BANK OF MONTREAL /CAN/
Form FWP
June 29, 2015
Registration Statement No. 333-196387

Filed Pursuant to Rule 433

Subject to Completion, dated June 29, 2015
Pricing Supplement to the Prospectus dated June 27, 2014, the Prospectus Supplement dated June 27, 2014 and the Product Supplement dated June 30, 2014

Senior Medium-Term Notes, Series C
Bullish Enhanced Return Notes, due October 6, 2016
Each Linked to a Single Index

- This pricing supplement relates to more than one note offering. Each issue of the notes is linked to one, and only one, Underlying Asset named below. You may participate in any of the offerings individually or, at your election, in both of the offerings. This pricing supplement does not, however, allow you to purchase a single note linked to a basket of the Underlying Assets below.
- The notes are designed for investors who seek a 300% leveraged positive return based on any appreciation in the level of the applicable Underlying Asset. Investors should be willing to accept a payment at maturity that is capped at the applicable Maximum Redemption Amount (as defined below), be willing to forgo periodic interest, and be willing to lose 1% of their principal amount for each 1% that the level of the applicable Underlying Asset decreases from its level on the pricing date.
- Investors in the notes may lose up to 100% of their principal amount at maturity.
- The maximum return at maturity will be equal to the product of the Upside Leverage Factor of 300% and the applicable Cap. Accordingly, the Maximum Redemption Amount will be $[1,198 – 1,228] for each $1,000 in principal amount as to the notes linked to the EURO STOXX 50® Index, and $[1,175 – 1,205] per $1,000 in principal amount as to the notes linked to the Russell 2000® Index.
- The offerings are expected to price on or about July 2, 2015, and the notes are expected to settle through the facilities of The Depository Trust Company on or about July 8, 2015.
- The notes are scheduled to mature on or about October 6, 2016.
- Any payment at maturity is subject to the credit risk of Bank of Montreal.
- The notes will be issued in minimum denominations of $1,000 and integral multiples of $1,000.
- The notes will not be listed on any securities exchange.
- Our subsidiary, BMO Capital Markets Corp. (“BMOCM”), is the agent for this offering. See “Supplemental Plan of Distribution (Conflicts of Interest)” below.

Common Terms for Each of the Notes:

Pricing Date:	On or about July 2, 2015	Valuation Date:	On or about October 3, 2016
Settlement Date:	On or about July 8, 2015	Maturity Date:	On or about October 6, 2016
Term of the Notes:	Approximately 15 months		

Specific Terms for Each of the Notes:

Underlying Asset	Upside Leverage Factor	Cap	Maximum Redemption Amount	Initial Level*	CUSIP	Principal Amount	Price to Public	Agent’s Commission	Proceeds to Bank of Montreal
EURO STOXX 50® Index (SX5E)	300%	[6.60-7.60]%	$[1,198-1,228]		06366RR72		100%	0.50%	99.50% US$

Russell 2000® Index (RTY)	300%	[5.8333-6.8333]%	$[1,175-1,205]	06366RR80	100%	0.50%	99.50% US$

* The actual Initial Level for each note will be set on the pricing date.

Investing in the notes involves risks, including those described in the "Selected Risk Considerations" section beginning on page P-4 of this pricing supplement, "Additional Risk Factors Relating to the Notes" section beginning on page PS-5 of the product supplement, and "Risk Factors" section beginning on page S-3 of the prospectus supplement and on page 7 of the prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these notes or passed upon the accuracy of this pricing supplement, the product supplement, the prospectus supplement or the prospectus. Any representation to the contrary is a criminal offense.

The notes will be our unsecured obligations and will not be savings accounts or deposits that are insured by the United States Federal Deposit Insurance Corporation, the Bank Insurance Fund, the Canada Deposit Insurance Corporation or any other governmental agency or instrumentality or other entity.

On the date of this preliminary pricing supplement, assuming that each of the notes is priced at the low end of the Cap ranges set forth above, the estimated initial value of the notes is $985.10 per $1,000 in principal amount as to the notes linked to SX5E, and $985.20 per $1,000 in principal amount as to the notes linked to RTY. The estimated initial value of the notes on the pricing date may differ from this value but will not be less than $970 per $1,000 in principal amount in each case. However, as discussed in more detail in this pricing supplement, the actual value of each of the notes at any time will reflect many factors and cannot be predicted with accuracy.

BMO CAPITAL MARKETS

Key Terms of Each of the Notes:

General: This pricing supplement relates to more than one offering of notes. Each offering is a separate offering of notes linked to one, and only one, Underlying Asset. If you wish to participate in both offerings, you must separately purchase the applicable notes. The notes offered by this pricing supplement do not represent notes linked to a basket of the Underlying Assets.

Payment at Maturity: If the Percentage Change is greater than or equal to the applicable Cap, the payment at maturity for each $1,000 in principal amount of the notes will equal the applicable Maximum Redemption Amount.

If the Percentage Change is positive but is less than the applicable Cap, then the payment at maturity for each $1,000 in principal amount of the notes will be calculated as follows:

$$\text{Principal Amount} + [\text{Principal Amount} \times (\text{Percentage Change} \times \text{Upside Leverage Factor})]$$

If the Percentage Change is zero or negative, then the payment at maturity will be calculated as follows:

$$\text{Principal Amount} + [\text{Principal Amount} \times \text{Percentage Change}]$$

If the Percentage Change is negative, investors will lose some or all of the principal amount of the notes.

Initial Level: The closing level of the applicable Underlying Asset on the Pricing Date.

Final Level: The closing level of the applicable Underlying Asset on the Valuation Date.

Percentage Change: $\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$, expressed as a percentage.

Pricing Date: On or about July 2, 2015.

Settlement Date: On or about July 8, 2015, as determined on the Pricing Date.

Valuation Date: On or about October 3, 2016, as determined on the Pricing Date.

Maturity Date: On or about October 6, 2016, as determined on the Pricing Date.

Automatic Redemption: Not applicable.

