agreements and term facilities [2]	$ 602,226	$ —	$ 602,226	$ 602,226	$ —	$ —
Total	$ 602,226	$ —	$ 602,226	$ 602,226	$ —	$ —

At December 31, 2017:						
Derivatives, at fair value	$ 76	$ —	$ 76	$ —	$ —	$ 76
Repurchase agreements and term facilities (2)	477,917	—	477,917	477,917	—	—
Total	$ 477,993	$ —	$ 477,993	$ 477,917	$ —	$ 76

(1) Amounts represent financial instruments pledged that are available to be offset against liability balances associated with term facilities, repurchase agreements and derivatives.

(2) The combined fair value of securities and loans pledged against the Company's various repurchase agreements and term facilities was $912.8 million and $816.1 million at September 30, 2018 and December 31, 2017, respectively.

All balances associated with repurchase agreements and derivatives are presented on a gross basis on the Company's consolidated balance sheets.

Certain of the Company's repurchase agreements and derivative transactions are governed by underlying agreements that generally provide for a right of offset in the event of default or in the event of a bankruptcy of either party to the transaction.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 19 - COMMITMENTS AND CONTINGENCIES

The Company may become involved in litigation on various matters due to the nature of the Company's business activities. The resolution of these matters may result in adverse judgments, fines, penalties, injunctions and other relief against the Company as well as monetary payments or other agreements and obligations. In addition, the Company may enter into settlements on certain matters in order to avoid the additional costs of engaging in litigation. Except as discussed below, the Company is unaware of any contingencies arising from such litigation that would require accrual or disclosure in the consolidated financial statements at September 30, 2018.

Open Litigation Matters

Six separate shareholder derivative suits (the "New York State Actions") purporting to assert claims on behalf of the Company were filed in the Supreme Court of New York on the following dates: December 2015 (the "Reaves Action"), February 2017 (the "Caito Action"), March 2017 (the "Simpson Action"), March 2017 (the "Heckel Action"), May 2017 (the "Schwartz Action") and August 2017 (the "Greff Action"). Plaintiffs in the Schwartz Action and Greff Action made demands on the Company's Board before filing suit, but plaintiffs in the Reaves Action, Caito Action, Simpson Action and Heckel Action did not. All of the shareholder derivative suits are substantially similar and allege that certain of the Company's current and former officers and directors breached their fiduciary duties, wasted corporate assets and/or were unjustly enriched. Certain complaints assert additional claims against the Manager and Resource America for unjust enrichment based on allegations that the Manager received excessive management fees from the Company. In June 2017, the Court stayed the Reaves Action, Caito Action, Simpson Action and Heckel Action (collectively, the "New York State Demand Futile Actions") in favor of the federal shareholder derivative litigation described below. The Company's time to respond to the complaints in the Schwartz Action and Greff Action is presently stayed by stipulation of the parties. The Company believes that the plaintiffs in each of the New York State Actions lack standing to assert claims derivatively on its behalf, and it intends to seek the dismissal of any New York State Action as to which the stay is lifted.

Four separate shareholder derivative suits purporting to assert claims on behalf of the Company were filed in the United States District Court for the Southern District of New York (the "Court") on the following dates by shareholders who declined to make a demand on the Board prior to filing suit: January 2017 (the "Greenberg Action"), January 2017 (the "Canoles Action"), January 2017 (the "DeCaro Action") and April 2017 (the "Gehan Action"). In May 2017, the Court consolidated the Greenberg Action, Canoles Action, DeCaro Action and Gehan Action as the "Federal Demand Futile Actions" and, in July 2017, appointed lead counsel and directed that a consolidated complaint be filed. Following consolidation, the plaintiffs in the Canoles Action and Gehan Action voluntarily dismissed their suits. The consolidated complaint in the Federal Demand Futile Actions, filed in August 2017, alleged claims for breach of fiduciary duty, corporate waste, unjust enrichment and violations of Section 14(a) of the Securities Exchange Act of 1934, as amended. In April 2018, the consolidated complaint in the Federal Demand Futile Actions was dismissed, but such dismissal is currently on appeal.

Three additional shareholder derivative suits purporting to assert claims on behalf of the Company were filed in the United States District Court for the Southern District of New York on the following dates by shareholders who served demands on the Board to bring litigation and allege that their demands were wrongfully refused: February 2017 (the "McKinney Action"), March 2017 (the "Sherek/Speigel Action") and April 2017 (the "Sebenoler Action"). In May 2017, the Court consolidated the McKinney Action, Sherek/Speigel Action and Sebenoler Action as the "Federal Demand Refused Actions." A consolidated complaint was filed on June 30, 2017, alleging claims for breach of fiduciary duty, unjust enrichment and violations of Section 14(a) of the Securities Exchange Act of 1934, as amended. The consolidated complaint in the Federal Demand Refused Actions was dismissed in February 2018 but such dismissal is currently on appeal.

