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# Ares Commercial Real Estate Corporation - Third Quarter 2018 Earnings Presentation

October 30, 2018

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# Ares Commercial Real Estate Corporation

## Third Quarter 2018 Results

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### Earnings

- Reported GAAP earnings of \$10.0 million or \$0.35 per diluted common share and Core Earnings of \$10.3 million or \$0.36 per diluted common share<sup>(1)</sup> for third quarter 2018

### Originations & Portfolio

- Originated \$117.5 million of gross new loan commitments in the third quarter 2018
- Investment portfolio was \$1.9 billion in originated commitments and \$1.7 billion in outstanding principal<sup>(2)</sup>
- Portfolio total weighted average unleveraged effective yield of 6.9%<sup>(3)</sup>

### Dividends

- Paid dividend of \$0.29 per share for the third quarter 2018

## Subsequent to Third Quarter 2018

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### Dividends

- Declared a \$0.02 per common share increase in the quarterly dividend to \$0.31 per common share for the fourth quarter 2018, representing the third dividend increase for 2018

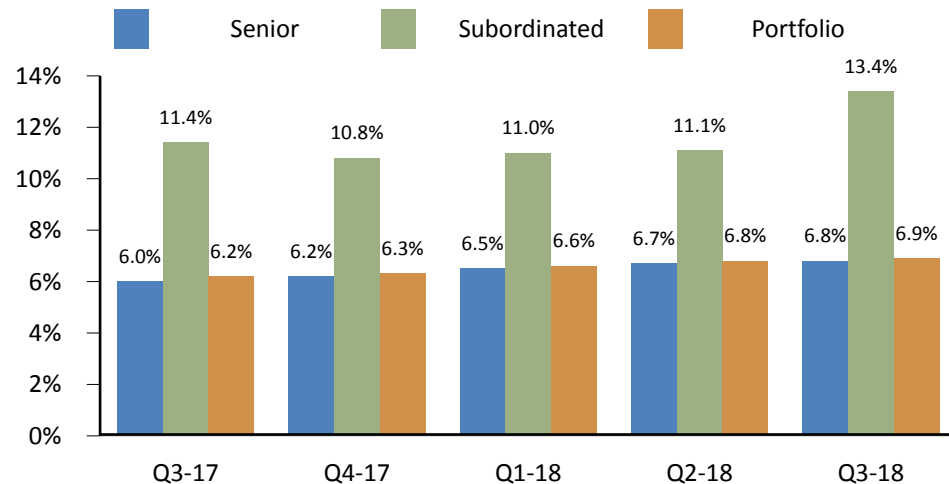
1. See slide 9 for reconciliation of GAAP net income to non-GAAP Core Earnings.
2. The weighted average unpaid principal balance was \$1.694 billion for the quarter ended September 30, 2018.
3. Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The Total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of September 30, 2018 as weighted by the Outstanding Principal balance of each loan.

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

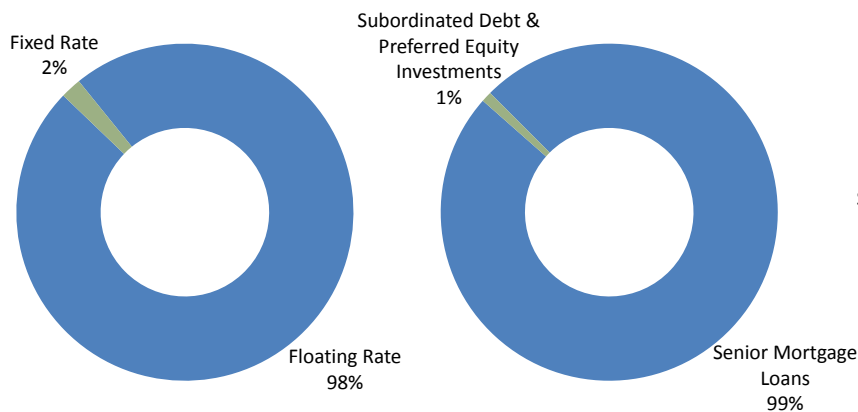
## Summary

- \$1.7 billion in outstanding principal
- Portfolio total weighted average unleveraged effective yield of 6.9%<sup>(2)</sup>
- 3.0x debt to equity