Calculation Agent: BMOCM

Selling Agent: BMOCM

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Key Terms of the Notes Linked to the EURO STOXX 50® Index:

Underlying Asset:	The EURO STOXX 50® Index (Bloomberg Symbol: SX5E). See the section below entitled "The Underlying Assets— The EURO STOXX 50® Index" for additional information about this Underlying Asset.
Upside Leverage Factor:	300%
Cap:	[6.60 – 7.60]% (to be determined on the Pricing Date)
Maximum Redemption Amount:	$[1,198 – 1,228] (to be determined on the Pricing Date)
CUSIP:	06366RR72

Key Terms of the Notes Linked to the Russell 2000® Index:

Underlying Asset:	The Russell 2000® Index (Bloomberg Symbol: RTY). See the section below entitled "The Underlying Assets— The Russell 2000® Index" for additional information about this Underlying Asset.
Upside Leverage Factor:	300%
Cap:	[5.8333 – 6.8333]% (to be determined on the Pricing Date)
Maximum Redemption Amount:	$[1,175 – 1,205] (to be determined on the Pricing Date)
CUSIP:	06366RR80

The Pricing Date and the Settlement Date are subject to change. The actual Pricing Date, Settlement Date, Valuation Date, Maturity Date and the Initial Level for each of the notes will be set forth in the final pricing supplement.

Additional Terms of the Notes

You should read this pricing supplement together with the product supplement dated June 30, 2014, the prospectus supplement dated June 27, 2014 and the prospectus dated June 27, 2014. This pricing supplement, together with the documents listed below, contains the terms of each of the notes and supersedes all other prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, fact sheets, brochures or other educational materials of ours or the agent. You should carefully consider, among other things, the matters set forth in “Additional Risk Factors Relating to the Notes” in the product supplement, as the notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisers before you invest in the notes.

You may access these documents on the SEC website at www.sec.gov as follows (or if such address has changed, by reviewing our filings for the relevant date on the SEC website):

- Product supplement dated June 30, 2014: https://www.sec.gov/Archives/edgar/data/927971/000121465914004751/f626140424b5.htm

- Prospectus supplement dated June 27, 2014: http://www.sec.gov/Archives/edgar/data/927971/000119312514254915/d750935d424b5.htm

- Prospectus dated June 27, 2014: http://www.sec.gov/Archives/edgar/data/927971/000119312514254905/d749601d424b2.htm

Our Central Index Key, or CIK, on the SEC website is 927971. As used in this pricing supplement, “we,” “us” or “our” refers to Bank of Montreal.

We have filed a registration statement (including a prospectus) with the SEC for the offerings to which this document relates. Before you invest, you should read the prospectus in that registration statement and the other documents that we have filed with the SEC for more complete information about us and this offering. You may obtain these documents free of charge by visiting the SEC’s website at http://www.sec.gov. Alternatively, we will arrange to send to you the prospectus (as supplemented by the prospectus supplement and product supplement) if you request it by calling our agent toll-free at 1-877-369-5412.

Selected Risk Considerations

An investment in the notes involves significant risks. Investing in the notes is not equivalent to investing directly in any of the Underlying Assets. These risks are explained in more detail in the "Additional Risk Factors Relating to the Notes" section of the product supplement.

- Your investment in the notes may result in a loss. — You may lose some or all of your investment in the notes. The payment at maturity will be based on the Final Level, and whether the Final Level of the Underlying Asset on the Valuation Date has declined from the Initial Level. You will lose 1% of the principal amount of your notes for each 1% that the Final Level is less than the Initial Level. Accordingly, you could lose up to 100% of the principal amount of the notes.

- Your return on the notes is limited to the applicable Maximum Redemption Amount, regardless of any appreciation in the level of the applicable Underlying Asset. — You will not receive a payment at maturity with a value greater than the applicable Maximum Redemption Amount per $1,000 in principal amount of the notes. This will be the case even if the Percentage Change of the applicable Underlying Asset exceeds the applicable Cap.

- Your investment is subject to the credit risk of Bank of Montreal. — Our credit ratings and credit spreads may adversely affect the market value of the notes. Investors are dependent on our ability to pay the amount due at maturity, and therefore investors are subject to our credit risk and to changes in the market's view of our creditworthiness. Any decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the value of the notes.

- Potential conflicts. — We and our affiliates play a variety of roles in connection with the issuance of the notes, including acting as calculation agent. In performing these duties, the economic interests of the calculation agent and other affiliates of ours are potentially adverse to your interests as an investor in the notes. We or one or more of our affiliates may also engage in trading of securities included in the Underlying Assets on a regular basis as part of our general broker-dealer and other businesses, for proprietary accounts, for other accounts under management or to facilitate transactions for our customers. Any of these activities could adversely affect the levels of the Underlying Assets and, therefore, the market value of the notes. We or one or more of our affiliates may also issue or underwrite other securities or financial or derivative instruments with returns linked or related to changes in the performance of the Underlying Assets. By introducing competing products into the marketplace in this manner, we or one or more of our affiliates could adversely affect the market value of the notes.

- Our initial estimated value of the notes will be lower than the price to public. — Our initial estimated value of each of the notes is only an estimate, and is based on a number of factors. The price to public of each of the notes will exceed our initial estimated value, because costs associated with offering, structuring and hedging the notes are included in the price to public, but are not included in the estimated value. These costs include the underwriting discount and selling concessions, the profits that we and our affiliates expect to realize for assuming the risks in hedging our obligations under the notes and the estimated cost of hedging these obligations. The initial estimated value of each of the notes may be as low as the applicable amount indicated on the cover page of this pricing supplement.

- Our initial estimated value does not represent any future value of the notes, and may also differ from the estimated value of any other party. — Our initial estimated value of the notes as of the date of this preliminary pricing supplement is, and our estimated value as determined on the pricing date will be, derived using our internal pricing models. This value is based on market conditions and other relevant factors, which include volatility of the applicable Underlying Asset, dividend rates and interest rates. Different pricing models and assumptions could provide values for the notes that are greater than or less than our initial estimated value. In addition, market

conditions and other relevant factors after the pricing date are expected to change, possibly rapidly, and our assumptions may prove to be incorrect. After the pricing date, the value of each of the notes could change dramatically due to changes in market conditions, our creditworthiness, and the other factors set forth in this pricing supplement and the product supplement. The value of each of the notes after the pricing date is not expected to correlate with one another. These changes are likely to impact the price, if any, at which we or BMOCM would be willing to purchase the notes from you in any secondary market transactions. Our initial estimated values do not represent a minimum price at which we or our affiliates would be willing to buy your notes in any secondary market at any time.

- The terms of the notes are not determined by reference to the credit spreads for our conventional fixed-rate debt. — To determine the terms of the notes, we will use an internal funding rate that represents a discount from the credit spreads for our conventional fixed-rate debt. As a result, the terms of the notes are less favorable to you than if we had used a higher funding rate.