In August 2017, Robert Canoles filed a shareholder derivative suit in Maryland Circuit Court against certain of the Company's current and former officers and directors, as well as the Manager and Resource America (the "Canoles Action"). Mr. Canoles had previously filed his suit in the United States District Court for the Southern District of New York, but voluntarily dismissed that action after the Court declined to appoint his counsel as lead counsel in the Federal Demand Futile Actions. The complaint in the Canoles Action, as amended in October 2017, asserts a variety of claims, including claims for breach of fiduciary duty, unjust enrichment and corporate waste, which are based on allegations substantially similar to those at issue in the Federal Demand Futile Actions. The Canoles Action was stayed by the Maryland Circuit Court in favor of the federal shareholder litigation described above. The Company believes that Canoles lacks standing to assert claims derivatively on its behalf and intends to seek the dismissal of the Canoles Action on that basis if the stay is lifted.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

In September 2017, Michael Hafkey filed a shareholder derivative suit in the United States District Court for the District of Maryland against certain of the Company's former officers and directors and the Manager (the "Hafkey Action"). The complaint asserts a breach of fiduciary duty claim that is substantially similar to the claims at issue in the Federal Demand Refused Actions. Mr. Hafkey previously made a demand on the Board to investigate this claim, which was ultimately denied. The Company believes that Hafkey's claim that his demand to bring litigation was wrongfully refused is without merit and that Hafkey consequently lacks standing to assert claims derivatively on the Company's behalf. The Company filed a motion to stay the Hafkey Action in favor of the duplicative Federal Demand Futile Actions, which is pending.

In April 2018, the Company funded $2.0 million into escrow in connection with the proposed settlement of outstanding litigation. The Company did not have any general litigation reserve at September 30, 2018, and it had a general litigation reserve of $2.2 million, including estimated legal costs, at December 31, 2017.

PCM is subject to litigation related to claims for repurchases or indemnifications on loans that PCM has sold to third parties. At September 30, 2018, no such litigation demand was outstanding. At December 31, 2017, such litigation demands totaled approximately $6.5 million. Reserves for such litigation demands are included in the reserve for mortgage repurchases and indemnifications that totaled $1.7 million and $5.7 million at September 30, 2018 and December 31, 2017, respectively. The reserves for mortgage repurchases and indemnifications are included in liabilities held for sale on the consolidated balance sheets.

Settled Litigation Matters

PCM was the subject of a lawsuit brought by a purchaser of residential mortgage loans alleging breaches of representations and warranties made on loans sold to the purchaser. The asserted repurchase claims related to loans sold to the purchaser that were subsequently sold by the purchaser to either the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation and loans sold to the purchaser that were subsequently securitized and sold as RMBS by the purchaser to RMBS investors. This matter was settled on January 8, 2018.

On November 22, 2017, the Plaintiff's motion for class certification was granted in Levin v. Resource Capital Corp. (the "Levin Action"), a previously disclosed securities litigation against the Company and certain of its current and former officers that was pending in the United States District Court for the Southern District of New York. On February 5, 2018, the Company entered into a stipulation and agreement of settlement (the "Settlement Agreement"), which received final approval from the Court on August 3, 2018. The Settlement Agreement settled all claims asserted in the action on behalf of the certified class (the "Settlement"), which consisted, with specified exceptions, of all persons who purchased the Company's common stock, Series B Preferred Stock or Series C Preferred Stock between October 31, 2012 and August 5, 2015. Under the terms of the Settlement Agreement, a payment of $9.5 million has been made to settle the litigation. The settlement payment was funded principally by insurance coverage, and the Company does not anticipate that the Settlement will have a material adverse impact on its financial condition. In exchange for the settlement consideration, the Company and the individual defendants in the Levin Action (and certain related parties) have been released from all claims that have been or could have been asserted in the case by class members (and certain related parties), excluding one holder of less than 500 shares who opted out of the Settlement. The terms of the Settlement and release of claims are described in greater detail in the Settlement Agreement filed with the Court and the Final Judgment and Order of Dismissal with Prejudice entered by the Court on August 3, 2018. The Settlement Agreement contains no admission of misconduct by the Company or any of the individual defendants and expressly acknowledges that the Company and the individual defendants deny all allegations of wrongdoing and maintain that it and they have at all times acted in good faith and in compliance with the law.