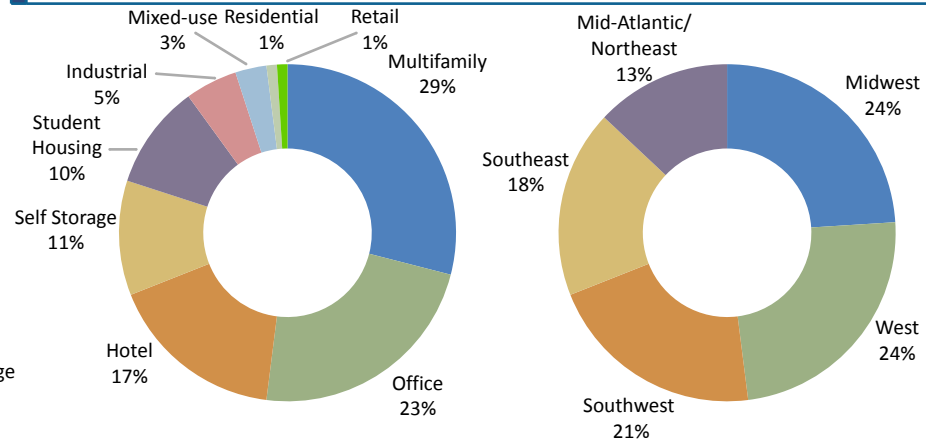
## Unleveraged Effective Yield<sup>(2)(3)</sup>



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



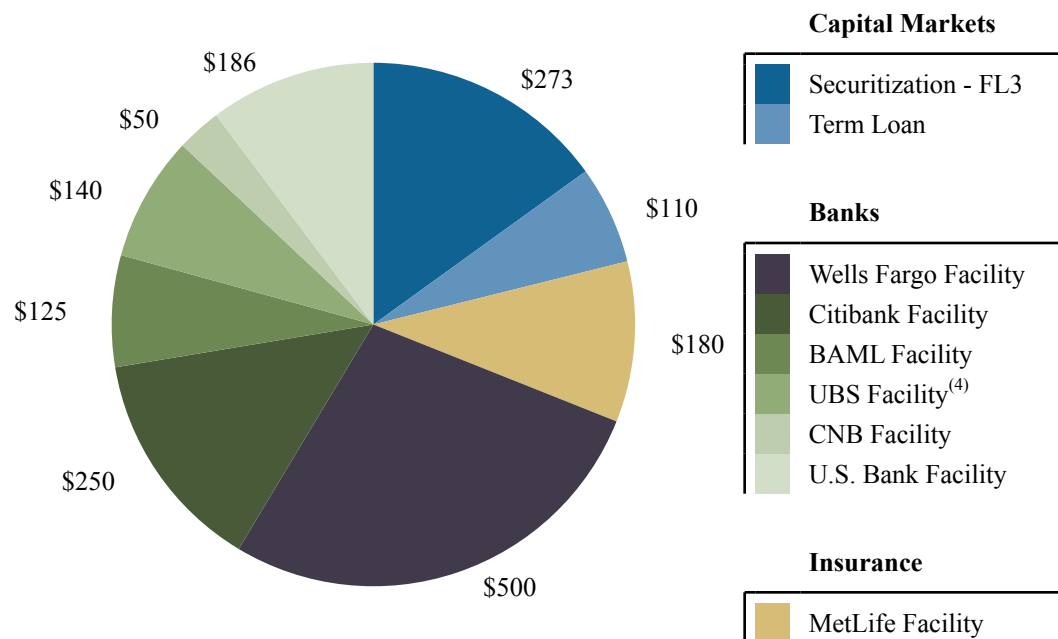
## Portfolio Diversification<sup>(3)</sup>



1. Data as of September 30, 2018.
2. Unleveraged Effective Yield is the compounded effective rate of return that would be earned over the life of the investment based on the contractual interest rate (adjusted for any deferred loan fees, costs, premiums or discounts) and assumes no dispositions, early prepayments or defaults. The Total Weighted Average Unleveraged Effective Yield is calculated based on the average of Unleveraged Effective Yield of all loans held by the Company as of September 30, 2018 as weighted by the Outstanding Principal balance of each loan.
3. Calculated based on outstanding principal balance.

# Deep Sources of Diverse Funding Enhances ACRE's Portfolio<sup>(1)</sup>

## Diverse Sources of Liquidity from Banks, Insurance Cos, Capital Markets Providers and Private Capital<sup>(2)(3)</sup>



## Disciplined Approach to Funding

- Match Funded**
  - Portfolio has weighted average remaining life of approximately 1.7 years
  - The Company's financing agreements have a weighted average remaining term of approximately 2.5 years assuming the Company exercises available renewal options<sup>(5)</sup>
- Diverse sources of liquidity provide additional strength to the Company's competitive position**
  - \$1.8 billion of capacity

- Data as of September 30, 2018.
- Dollars in millions of borrowing capacity. Represents total commitments. Ability to draw on available capacity is subject to available collateral and lender approvals.
- The weighted average borrowings was \$1.327 billion for the quarter ended September 30, 2018.
- On October 21, 2018, the UBS Facility matured. The UBS Facility had been repaid in full and its term was not extended.
- Comprised of Secured Funding Agreements and Term Loan as of September 30, 2018 that are used for funding ACRE's loans held for investment.