- Certain costs are likely to adversely affect the value of the notes. — Absent any changes in market conditions, any secondary market prices of the notes will likely be lower than the price to public. This is because any secondary market prices will likely take into account our then-current market credit spreads, and because any secondary market prices are likely to exclude all or a portion of the agent's commission and the hedging profits and estimated hedging costs that are included in the price to public of the notes and that may be reflected on your account statements. In addition, any such price is also likely to reflect a discount to account for costs associated with establishing or unwinding any related hedge transaction, such as dealer discounts, mark-ups and other transaction costs. As a result, the price, if any, at which BMOCM or any other party may be willing to purchase the notes from you in secondary market transactions, if at all, will likely be lower than the price to public. Any sale that you make prior to the maturity date could result in a substantial loss to you.

- You will not have any shareholder rights and will have no right to receive any securities included in the applicable Underlying Asset at maturity. — Investing in your notes will not make you a holder of any shares of any company included in either of the Underlying Assets. Neither you nor any other holder or owner of the notes will have any voting rights, any right to receive dividends or other distributions or any other rights with respect to those securities.

- Changes that affect the Underlying Asset will affect the market value of the notes and the amount you will receive at maturity. — The policies of STOXX Limited ("STOXX"), the sponsor of the EURO STOXX 50® Index, and Russell Investments ("Russell"), the sponsor of Russell 2000® Index (each, an "Index Sponsor"), concerning the calculation of the applicable Underlying Asset, additions, deletions or substitutions of the components of the applicable Underlying Asset and the manner in which changes affecting those components, such as stock dividends, reorganizations or mergers, may be reflected in the applicable Underlying Asset and, therefore, could affect the level of the applicable Underlying Asset, the amount payable on the notes at maturity, and the market value of the notes prior to maturity. The amount payable on the notes and their market value could also be affected if the applicable Index Sponsor changes these policies, for example, by changing the manner in which it calculates the applicable Underlying Asset, or if it discontinues or suspends the calculation or publication of the applicable Underlying Asset.

- We have no affiliation with any Index Sponsor and will not be responsible for any actions taken by any Index Sponsor. —None of the Index Sponsors is an affiliate of ours or will be involved in any offerings of the notes in any way. Consequently, we have no control over the actions of any Index Sponsor, including any actions of the type that would require the calculation agent to adjust the payment to you at maturity. The Index Sponsors have no obligation of any sort with respect to the notes. Thus, the Index Sponsors have no obligation to take your interests into consideration for any reason, including in taking any actions that might affect the value of the notes. None of our proceeds from any issuance of the notes will be delivered to any Index Sponsor.

- Lack of liquidity. — The notes will not be listed on any securities exchange. BMOCM may offer to purchase the notes in the secondary market, but is not required to do so. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the notes easily. Because other dealers are not likely to make a secondary market for the notes, the price at which you may be able to trade the notes is likely to depend on the price, if any, at which BMOCM is willing to buy the notes.

- Hedging and trading activities. — We or any of our affiliates may carry out hedging activities related to the notes, including purchasing or selling securities included in the applicable Underlying Asset, or futures or options relating to the applicable Underlying Asset, or other derivative instruments with returns linked or related to changes in the performance of the applicable Underlying Asset or securities included in the applicable Underlying Index. We or our affiliates may also engage in trading relating to the applicable Underlying Asset from time to time. Any of these hedging or trading activities on or prior to the pricing date and during the term of the notes could adversely affect

our payment to you at maturity.

- Many economic and market factors will influence the value of the notes. — In addition to the level of the applicable Underlying Asset and interest rates on any trading day, the value of the notes will be affected by a number of economic and market factors that may either offset or magnify each other, and which are described in more detail in the product supplement.

- You must rely on your own evaluation of the merits of an investment linked to the applicable Underlying Asset. — In the ordinary course of their businesses, our affiliates from time to time may express views on expected movements in the levels of the Underlying Assets or the prices of securities included in the Underlying Assets. One or more of our affiliates have published, and in the future may publish, research reports that express views on Underlying Assets or these securities. However, these views are subject to change from time to time. Moreover, other professionals who deal in the markets relating to the Underlying Assets at any time may have significantly different views from those of our affiliates. You are encouraged to derive information concerning the Underlying Assets from multiple sources, and you should not rely on the views expressed by our affiliates.

  Neither the offering of the notes nor any views which our affiliates from time to time may express in the ordinary course of their businesses constitutes a recommendation as to the merits of an investment in the notes.

- Significant aspects of the tax treatment of the notes are uncertain. — The tax treatment of the notes is uncertain. We do not plan to request a ruling from the Internal Revenue Service or from any Canadian authorities regarding the tax treatment of the notes, and the Internal Revenue Service or a court may not agree with the tax treatment described in this pricing supplement.

  The Internal Revenue Service has issued a notice indicating that it and the Treasury Department are actively considering whether, among other issues, a holder should be required to accrue interest over the term of an instrument such as the notes even though that holder will not receive any payments with respect to the notes until maturity and whether all or part of the gain a holder may recognize upon sale or maturity of an instrument such as the notes could be treated as ordinary income. The outcome of this process is uncertain and could apply on a retroactive basis.

  Please read carefully the section entitled “U.S. Federal Tax Information” in this pricing supplement, the section entitled “Supplemental Tax Considerations—Supplemental U.S. Federal Income Tax Considerations” in the accompanying product supplement, the section “United States Federal Income Taxation” in the accompanying prospectus and the section entitled “Certain Income Tax Consequences” in the accompanying prospectus supplement. You should consult your tax advisor about your own tax situation.

Additional Risks Relating to the EURO STOXX 50® Index

- An investment in the notes linked to the EURO STOXX 50® Index is subject to risks associated with foreign securities markets. — The EURO STOXX 50® Index tracks the value of certain European equity securities. You should be aware that investments in securities linked to the value of foreign equity securities involve particular risks. The foreign securities markets comprising the EURO STOXX 50® Index may have less liquidity and may be more volatile than U.S. or other securities markets and market developments may affect foreign markets differently from U.S. or other securities markets. Direct or indirect government intervention to stabilize these foreign securities markets, as well as cross-shareholdings in foreign companies, may affect trading prices and volumes in these markets. Also, there is generally less publicly available information about foreign companies than about those U.S. companies that are subject to the reporting requirements of the U.S. Securities and Exchange Commission, and foreign companies are subject to accounting, auditing and financial reporting standards and requirements that differ from those applicable to U.S. reporting companies.