Other Contingencies

In May 2017, the Company received proceeds of $16.2 million from the sale of its equity interest in Pearlmark Mezz, an unconsolidated entity. As part of the sale of Pearlmark Mezz, the Company entered into an indemnification agreement whereby the Company agreed to indemnify the purchaser against realized losses of up to $4.3 million on one mezzanine loan until its final maturity date in 2020. At September 30, 2018, the Company has a contingent liability, reported in accounts payable and other liabilities on its consolidated balance sheets, of $703,000 outstanding as a reserve for probable indemnification losses. The Company did not record any additional reserve for probable losses during the three or nine months ended September 30, 2018.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

PCM is subject to additional claims for repurchases or indemnifications on loans that PCM has sold to investors. At both September 30, 2018 and December 31, 2017, outstanding demands for indemnification, repurchase or make whole payments totaled $3.3 million. The Company's estimated exposure for such outstanding claims, as well as unasserted claims, is included in its reserve for mortgage repurchases and indemnifications.

Unfunded Commitments

Unfunded commitments on the Company's originated CRE loans generally fall into two categories: (1) pre-approved capital improvement projects; and (2) new or additional construction costs subject, in each case, to the borrower meeting specified criteria. Upon completion of the improvements or construction, the Company would receive additional interest income on the advanced amount. Whole loans had $92.2 million and $84.1 million in unfunded loan commitments at September 30, 2018 and December 31, 2017, respectively.

NOTE 20 - DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

In November 2016, the Company received approval from its Board to execute the Plan to focus its strategy on CRE debt investments. The Plan contemplates disposing of certain legacy CRE loans and exiting underperforming non-core asset classes. Non-CRE businesses identified for sale were the residential mortgage and middle market lending segments as well as the Company's life settlement policy portfolio, or Life Care Funding, LLC ("LCF"). The Company reclassified the operating results of the residential mortgage and middle market lending segments as discontinued operations and excluded from continuing operations for all periods presented. In addition, the Company transferred the assets and liabilities of LCF and non-performing legacy CRE loans to held for sale in the fourth quarter of 2016. As of September 30, 2018, the Company has disposed of substantially all of the non-CRE businesses identified for sale.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The following table summarizes the operating results of the residential mortgage and middle market lending segments' discontinued operations as reported separately as net income (loss) from discontinued operations, net of tax for the three and nine months ended September 30, 2018 and 2017 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUES				
Interest income:				
Loans	$—	$892	$580	$2,682
Other	—	44	13	76
Total interest income	—	936	593	2,758
Interest expense	—	—	—	—
Net interest income	—	936	593	2,758
(Loss) gain on sale of residential mortgage loans	—	(1,186)	(1)	5,688
Fee income (loss)	280	(197)	313	3,480
Total revenues	280	(447)	905	11,926
OPERATING EXPENSES				
Equity compensation	—	65	—	286
General and administrative	62	5,590	1,165	21,985
Total operating expenses	62	5,655	1,165	22,271
	218	(6,102)	(260)	(10,345)
OTHER INCOME (EXPENSE)				
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	146	97	421	13
Fair value adjustments on financial assets held for sale	—	(82)	—	(500)
Total other income (expense)	146	15	421	(487)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE TAXES	364	(6,087)	161	(10,832)
Income tax expense	—	—	—	—
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	364	(6,087)	161	(10,832)
Loss from disposal of discontinued operations	—	—	—	—
TOTAL INCOME (LOSS) FROM DISCONTINUED OPERATIONS	$364	$(6,087)	$161	$(10,832)

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

The assets and liabilities of business segments classified as discontinued operations and other assets and liabilities classified as held for sale are reported separately in the accompanying consolidated financial statements and are summarized as follows at September 30, 2018 and December 31, 2017 (in thousands, except amounts in the footnote):

	September 30, 2018	December 31, 2017
ASSETS		
Restricted cash	$ —	$ 138
Accrued interest receivable	—	67
Loans held for sale [1]	17,000	93,063
Other assets [2]	854	14,450
Total assets held for sale	$ 17,854	$ 107,718
LIABILITIES		
Accounts payable and other liabilities	$ 1,787	$ 10,283
Management fee payable	—	56
Accrued interest payable	—	3
Total liabilities held for sale	$ 1,787	$ 10,342

(1) Includes a directly originated middle market loan with a carrying value of $2.0 million at December 31, 2017. In July 2018 substantially all of the assets of the borrower were sold, resulting in $2.1 million of loan repayments.

(2) Includes the Company's investment in life settlement contracts of $5.1 million at December 31, 2017. In 2018, substantially all of the life settlement contracts were sold or matured and there were no life settlement contracts remaining at September 30, 2018.

In 2018, the Company sold its remaining syndicated middle market loans and its remaining directly originated middle market loan paid off in excess of its carrying value as a result of which the Company recognized a $390,000 net realized gain for the nine months ended September 30, 2018.