# Appendix

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

	As of	
	September 30, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,034	\$ 28,343
Restricted cash	379	379
Loans held for investment (\$286,265 and \$341,158 related to consolidated VIEs, respectively)	1,658,862	1,726,283
Other assets (\$750 and \$945 of interest receivable related to consolidated VIEs, respectively; \$54,893 of other receivables related to consolidated VIEs as of September 30, 2018)	67,237	15,214
Total assets	<u>\$ 1,731,512</u>	<u>\$ 1,770,219</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Secured funding agreements	\$ 912,410	\$ 957,960
Secured term loan	108,151	107,595
Collateralized loan obligation securitization debt (consolidated VIE)	271,335	271,211
Due to affiliate	2,512	2,628
Dividends payable	8,323	7,722
Other liabilities (\$480 and \$414 of interest payable related to consolidated VIEs, respectively)	4,623	3,933
Total liabilities	<u>1,307,354</u>	<u>1,351,049</u>
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, par value \$0.01 per share, 450,000,000 shares authorized at September 30, 2018 and December 31, 2017, and 28,698,600 and 28,598,916 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	283	283
Additional paid-in capital	421,415	420,637
Accumulated earnings (deficit)	2,460	(1,750)
Total stockholders' equity	<u>424,158</u>	<u>419,170</u>
Total liabilities and stockholders' equity	<u>\$ 1,731,512</u>	<u>\$ 1,770,219</u>

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
<b>Net interest margin:</b>				
Interest income from loans held for investment	\$ 30,362	\$ 28,551	\$ 87,401	\$ 72,321
Interest expense	(16,378)	(13,825)	(46,645)	(36,845)
Net interest margin	13,984	14,726	40,756	35,476
<b>Expenses:</b>				
Management and incentive fees to affiliate	1,571	1,554	5,302	5,020
Professional fees	498	350	1,435	1,169
General and administrative expenses	852	724	2,415	2,006
General and administrative expenses reimbursed to affiliate	870	986	2,624	2,883
Total expenses	3,791	3,614	11,776	11,078
<b>Income before income taxes</b>	10,193	11,112	28,980	24,398
Income tax expense, including excise tax	236	54	403	149
<b>Net income attributable to ACRE</b>	9,957	11,058	28,577	24,249
Less: Net income attributable to non-controlling interests	—	—	—	(25)
<b>Net income attributable to common stockholders</b>	\$ 9,957	\$ 11,058	\$ 28,577	\$ 24,224
<b>Earnings per common share:</b>				
Basic and diluted earnings per common share	\$ 0.35	\$ 0.39	\$ 1.00	\$ 0.85
<b>Weighted average number of common shares outstanding:</b>				
Basic weighted average shares of common stock outstanding	28,542,828	28,481,298	28,521,317	28,475,369
Diluted weighted average shares of common stock outstanding	28,698,600	28,582,690	28,638,973	28,537,723
<b>Dividends declared per share of common stock</b>	\$ 0.29	\$ 0.27	\$ 0.85	\$ 0.81



## September 30, 2018 Reconciliation of Net Income to Non-GAAP Core Earnings

The Company believes the disclosure of Core Earnings provides useful information to investors regarding the calculation of incentive fees the Company pays to its manager, Ares Commercial Real Estate Management LLC, and the Company's financial performance. Core Earnings is an adjusted non-GAAP measure that helps the Company evaluate its financial performance excluding the effects of certain transactions and GAAP adjustments that it believes are not necessarily indicative of its current loan origination portfolio and operations. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. Core Earnings is a non-GAAP measure and is defined as net income (loss) computed in accordance with GAAP, excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization (to the extent that any of the Company's target investments are structured as debt and the Company forecloses on any properties underlying such debt), any unrealized gains, losses or other non-cash items recorded in net income (loss) for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income (loss), one-time events pursuant to changes in GAAP and certain non-cash charges after discussions between the Company's external manager and the Company's independent directors and after approval by a majority of the Company's independent directors.

Reconciliation of net income attributable to common stockholders, the most directly comparable GAAP financial measure, to Core Earnings is set forth in the table below for the three and twelve months ended September 30, 2018 (\$ in thousands):

	For the three months ended	For the twelve months ended
	September 30, 2018	
	Amount	Amount
Net income attributable to common stockholders	\$ 9,957	\$ 34,761
Stock-based compensation	329	988
Incentive fees to affiliate	—	610
Early extinguishment of debt costs (1)	—	768
<b>Core Earnings</b>	<b>\$ 10,286</b>	<b>\$ 37,127</b>

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- (1) Represents a one-time, non-cash charge in connection with the Company's \$45.0 million repayment of outstanding principal on the Secured Term Loan in December 2017.