  Prices of securities in Europe are subject to political, economic, financial and social factors that apply in that market. These factors, which could negatively affect those securities markets, include the possibility of recent or future changes in European economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to European companies or investments in European equity securities and the possibility of fluctuations in the rate of exchange between currencies, the possibility of outbreaks

of hostility and political instability and the possibility of natural disaster or adverse public health development in the region. Moreover, European economies may differ favorably or unfavorably from the U.S. economy in important respects such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

- An investment in the EURO STOXX 50® Index is subject to foreign currency exchange rate risk. — The securities composing the EURO STOXX 50® Index are traded in euros. The value of the notes will not be adjusted for exchange rate fluctuations between the U.S. dollar and the euro, however any currency fluctuations could affect the level of the EURO STOXX 50® Index. Accordingly, the market value of the notes and the payments on the notes could be adversely affected as a result of such exchange rate fluctuations.

Additional Risks Relating to the Russell 2000® Index

- An investment in the Russell 2000® Index is subject to risks associated in investing in stocks with a small market capitalization. — The Russell 2000® Index consists of stocks issued by companies with relatively small market capitalizations. These companies often have greater stock price volatility, lower trading volume and less liquidity than large-capitalization companies. As a result, the level of this index may be more volatile than that of a market measure that does not track solely small-capitalization stocks. Stock prices of small-capitalization companies are also generally more vulnerable than those of large-capitalization companies to adverse business and economic developments, and the stocks of small-capitalization companies may be thinly traded, and be less attractive to many investors if they do not pay dividends. In addition, small capitalization companies are typically less well-established and less stable financially than large-capitalization companies and may depend on a small number of key personnel, making them more vulnerable to loss of those individuals. Small capitalization companies tend to have lower revenues, less diverse product lines, smaller shares of their target markets, fewer financial resources and fewer competitive strengths than large-capitalization companies. These companies may also be more susceptible to adverse developments related to their products or services.

Hypothetical Return on the Notes at Maturity

The following table and examples illustrate the hypothetical return at maturity on a $1,000 investment in the notes. The "return," as used in this section is the number, expressed as a percentage, which results from comparing the payment at maturity per $1,000 in principal amount of the notes to $1,000. The hypothetical total returns set forth below are based on a hypothetical Initial Level of 1,000.00, the Upside Leverage Factor of 300%, a hypothetical Cap of 6.333%, and a hypothetical Maximum Redemption Amount of $1,190. The hypothetical returns set forth below are for illustrative purposes only and may not be the actual returns applicable to investors in the notes. The numbers appearing in the following table and in the examples below have been rounded for ease of analysis.

Hypothetical Final Level	Hypothetical Percentage Change	Hypothetical Return on the Notes
0.00	-100.00%	-100.00%
500.00	-50.00%	-50.00%
700.00	-30.00%	-30.00%
800.00	-20.00%	-20.00%
900.00	-10.00%	-10.00%
950.00	-5.00%	-5.00%
980.00	-2.00%	-2.00%
1,000.00	0.00%	0.00%
1,020.00	2.00%	6.00%
1,040.00	4.00%	12.00%
1,050.00	5.00%	15.00%
1,063.33	6.333%	19.00%
1,250.00	25.00%	19.00%
1,500.00	50.00%	19.00%
2,000.00	100.00%	19.00%

Hypothetical Examples of Amounts Payable at Maturity

The following examples illustrate how the returns set forth in the table above are calculated.

Example 1: The level of the Underlying Asset decreases from the hypothetical Initial Level of 1,000.00 to a hypothetical Final Level of 700.00, representing a Percentage Change of -30%. Because the Percentage Change is negative, the investor receives a payment at maturity of $700 per $1,000 in principal amount of the notes, calculated as follows:

$1,000 + [$1,000 x -30%] = $700

Interest income:

CRE loans
$
25,435

$
21,841

$
47,818

$
43,374

Securities
4,205

1,329

7,661

3,637

Other
20

465

138

2,095

Total interest income
29,660

23,635

55,617

49,106

Interest expense
16,159

14,347

30,543

28,601

Net interest income
13,501

9,288

25,074

20,505

Other revenue
152

964

57

1,892

Total revenues
13,653

10,252

25,131

22,397

OPERATING EXPENSES

Management fees
2,812

2,638

5,625

5,318

Equity compensation
659

734

1,626

1,522

General and administrative
2,547

3,580

5,607

7,443

Depreciation and amortization
19

32

32

100

Impairment losses
—

—

—

177

Provision for (recovery of) loan and lease losses, net
—

131

(799
)

1,130

Total operating expenses
6,037

7,115

12,091

15,690

7,616

3,137

13,040

6,707

OTHER INCOME (EXPENSE)

Equity in earnings (losses) of unconsolidated entities
69

(118
)

(223
)

243

Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives
932

9,478

290

17,084

Net realized and unrealized gain (loss) on investment securities, trading
58

(50
)

53

(961
)
Fair value adjustments on financial assets held for sale
9

79

(4,656
)

58

Other income
506

17

517

85

Total other income (expense)
1,574

9,406

(4,019
)

16,509

INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	9,190	12,543	9,021	23,216
Income tax (expense) benefit	(1)	25	31	(1,474)
NET INCOME FROM CONTINUING OPERATIONS	9,189	12,568	9,052	21,742
NET LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(450)	(4,184)	(203)	(4,745)

NET INCOME
8,739

8,384

8,849

16,997

Net income allocated to preferred shares
(2,587
)

(6,015
)

(7,797
)

(12,029
)
Consideration paid in excess of carrying value of preferred shares
—

—

(7,482
)

—

Net loss allocable to non-controlling interest, net of taxes
—

95

—

196

NET INCOME (LOSS) ALLOCABLE TO COMMON SHARES
$
6,152

$
2,464

$
(6,430
)

$
5,164

The accompanying notes are an integral part of these statements
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EXANTAS CAPITAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS - (Continued)
(in thousands, except share and per share data)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
NET INCOME (LOSS) PER COMMON SHARE - BASIC:				
CONTINUING OPERATIONS	$0.21	$ 0.22	$(0.20)	$ 0.32
DISCONTINUED OPERATIONS	$(0.01)	$ (0.14)	$(0.01)	$ (0.15)
TOTAL NET INCOME (LOSS) PER COMMON SHARE - BASIC	$0.20	$ 0.08	$(0.21)	$ 0.17
NET INCOME (LOSS) PER COMMON SHARE - DILUTED:				
CONTINUING OPERATIONS	$0.21	$ 0.22	$(0.20)	$ 0.32
DISCONTINUED OPERATIONS	$(0.01)	$ (0.14)	$(0.01)	$ (0.15)
TOTAL NET INCOME (LOSS) PER COMMON SHARE - DILUTED	$0.20	$ 0.08	$(0.21)	$ 0.17
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	31,215,598	30,820,442	31,163,859	30,786,527
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	31,402,010	31,020,926	31,163,859	30,967,840