The following table summarizes the loans held for sale in the residential mortgage and middle market lending segments as well as the non-performing legacy CRE loans transferred to held for sale in the fourth quarter of 2016. The loans held for sale are carried at the lower of cost or fair value (in thousands, except quantities and amounts in footnotes):

Loan Description	Number of Loans	Amortized Cost	Carrying Value
At September 30, 2018:			
Legacy CRE loan [1]	1	$ 25,202	$ 17,000
Mezzanine loan [2]	1	—	—
Total loans held for sale	2	$ 25,202	$ 17,000
At December 31, 2017:			
Legacy CRE loans [1]	5	$ 63,783	$ 61,841
Mezzanine loan [2]	1	—	—
Middle market loans [3]	5	41,199	29,308
Residential mortgage loans [4][5]	14	1,914	1,914
Total loans held for sale	25	$ 106,896	$ 93,063

(1) Two legacy CRE loans with amortized costs of $28.3 million were reclassified as CRE loans on the consolidated balance sheets at June 30, 2018 as the Company now intends to hold these loans to maturity.

(2) The mezzanine loan has a par value of $38.1 million and was acquired at a fair value of zero as a result of the liquidations of Resource Real Estate Funding CDO 2006-1, Ltd. in April 2016 and Resource Real Estate Funding CDO 2007-1, Ltd. in November 2016. The mezzanine loan is comprised of two tranches, maturing in November 2018 and September 2021.

(3) Includes a directly originated middle market loan with a fair value of $2.0 million at December 31, 2017. In July 2018 substantially all of the assets of the borrower were sold, resulting in $2.1 million of loan repayments. The loan's fair value was supported by a third party valuation mark prepared at December 31, 2017.

(4) The fair value option was elected for residential mortgage loans held for sale.

(5) The Company's residential mortgage loan portfolio was comprised of both agency loans and non-agency jumbo loans. The fair values of the agency loan portfolio were generally classified as Level 2 in the fair value hierarchy, as those values are determined based on quoted market prices for similar assets or upon other observable inputs. The fair values of the jumbo loan portfolio were generally classified as Level 3 in the fair value hierarchy, as those values are generally based upon valuation techniques that utilize unobservable inputs that reflect the assumptions that a market participant would use in pricing those assets.

(Back to Index)

(Back to Index)

EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
SEPTEMBER 30, 2018
(unaudited)

NOTE 21 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing of this report and determined that there have not been any events, excluding the execution of the JPMorgan Chase Facility (see Note 9) that have occurred that would require adjustments to or disclosures in the consolidated financial statements.

(Back to Index)

(Back to Index)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes appearing elsewhere in this report. This discussion contains forward-looking statements. Actual results could differ materially from those expressed in or implied by those forward-looking statements. Additionally, please see the sections "Forward-Looking Statements" and "Risk Factors" for a discussion of risks, uncertainties and assumptions associated with those statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

We are a Maryland corporation and a real estate investment trust ("REIT") that is primarily focused on originating, holding and managing commercial mortgage loans and commercial real estate-related debt investments. We are externally managed by Exantas Capital Manager Inc. (our "Manager") (formerly known as Resource Capital Manager, Inc.), which is an indirect wholly-owned subsidiary of C-III Capital Partners LLC ("C-III"), a leading commercial real estate ("CRE") investment management and services company engaged in a broad range of activities. C-III is the beneficial owner of shares of our common stock (2.4% of our outstanding shares at September 30, 2018). Our Manager draws upon the management teams of C-III and its subsidiaries and its collective investment experience to provide its services. Our objective is to provide our stockholders with total returns over time, including quarterly distributions and capital appreciation, while seeking to manage the risks associated with our investment strategies. Historically, we have made other residential real estate and commercial finance investments. We have financed a substantial portion of our portfolio investments through borrowing strategies seeking to match the maturities and repricing dates of our financings with the maturities and repricing dates of our investments, and we have sought to mitigate interest rate risk through derivative instruments.

We are organized and have elected to be taxed as a REIT for U.S. federal income tax purposes under Subchapter M of the Internal Revenue Code of 1986, as amended. We also intend to operate our business in a manner that will permit us to remain excluded from registration as an investment company under the Investment Company Act of 1940.

Our investment strategy targets the following CRE credit investments, including:

- First mortgage loans, which we refer to as whole loans. These loans are typically secured by first liens on CRE property, including the following property types: office, multifamily, self-storage, retail, hotel, healthcare, student housing, manufactured housing, industrial and mixed-use.
- First priority interests in first mortgage loans, which we refer to as A-Notes. An 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 interests in first mortgage loans, which we refer to as B-Notes. 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. B-Notes are subject to more credit risk with respect to the underlying mortgage collateral than the corresponding A-Note.
- Mezzanine debt that is senior to borrower's equity but is subordinated to other third-party debt. 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.
- Preferred equity investments that are subordinate to first mortgage loans and mezzanine debt. These investments may be subject to more credit risk than subordinated debt but provide the potential for higher returns upon a liquidation of the underlying property and are typically structured to provide some credit enhancement differentiating it from the common equity in such investments.
- Commercial mortgage-backed securities, which we refer to as CMBS, that are collateralized by commercial mortgage loans, including senior and subordinated investment grade CMBS, below investment grade CMBS and unrated CMBS.
- Other CRE Investments: We may invest in other income producing real estate debt and equity investments.

We generate our income primarily from the spread between the revenues we receive from our assets and the cost to finance our ownership of those assets, including corporate debt and from hedging interest rate risks.

(Back to Index)

(Back to Index)

We use leverage to enhance our returns, and we have financed each of our different asset classes with different degrees of leverage. The cost of borrowings to finance our investments is a significant part of our expenses. Our net income depends on our ability to control these expenses relative to our revenue. We historically have financed our CRE loan portfolio with repurchase agreements as a short-term financing source and securitizations and, to a lesser extent, other term financing as long-term financing sources. We expect to continue to use these financing sources into the near term future. We use derivative financial instruments to hedge a portion of the interest rate risk associated with our borrowings. We generally seek to minimize interest rate risk with a strategy that is expected to result in the least amount of volatility under generally accepted accounting principles while still meeting our strategic economic objectives and maintaining adequate liquidity and flexibility. These hedging transactions may include interest rate swaps, collars, caps or floors, puts, calls and options.

In November 2016, we received approval from our board of directors (the "Board") to execute a strategic plan (the "Plan") to focus our strategy on CRE debt investments. The Plan contemplates disposing of certain loans underwritten prior to 2010 ("legacy CRE loans"), exiting non-core businesses and investments, including residential real estate and commercial finance assets (collectively the "Identified Assets"), and establishing a dividend policy based on sustainable earnings.

We began the process of disposing of several ancillary businesses and investments as part of the Plan during the fourth quarter of 2016. The dispositions included our residential mortgage origination operations and our middle market lending segment. We moved these segments to discontinued operations and also moved our life settlement contract investment as well as several legacy CRE loans to held for sale classification in the fourth quarter of 2016 and recognized impairments to adjust the carrying value of these businesses and investments to their estimated fair market value. We have substantially completed the execution of the Plan as of September 30, 2018. At September 30, 2018, we have approximately $46.6 million left in the Plan, of which $45.3 million relates to the remaining legacy CRE loans.

The following table delineates the disposable investments by business segment and details the current net book value of each included in the Plan (in millions):

	Identified Assets at Plan Inception	Impairments/Adjustments on Non-Monetized Assets [1][2]	Impairments/Adjustments on Monetized Assets [1][3]	Monetized through September 30, 2018 [2]	Net Book Value at September 30, 2018
Discontinued operations and assets held for sale:					
Legacy CRE loans [4]	$ 162.2	$ (13.1)	$ (17.5)	$ (114.6)	$ 17.0
Middle market loans	73.8	—	(17.7)	(56.1)	—
Residential mortgage lending segment [5]	56.6	(2.0)	(9.6)	(43.7)	1.3
Other assets held for sale	5.9	—	3.8	(9.7)	—
Subtotal - discontinued operations and assets held for sale	298.5	(15.1)	(41.0)	(224.1)	18.3
Legacy CRE loans held for investment [6][7]	32.5	—	—	(4.2)	28.3
Investments in unconsolidated entities	86.6	—	38.3	(124.9)	—
Commercial finance assets	62.5	—	2.1	(64.6)	—
Total	$ 480.1	$ (15.1)	$ (0.6)	$ (417.8)	$ 46.6

(1) Reflects adjustments as a result of the designation as assets held for sale or discontinued operations, which occurred during the third and fourth quarters of 2016 except as noted in (3) below.

(2) Legacy CRE loans include $600,000 of protective advances to cover operating losses on a legacy CRE loan in the third quarter of 2018.

(3) The impairment adjustment to middle market loans includes $5.4 million of fair value adjustments that occurred prior to the inception of the Plan.

(4)

Includes $88.2 million par value of loans at the inception of the Plan that were not reflected on the consolidated balance sheets until our investment in Resource Real Estate Funding CDO 2007-1, Ltd. ("RREF CDO 2007-1") was liquidated in November 2016.

(5) Includes $2.3 million of cash and cash equivalents not classified as assets held for sale in the residential mortgage lending segment at September 30, 2018.

(6) Legacy CRE loans with $28.3 million of net book value were reclassified to CRE loans on the consolidated balance sheets at June 30, 2018 as we now intend to hold these loans to maturity.

(7) Includes $30.0 million par value of loans at the inception of the Plan that were not reflected on the consolidated balance sheets until our investment in RREF CDO 2007-1 was liquidated in November 2016.