The accompanying notes are an integral part of these statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$8,739	$8,384	$8,849	$16,997
Other comprehensive income (loss):				
Reclassification adjustments for realized (income) losses on investment securities available-for-sale included in net income	—	(1,179)	217	(1,179)
Unrealized gains (losses) on investment securities available-for-sale, net	1,607	(1,628)	98	(1,494)
Reclassification adjustments associated with unrealized losses from interest rate hedges included in net income	—	75	—	93
Unrealized gains on derivatives, net	455	—	1,604	—
Total other comprehensive (loss) income	2,062	(2,732)	1,919	(2,580)
Comprehensive income (loss) before allocation to non-controlling interests and preferred shares	10,801	5,652	10,768	14,417
Net income allocated to preferred shares	(2,587)	(6,015)	(7,797)	(12,029)
Consideration paid in excess of carrying value of preferred shares	—	—	(7,482)	—
Net loss allocable to non-controlling interest	—	95	—	196
Comprehensive income (loss) allocable to common shares	$8,214	$(268)	$(4,511)	$2,584

The accompanying notes are an integral part of these statements

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

	Common Stock		Series B	Series C		Accumulated			
	Shares	Amount	Preferred Stock	Preferred Stock	Additional Paid-In Capital	Other Comprehensive Income	Retained Earnings	Distributions in Excess of Earnings	Total Stockholders' Equity
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	—	—	—	—	1,626	—	—	—	1,626
Retirement of common stock	(7,134)	—	—	—	(70)	—	—	—	(70)
Forfeiture of unvested stock	(1,725)	—	—	—	—	—	—	—	—
Net income	—	—	—	—	—	—	8,849	—	8,849
Distributions on preferred stock	—	—	—	—	—	—	(7,797)	—	(7,797)
Preferred stock redemption	—	—	(5)	—	(107,881)	—	(7,482)	—	(115,368)
Securities available-for-sale, fair value adjustment, net	—	—	—	—	—	315	—	—	315
Designated derivatives, fair value adjustment	—	—	—	—	—	1,604	—	—	1,604
Distributions on common stock	—	—	—	—	—	—	6,430	(11,179)	(4,749)
Balance, June 30, 2018	31,657,420	$ 32	$ —	$ 5	$ 1,081,586	$ 3,216	$ —	$ (528,952)	$ 555,887

The accompanying notes are an integral part of these statements

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

	For the Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$8,849	$16,997
Net loss from discontinued operations, net of tax	203	4,745
Net income from continuing operations	9,052	21,742
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	(799)	1,130
Depreciation, amortization and accretion	980	671
Amortization of stock-based compensation	1,626	1,522
Sale of and principal payments on syndicated corporate loans held for sale	60	1,076
Sale of and principal payments on investment securities, trading, net	241	4,493
Net realized and unrealized (gain) loss on investment securities, trading	(53)	961
Net realized and unrealized gain on investment securities available-for-sale and loans and derivatives	(290)	(17,084)
Fair value adjustments on financial assets held for sale	4,656	(58)
Impairment losses	—	177
Equity in losses (earnings) of unconsolidated entities	223	(243)
Return on investment from investments in unconsolidated entities	—	6,292
Changes in operating assets and liabilities	6,035	(590)
Net cash provided by continuing operating activities	21,731	20,089
Net cash provided by discontinued operating activities	621	20,531
Net cash provided by operating activities	22,352	40,620
CASH FLOWS FROM INVESTING ACTIVITIES:		
Origination and purchase of loans	(331,473)	(207,672)
Principal payments received on loans and leases	277,275	267,714
Proceeds from sale of loans	12,000	—
Purchase of investment securities available-for-sale	(113,855)	(14,598)
Principal payments on investment securities available-for-sale	8,715	17,659
Proceeds from sale of investment securities available-for-sale	48	13,588
Return of capital from investments in unconsolidated entities	10,172	7,911
Proceeds from the sale of an investment in an unconsolidated entity	—	16,159
Settlement of derivative instruments	(46)	(696)
Net cash (used in) provided by continuing investing activities	(137,164)	100,065
Net cash provided by discontinued investing activities	27,557	2,621
Net cash (used in) provided by investing activities	(109,607)	102,686
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuances of common stock and dividend reinvestment and stock purchase plan (net of offering costs of $0 and $31)	—	(31)

Repurchase of common stock	—	(82)
Retirement of common stock	(69)	—
Repurchase of preferred stock	(165,340)	—
Net (repayments of) proceeds from repurchase agreements	(60,522)	50,449
Proceeds from borrowings:		
Securitizations	397,452	—
Payments on borrowings:		
Securitizations	(177,762)	(177,817)
Payment of debt issuance costs	(7,371)	(3)
Distributions paid on preferred stock	(10,082)	(12,029)
Distributions paid on common stock	(3,154)	(3,118)

The accompanying notes are an integral part of these statements

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

	For the Six Months Ended June 30,	
	2018	2017
Net cash used in continuing financing activities	(26,848)	(142,631)
Net cash used in discontinued financing activities	—	(16,081)
Net cash used in financing activities	(26,848)	(158,712)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(114,103)	(15,406)
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	$90,261	$104,019
SUPPLEMENTAL DISCLOSURE:		
Interest expense paid in cash	$25,867	$25,139
Income taxes paid in cash	$—	$515

The accompanying notes are an integral part of these statements

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 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 June 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 21 for further discussion.

The following subsidiaries are consolidated in the Company's financial statements:

- RCC Real Estate, Inc. ("RCC Real Estate"), a wholly-owned subsidiary, holds CRE loans, CRE-related securities and historically has held direct investments in real estate. RCC Real Estate owns 100.0% of the equity of the following VIEs:

Resource Capital Corp. 2014-CRE2, Ltd. ("RCC 2014-CRE2") and Resource Capital Corp. 2015-CRE4, Ltd. ("RCC 2015-CRE4") were established to complete CRE securitization issuances secured by a portfolio of CRE loans. In August 2017 and July 2018, RCC 2014-CRE2 and RCC 2015-CRE4, respectively, were liquidated and, as a result, the remaining assets were returned to the Company in exchange for the Company's preference shares and equity notes in the securitizations.