We have deployed the capital received from executing the Plan primarily into our CRE lending business and CMBS investments. We typically target transitional floating-rate CRE loans between $20.0 million and $30.0 million. Since December 31, 2016, we have originated 58 CRE loans with total commitments of $1.2 billion, of which $245.1 million and $586.7 million of loan commitments were originated during the three and nine months ended September 30, 2018, respectively. We expect originations for the year ended December 31, 2018 to be between $750.0 million and $1.0 billion. In addition, we expect to see continued positive momentum in 2019 and anticipate that our originations will again range between $750.0 million and $1.0 billion for the calendar year.

(Back to Index)

(Back to Index)

Since December 31, 2016, we have acquired CMBS with total face values of $381.0 million, of which $47.6 million and $169.0 million were acquired during the three and nine months ended September 30, 2018, respectively. We expect to continue to diversify our core CRE portfolio by investing in CMBS where we see attractive investment opportunities.

In furtherance of the actions taken to reduce our cost of capital, we redeemed all of our 8.50% Series A Cumulative Redeemable Preferred Stock and 8.25% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock"), at a total redemption cost of $165.3 million, during the first quarter of 2018. These redemptions eliminated approximately $13.7 million of preferred stock dividends on an annual basis.

As a result of the Plan's implementation, the allocation of our equity at September 30, 2018 was: 92% in core assets and 8% in non-core assets. At December 31, 2017, the allocation of our equity was: 84% in core assets and 16% in non-core assets.

Results of Operations

Our net income allocable to common shares for the three months ended September 30, 2018 was $6.0 million, or $0.19 per share-basic ($0.19 per share-diluted), and our net loss allocable to common shares for the nine months ended September 30, 2018 was $394,000, or $(0.01) per share-basic ($(0.01) per share-diluted) as compared to net income allocable to common shares for the three and nine months ended September 30, 2017 of $12.6 million, or $0.41 per share-basic ($0.41 per share-diluted), and $17.8 million, or $0.58 per share-basic ($0.57 per share-diluted), respectively.

(Back to Index)

(Back to Index)

Net Interest Income

The following tables analyze the change in interest income and interest expense for the comparative three and nine months ended September 30, 2018 and 2017 by changes in volume and changes in rates. The changes attributable to the combined changes in volume and rate have been allocated proportionately, based on absolute values, to the changes due to volume and changes due to rates (in thousands):

	Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017			
			Due to Changes in	
	Net Change	Percent Change [1]	Volume	Rate
Increase (decrease) in interest income:				
CRE whole loans [2]	$4,445	21 %	$3,332	$1,113
Legacy CRE loans	(595)	(63)%	(551)	(44)
CRE mezzanine loan	120	100 %	120	—
CRE preferred equity investment [2]	573	100 %	573	—
Securities [3]	3,556	214 %	3,546	10
Other	(246)	(67)%	(246)	—
Total increase in interest income	7,853	33 %	6,774	1,079
Increase (decrease) in interest expense:				
Securitized borrowings: [4]				
RCC 2014-CRE2 Senior Notes	(916)	(100)%	(916)	—
RCC 2015-CRE3 Senior Notes	(1,158)	(81)%	(1,431)	273
RCC 2015-CRE4 Senior Notes	(1,014)	(87)%	(1,073)	59
RCC 2017-CRE5 Senior Notes	745	50 %	301	444
XAN 2018-RSO6 Senior Notes	3,688	100 %	3,688	—
Unsecured junior subordinated debentures	139	20 %	—	139
Convertible senior notes: [4]				
4.50% Convertible Senior Notes	1,240	106 %	1,240	—
6.00% Convertible Senior Notes	(409)	(24)%	(409)	—
8.00% Convertible Senior Notes	(973)	(67)%	(973)	—
CRE - term repurchase facilities [4]	635	24 %	216	419
CMBS - term repurchase facilities	(406)	(79)%	(447)	41
Trust certificates - term repurchase facilities [4]	315	52 %	336	(21)
CMBS - short term repurchase agreements	1,556	100 %	1,556	—
Hedging	27	82 %	27	—
Total increase in interest expense	3,469	25 %	2,115	1,354
Net increase (decrease) in net interest income	$4,384		$4,659	$(275)

(1) Percent change is calculated as the net change divided by the respective interest income or interest expense for the three months ended September 30, 2017.

(2) Includes an increase in fee income of approximately $128,000 and $10,000 recognized on CRE whole loans and the CRE preferred equity investment, respectively, that were due to changes in volume.

(3) Includes an increase from net accretion income of approximately $714,000 that was due to changes in volume.

(4) Includes a decrease of net amortization expense of approximately $109,000, and increases of approximately $223,000, $105,000 and $55,000 on our securitized borrowings, convertible senior notes, CRE - term repurchase facilities and trust certificates - term repurchase facilities, respectively, that were due to changes in volume.