Resource Capital Corp. 2015-CRE3, Ltd. ("RCC 2015-CRE3"), Resource Capital Corp. 2017-CRE5, Ltd. ("RCC 2017-CRE5") and Exantas Capital Corp. 2018-RSO6, Ltd. ("XAN 2018-RSO6") were each established to complete CRE securitization issuances secured by a separate portfolio of loans.

- RCC Commercial, Inc. ("RCC Commercial"), a wholly-owned subsidiary, holds a 29.6% investment in NEW NP, LLC ("New NP, LLC"), which held one directly originated middle market loan at June 30, 2018 and historically held syndicated corporate loan investments. In July 2018 substantially all of the assets of the borrower for New NP, LLC's remaining loan were sold, resulting in repayment of the loan. New NP, LLC is reported in discontinued operations, see Note 21 for further discussion. RCC Commercial also owns 100.0% of Apidos CDO III, Ltd. ("Apidos CDO III").

Apidos CDO III, a taxable REIT subsidiary ("TRS"), was established to complete a collateralized debt obligation ("CDO") issuance secured by a portfolio of syndicated corporate loans and asset-backed securities ("ABS"). In June 2015, the Company liquidated Apidos CDO III and, as a result, substantially all of the assets were sold.

- RCC Commercial II, Inc. ("Commercial II"), a wholly-owned subsidiary, historically invested in structured notes and subordinated notes of foreign, syndicated corporate loan collateralized loan obligation ("CLO") vehicles. Commercial II also owns equity in the following VIEs:

Commercial II owns 100.0% of the equity of Apidos Cinco CDO ("Apidos Cinco"), a TRS that was established to complete a CDO issuance secured by a portfolio of syndicated corporate loans, ABS and corporate bonds. In November 2016, the Company liquidated and sold substantially all of Apidos Cinco's assets. The remaining assets

were consolidated by the Company upon liquidation and are marked at fair value.

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES
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Commercial II owns 68.3% of the equity of Whitney CLO I, Ltd., a TRS that holds residual assets following a September 2013 liquidation.

RCC Commercial III, Inc. ("Commercial III"), a wholly-owned subsidiary, historically held investments in syndicated corporate loan investments. Commercial III owns 90.0% of the equity of Apidos CDO I, LTD. ("Apidos CDO I").

- Apidos CDO I, a TRS, was established to complete a CDO issuance secured by a portfolio of syndicated corporate loans and ABS. In October 2014, the Company liquidated Apidos CDO I and as a result substantially all of the assets were sold.
- RSO EquityCo, LLC, a wholly-owned subsidiary, owns 10.0% of the equity of Apidos CDO I.
- RCC Residential Portfolio, Inc. ("RCC Resi Portfolio"), a wholly-owned subsidiary, historically invested in residential mortgage-backed securities ("RMBS").
- RCC Residential Portfolio TRS, Inc. ("RCC Resi TRS"), a wholly-owned TRS, was formed to hold strategic residential mortgage positions that could not be held by RCC Resi Portfolio. RCC Resi TRS also owns 100.0% of the equity, unless otherwise stated, in the following:

Primary Capital Mortgage, LLC ("PCM") (formerly known as Primary Capital Advisors, LLC), originated and serviced residential mortgage loans. In November 2016, PCM's operations were reclassified to discontinued operations. PCM sold its residential mortgage loan pipeline, its mortgage servicing rights and its remaining loans held for sale. See Note 21 for further discussion.

RCM Global Manager, LLC ("RCM Global Manager") owns 63.8% of RCM Global LLC ("RCM Global"). RCM Global, accounted for as an equity method investment, held a portfolio of investment securities available-for-sale.

Long Term Care Conversion Funding, LLC ("LTCC Funding") provided a financing facility to fund the acquisition of life settlement contracts.

Life Care Funding, LLC ("LCF") was established for the purpose of acquiring life settlement contracts. In July 2017, the Company purchased the balance of the outstanding membership interests of LCF, thereby becoming a single member LLC. In 2018, the remaining life settlement contracts matured or were sold.

RCC TRS, LLC ("RCC TRS") holds investments in direct financing leases and investment securities, trading. RCC TRS also owns equity in the following:

RCC TRS owns 100.0% of the equity of Resource TRS, LLC, which in turn holds a 25.8% investment in New NP, LLC, which is reported in discontinued operations.

RCC TRS owns 44.6% of the equity in New NP, LLC, which is reported in discontinued operations.

RCC TRS owns 80.2% of the equity in Pelium Capital Partners, L.P. ("Pelium Capital"). Pelium Capital, accounted for as an equity method investment, held investment securities, trading.

Resource Capital Asset Management, LLC ("RCAM") was entitled to collect senior, subordinated and incentive fees related to CLO issuers to which it provided management services through CVC Credit Partners, LLC ("CVC Credit Partners"), formerly Apidos Capital Management ("ACM"), a subsidiary of CVC Capital Partners SICAV-FIS, S.A. C-III sold its 24.0% interest in CVC Credit Partners in August 2017.

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

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 June 30, 2018 and December 31, 2017, approximately $77.4 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 cash held in the syndicated corporate loan CDOs.

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):

	June 30,	
	2018	2017
Cash and cash equivalents	$80,191	$102,733
Restricted cash	10,070	1,286
Total cash, cash equivalents and restricted cash shown on the Company's consolidated statements of cash flows	$90,261	$104,019

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 established a full valuation allowance against its net deferred tax assets of approximately $10.4 million at June 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.

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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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.

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.

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EXANTAS CAPITAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
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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 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 is in the process of evaluating the impact of this new guidance.

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 is in the process of evaluating the impact of this new guidance.

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. 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 is in the process of evaluating the impact of this new guidance.

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 most financial assets 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 "Account 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.

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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, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 presentation.

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 is the primary beneficiary of eight and seven VIEs at June 30, 2018 and December 31, 2017, respectively (collectively, the "Consolidated VIEs").

The Consolidated VIEs 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, and CVC Credit Partners manages the commercial finance-related entities on behalf of the Company. 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.

For a discussion of the Company's consolidated securitizations see Note 1, and for a discussion of the debt issued through the securitizations see Note 10.

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.

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 six months ended June 30, 2018, 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.

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

	CRE Securitizations	Other	Total
ASSETS			
Restricted cash	$ 8,734	$ 511	$ 9,245
Accrued interest receivable	2,738	—	2,738
CRE loans, pledged as collateral	1,012,900	—	1,012,900
Other assets	267	9	276
Total assets [(1)]	$ 1,024,639	$ 520	$ 1,025,159
LIABILITIES			
Accounts payable and other liabilities	$ 119	$ —	$ 119
Accrued interest payable	485	—	485
Borrowings	632,004	—	632,004
Total liabilities	$ 632,608	$ —	$ 632,608

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

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 June 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 June 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.

RCM Global

The Company, together with certain of Resource America, Inc.'s ("Resource America"), a wholly-owned subsidiary of C-III, subsidiaries, former employees and former employees' spouses, holds a membership interest in RCM Global, which formerly held a portfolio of available-for-sale securities. RCM Global was determined to be a VIE based on the majority equity interest holders' inability to direct the activities that are most significant to the entity. In January 2016, following adoption of the amendments to the consolidation guidance under which the Company concluded that it was not the primary beneficiary of RCM Global, the Company deconsolidated and began accounting for its investment as

an equity method investment in investments in unconsolidated entities on its consolidated financial statements. At June 30, 2018, the Company held a 63.8% interest in RCM Global, and the remainder was owned by subsidiaries and current and former employees of Resource America. The Company held an $80,000 investment at June 30, 2018.

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Pelium Capital

The Company, together with a subsidiary of Resource America, holds a partnership interest in Pelium Capital, a specialized credit opportunity fund that formerly held a portfolio of investment securities. In January 2016, upon adoption of the amendments to the consolidation guidance under which the Company concluded that it had a variable interest and was not the primary beneficiary in Pelium Capital, the Company deconsolidated and accounted for its investment as an equity method investment in investments in unconsolidated entities on its consolidated financial statements. At June 30, 2018, the Company held an 80.2% interest in Pelium Capital, with a carrying value of $154,000.

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.

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

	Unsecured Junior Subordinated Debentures	RCM Global	Pelium Capital	C40	Prospect Hackensack	Total	Maximum Exposure to Loss
ASSETS							
Accrued interest receivable	$ 21	$ —	$ —	$ 167	$ —	$ 188	$ —
CRE loans	—	—	—	—	19,374	19,374	$ 19,374
Investment securities available-for-sale [1]	—	—	—	21,113	—	21,113	$ 20,938
Investments in unconsolidated entities	1,548	80	154	—	—	1,782	$ 1,782
Total assets	1,569	80	154	21,280	19,374	42,457	
LIABILITIES							
Accrued interest payable	688	—	—	—	—	688	N/A
Borrowings	51,548	—	—	—	—	51,548	N/A
Total liabilities	52,236	—	—	—	—	52,236	N/A
Net asset (liability)	$ (50,667)	$ 80	$ 154	$ 21,280	$ 19,374	$ (9,779)	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 June 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.

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NOTE 4 - SUPPLEMENTAL CASH FLOW INFORMATION

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

	For the Six Months Ended June 30,	
	2018	2017
Non-cash continuing financing activities include the following:		
Distributions on common stock accrued but not paid	$3,166	$1,567
Distribution on preferred stock accrued but not paid	$1,725	$4,010

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 June 30, 2018:								
CRE loans held for investment:								
Whole loans [7][8]	78	$1,434,572	$ (7,916)	$1,426,656	$ (4,529)	$1,422,127	1M LIBOR plus 2.50% to 1M LIBOR plus 6.25%	July 2018 to July 2021
Mezzanine loan	1	4,700	—	4,700	—	4,700	10.00%	June 2028
Preferred equity investment (see Note 3) [9][10]	1	19,374	(183)	19,191	—	19,191	11.50%	April 2025
Total CRE loans held for investment		1,458,646	(8,099)	1,450,547	(4,529)	1,446,018		
Total loans		$1,458,646	$ (8,099)	$1,450,547	$ (4,529)	$1,446,018		
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		

Syndicated corporate loans (11)	2	13	—	13	—	13	N/A	N/A
Total loans held for sale		13	—	13	—	13		
Total loans		$1,297,177	$ (7,014)	$1,290,163	$ (5,328)	$1,284,835		

(1) Amounts include unamortized loan origination fees of $7.6 million and $6.7 million and deferred amendment fees of $482,000 and $268,000 being amortized over the life of the loans at June 30, 2018 and December 31, 2017, respectively.

(2) Substantially all loans are pledged as collateral under various borrowings at June 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 June 30, 2018 and 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 June 30, 2018. The loan was classified as an asset held for sale and in maturity default at December 31, 2017.

(7) Whole loans had $88.7 million and $84.1 million in unfunded loan commitments at June 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 it is now the Company's intent 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.

(11) All syndicated corporate loans are second lien loans and are accounted for under the fair value option.

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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 June 30, 2018:				
Whole loans [1][2]	$ —	$112,694	$1,295,446	$1,408,140
Mezzanine loan	—	—	4,700	4,700
Preferred equity investment	—	—	19,191	19,191
Total CRE loans[1][2]	$ —	$112,694	$1,319,337	$1,432,031

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

(1) Excludes one whole loan, with an amortized cost of $7.0 million, in default at June 30, 2018 and December 31, 2017.

(2) 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 June 30, 2018. The loan was classified as an asset held for sale and in maturity default at December 31, 2017.

At June 30, 2018, approximately 31.2%, 24.0% and 13.1% 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 June 30, 2018, the Company had no loan principal paydowns receivable. 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.

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NOTE 6 - FINANCING RECEIVABLES

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

	Six Months Ended June 30, 2018			Year Ended December 31, 2017			
	Commercial Real Estate Loans	Direct Financing Leases	Total	Commercial Real Estate Loans	Syndicated Corporate Loans	Direct Financing Leases	Total
Allowance for loan and lease losses:							
Allowance for loan and lease losses at beginning of period	$5,328	$ 735	$6,063	$3,829	$ —	$ 465	$4,294
Provision for (recovery of) loan and lease losses, net	(799)	—	(799)	1,499	3	270	1,772
Loans charged-off	—	—	—	—	(3)	—	(3)
Allowance for loan and lease losses at end of period	$4,529	$ 735	$5,264	$5,328	$ —	$ 735	$6,063

	June 30, 2018			December 31, 2017			
	Commercial Real Estate Loans	Direct Financing Leases	Total	Commercial Real Estate Loans	Syndicated Corporate Loans	Direct Financing Leases	Total
Allowance for loan and lease losses ending balance:							
Individually evaluated for impairment	$2,500	$ 735	$3,235	$2,500	$ —	$ 735	$3,235
Collectively evaluated for impairment	$2,029	$ —	$2,029	$2,828	$ —	$ —	$2,828
Loans acquired with deteriorated credit quality	$—	$ —	$—	$—	$ —	$ —	$—
Loans and Leases:							
Amortized cost ending balance:							
Individually evaluated for impairment	$30,891	$ 801	$31,692	$7,000	$ —	$ 886	$7,886
Collectively evaluated for impairment	$1,419,656	$ —	$1,419,656	$1,283,150	$ —	$ —	$1,283,150
Loans acquired with deteriorated credit quality	$—	$ —	$—	$—	$ —	$ —	$—

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.