(Back to Index)
52

(Back to Index)

	Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017			
			Due to Changes in	
	Net Change	Percent Change [1]	Volume	Rate
Increase (decrease) in interest income:				
CRE whole loans [2][3]	$9,925	16 %	$5,200	$4,725
Legacy CRE loans [4]	(2,241)	(69)%	(2,462)	221
CRE mezzanine loan	150	100 %	150	—
CRE preferred equity investment [2]	1,153	100 %	1,153	—
Securities [4]	7,580	143 %	8,555	(975)
Other	(2,203)	(89)%	(2,175)	(28)
Total increase in interest income	14,364	20 %	10,421	3,943
Increase (decrease) in interest expense:				
Securitized borrowings: [5]				
RCC 2014-CRE2 Senior Notes	(3,274)	(100)%	(3,274)	—
RCC 2015-CRE3 Senior Notes	(3,821)	(75)%	(5,353)	1,532
RCC 2015-CRE4 Senior Notes	(2,295)	(61)%	(3,126)	831
RCC 2017-CRE5 Senior Notes	4,642	310 %	4,199	443
XAN 2018-RSO6 Senior Notes	3,847	100 %	3,847	—
Unsecured junior subordinated debentures	347	17 %	—	347
Convertible senior notes: [5]				
4.50% Convertible Senior Notes	5,993	512 %	5,993	—
6.00% Convertible Senior Notes	(2,081)	(35)%	(2,081)	—
8.00% Convertible Senior Notes	(4,581)	(76)%	(4,581)	—
CRE - term repurchase facilities [5]	2,236	21 %	249	1,987
CMBS - term repurchase facilities [5]	(1,101)	(69)%	(1,335)	234
Trust certificates - term repurchase facilities [5]	1,872	122 %	1,911	(39)
CMBS - short term repurchase agreements	3,539	100 %	3,539	—
Hedging	88	166 %	88	—
Total increase in interest expense	5,411	13 %	76	5,335
Net increase (decrease) in net interest income	$8,953		$10,345	$(1,392)

(1) Percent change is calculated as the net change divided by the respective interest income or interest expense for the nine months ended September 30, 2017.

(2) Includes a decrease of fee income of approximately $287,000 and an increase of approximately $19,000 on CRE whole loans and the CRE preferred equity investment, respectively, that were due to changes in volume.

(3) Includes an increase of net accretion income of approximately $2.0 million on our CMBS securities and an increase from net amortization expense to zero of $2,000 on our CRE whole loans that were due to changes in volume.

(4) Includes the change in interest income recognized on two legacy CRE loans reclassified to CRE loans from assets held for sale on the consolidated balance sheets at June 30, 2018.

(5) Includes decreases of net amortization expense of approximately $1.9 million and $16,000, and increases of approximately $952,000, $247,000 and $134,000 on our securitized borrowings, CMBS - term repurchase facilities, convertible senior notes, CRE - term repurchase facilities and trust certificates - term repurchase facilities, respectively, that were due to changes in volume.

Net Change in Interest Income for the Comparative Three and Nine Months Ended September 30, 2018 and 2017:

Aggregate interest income increased by $7.9 million and $14.4 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively. We attribute the changes to the following:
CRE whole loans. The increases of $4.4 million and $9.9 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, were primarily attributable to an increase in the one-month London Interbank Offered Rate ("LIBOR"), our benchmark rate on CRE whole loans, over the comparative periods and an increase in the outstanding balance of the CRE whole loans, attributable to net fundings of $205.3 million for the 12 months ended September 30, 2018. The increase for the comparative nine months ended September 30, 2018 and 2017 was partially offset by a decline in income related to origination, extension and exit fees due to the decrease in volume.
Legacy CRE loans. The decreases of $595,000 and $2.2 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, were primarily attributable to legacy CRE loan payoffs, including: the February 2017 payoff of a loan with a carrying value of $14.3 million, the July 2017 payoffs of two loans with total carrying values of $61.4 million, the December 2017 payoff of a loan with a carrying value of $15.0 million and the June 2018 payoff of a loan with a carrying value of $11.0 million.

(Back to Index)

(Back to Index)

CRE preferred equity investment. The increases of $573,000 and $1.2 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, were attributable to our March 2018 investment in a preferred equity interest with an outstanding principal balance of $19.5 million and an 11.50% interest rate at September 30, 2018.

Securities. The increases of $3.6 million and $7.6 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, were primarily attributable to acquisitions of CMBS with aggregate face values of $246.8 million during the 12 months ended September 30, 2018. The increases were partially offset by decreases in interest income on our asset-backed securities ("ABS"), resulting from the September 2017 sales of four securities with total amortized costs of $2.5 million and the December 2017 sale of one security with an amortized cost of $1.8 million.

Other. The decreases of $246,000 and $2.2 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, were primarily attributable to the September 2017 sale of the remaining Harvest collateralized loan obligation ("CLO") security. Additionally, the decrease for the comparative nine months ended September 30, 2018 and 2017 was attributable to the May and June 2017 sales of the two remaining Harvest CLO securities and the receipt of $1.1 million of cash in excess of our cost basis on a trading security, recorded as interest income on our consolidated statements of operations, in the first quarter of 2017.

Net Change in Interest Expense for the Comparative Three and Nine Months Ended September 30, 2018 and 2017:

Aggregate interest expense increased by $3.5 million and $5.4 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively. We attribute the changes to the following:

Securitized borrowings. The net increase of $1.3 million for the comparative three months ended September 30, 2018 and 2017 was primarily attributable to the issuances of Resource Capital Corp. 2017-CRE5, Ltd. ("RCC 2017-CRE5") and Exantas Capital Corp. 2018-RSO6, Ltd. ("XAN 2018-RSO6"), which closed in July 2017 and June 2018, respectively. The net decrease of $901,000 for the comparative nine months ended September 30, 2018 and 2017 was primarily attributable to the liquidations of Resource Capital Corp. 2014-CRE2, Ltd. ("RCC 2014-CRE2"), Resource Capital Corp. 2015-CRE4, Ltd. ("RCC 2015-CRE4") and Resource Capital Corp. 2015-CRE3, Ltd. ("RCC 2015-CRE3") in August 2017, July 2018 and August 2018, respectively.

Unsecured junior subordinated debentures. The increases of $139,000 and $347,000 for the comparative three and nine months ended September 30, 2018 and 2017, respectively, were attributable to an increase in three-month LIBOR over the comparative periods.

Convertible senior notes. The net decreases of $142,000 and $669,000 for the comparative three and nine months ended September 30, 2018 and 2017, respectively, were primarily attributable to the extinguishment of $44.5 million and $78.8 million of aggregate principal of our 6.00% convertible senior notes due 2018 ("6.00% Convertible Senior Notes") and 8.00% convertible senior notes due 2020 ("8.00% Convertible Senior Notes"), respectively, in the third quarter of 2017. That decrease was partially offset by the issuance, in conjunction with the extinguishment, of $143.8 million of 4.50% convertible senior notes due 2022 ("4.50% Convertible Senior Notes").

CRE - term repurchase facilities. The increases of $635,000 and $2.2 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, was primarily attributable to an increase in one-month LIBOR over the comparative periods.

CMBS - term repurchase facilities & CMBS - short term repurchase agreements. The decreases of $406,000 and $1.1 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, on our CMBS - term repurchase facilities and increases of $1.6 million and $3.5 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, on our CMBS - short term repurchase agreements were primarily attributable to our increased utilization of short term repurchase agreements to finance CMBS and decreased utilization of longer term facilities in 2018.

Trust certificates - term repurchase facilities. The increases of $315,000 and $1.9 million for the comparative three and nine months ended September 30, 2018 and 2017, respectively, were primarily attributable to the September 2017 execution of the master repurchase agreement with RSO Repo SPE Trust 2017, with an outstanding balance of $47.1 million at September 30, 2018, and an increase in one-month LIBOR over the comparative periods.

(Back to Index)

(Back to Index)

Average Net Yield and Average Cost of Funds:
The following tables present the average net yield and average cost of funds for the three and nine months ended September 30, 2018 and 2017 (in thousands, except percentages):

	For the Three Months Ended September 30, 2018			For the Three Months Ended September 30, 2017		
	Average Balance	Interest Income (Expense)	Average Net Yield (Cost of Funds) (1)	Average Balance	Interest Income (Expense)	Average Net Yield (Cost of Funds) (1)
Interest-earning assets						
CRE whole loans (2)	$1,435,254	$25,451	7.03 %	$1,248,669	$21,006	6.67 %
Legacy CRE loans	58,567	352	2.39 %	90,881	947	4.14 %
CRE mezzanine loan	4,700	120	10.09 %	—	—	— %
CRE preferred equity investment (2)	19,432	573	11.69 %	—	—	— %
Securities (3)	331,708	5,217	6.24 %	122,693	1,661	5.41 %
Other	5,865	123	2.11 %	43,778	369	2.87 %
Total interest income/average net yield	1,855,526	31,836	6.78 %	1,506,021	23,983	6.30 %
Interest-bearing liabilities						
Collateralized by:						
CRE whole loans (4)	861,564	(9,642)	(4.44)%	722,853	(7,661)	(4.21)%
CMBS	186,983	(1,666)	(3.53)%	65,472	(516)	(3.12)%
General corporate debt:						
Unsecured junior subordinated debentures	51,548	(829)	(6.29)%	51,548	(690)	(5.23)%
4.50% Convertible Senior Notes (5)	143,750	(2,411)	(6.56)%			