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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 is in default. Expected sale proceeds would not be sufficient to pay off the loan at maturity. • The property has material vacancy 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.

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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 June 30, 2018:							
Whole loans	$13,000	$1,271,509	$130,302	$4,845	$7,000	$—	$1,426,656
Mezzanine loan (4)	—	4,700	—	—	—	—	4,700
Preferred equity investment (4)	—	19,191	—	—	—	—	19,191
Legacy CRE loans held for sale	—	—	—	—	—	18,000	18,000
	$13,000	$1,295,400	$130,302	$4,845	$7,000	$18,000	$1,468,547
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 June 30, 2018. The loan is performing with respect to debt service due in accordance with a forbearance agreement at June 30, 2018.

(2) Includes one whole loan, with an amortized cost of $7.0 million, that was in default at June 30, 2018 and December 31, 2017.

(3) Includes one and two legacy CRE loans that were in default with total carrying values of $18.0 million and $22.5 million at June 30, 2018 and December 31, 2017, respectively.

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

At June 30, 2018 and 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 at June 30, 2018 and December 31, 2017. The Company obtained an appraisal of the collateral in 2016, indicating a fair value of $4.5 million, which it relied upon as a practical expedient for determining the value of the loan at June 30, 2018 and December 31, 2017. No additional provision was recorded on the loan for the three and six months ended June 30, 2018 and 2017. This loan was in default at June 30, 2018 and December 31, 2017.

At June 30, 2018, the Company had one legacy CRE loan and one mezzanine loan included in assets held for sale with total carrying values of $18.0 million, comprising total amortized cost bases of $24.6 million less a valuation allowance of $6.6 million. The mezzanine loan held for sale had no fair value at June 30, 2018.

At December 31, 2017, the Company had four legacy CRE loans and one mezzanine loan included in assets held for sale with total carrying values of $61.8 million, comprising total amortized cost bases of $63.8 million less a valuation allowance of $1.9 million. The mezzanine loan held for sale had no fair value at December 31, 2017.

In June 2018, the Company sold the note and deed of trust of one legacy CRE loan for $12.0 million, resulting in a realized gain of $1.0 million for the three and six months ended June 30, 2018.

At June 30, 2018, the Company reclassified two legacy CRE loans back into the CRE loan portfolio at the lesser of each loan's cost or market value, totaling $28.3 million, as the Company now intends to hold the loans to maturity. The loans are classified as CRE loans on the consolidated balance sheets. One reclassified loan with an amortized cost of $11.5 million was in maturity default at June 30, 2018 and December 31, 2017 and is performing with respect to debt service due in accordance with a forbearance agreement.

At June 30, 2018 and December 31, 2017, the one remaining legacy CRE loan had a carrying value of $18.0 million and $22.5 million, respectively. An additional fair value adjustment of $4.7 million, which included protective advances of $172,000, to reduce the carrying value was recognized during the six months ended June 30, 2018. This adjustment was recorded based on the receipt of updated appraisals in April 2018 and was recognized in fair value adjustments on financial assets held for sale on the Company's consolidated statements of operations. No valuation adjustments were recognized for the three months ended June 30, 2018, nor the three and six months ended June 30, 2017. The loan is currently in default.

At December 31, 2017, 45.8%, 36.4% and 17.8% of the Company's legacy CRE loans were concentrated in retail, hotel and office, respectively, based on carrying value. Of these loans, 82.2% and 17.8% were within the Pacific and Mountain regions, respectively.

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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 June 30, 2018.

Direct Financing Leases

The Company recorded no provision for lease losses against the value of its direct financing leases during the three and six months ended June 30, 2018. The Company recorded a provision for lease losses of $131,000 and $270,000 during the three and six months ended June 30, 2017, respectively. The Company held $66,000 and $151,000 of direct financing leases, net of reserves, at June 30, 2018 and December 31, 2017, respectively.

Loan Portfolios Aging Analysis

The following table presents the CRE loan portfolio aging analysis as of the dates indicated 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 (4)	Total Loans > 90 Days and Accruing (2)
At June 30, 2018:							
Whole loans	$—	$ —	$18,516	$18,516	$1,408,140	$1,426,656	$ 11,516
Mezzanine loan	—	—	—	—	4,700	4,700	—
Preferred equity investment	—	—	—	—	19,191	19,191	—
Legacy CRE loans held for sale	—	—	18,000	18,000	—	18,000	—
Total loans	$—	$ —	$36,516	$36,516	$1,432,031	$1,468,547	$ 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 June 30, 2018 and December 31, 2017.

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

(3) Includes one and two legacy CRE loans held for sale that were in default with total carrying values of $18.0 million and $22.5 million at June 30, 2018 and December 31, 2017, respectively.

(4) Excludes direct financing leases of $66,000 and $151,000, net of reserves, at June 30, 2018 and December 31, 2017, respectively.

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Impaired Loans
The following tables show impaired loans as of the dates indicated (in thousands):

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
At June 30, 2018:					
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	$ —
At December 31, 2017:					
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	$ —

Troubled-Debt Restructurings ("TDR")
There were no TDRs for the six months ended June 30, 2018 and 2017.

NOTE 7 - INVESTMENT SECURITIES, TRADING
Structured notes are CLO debt securities collateralized by syndicated corporate loans. The following table summarizes the Company's structured notes classified as investment securities, trading and carried at fair value (in thousands, except number of securities):

	Number of Securities	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
At June 30, 2018:					
Structured notes	1	$ 1,000	$ —	$ (1,000)	$ —
At December 31, 2017:					
Structured notes	4	$ 2,891	$ —	$ (2,713)	$ 178

The Company did not sell any investment securities during the three months ended June 30, 2018 and two investment securities resulting in realized losses of $5,000 during the six months ended June 30, 2018. The Company did not sell any investment securities during the three months ended June 30, 2017 and one investment security resulting in a realized gain of $9,000 during the six months ended June 30, 2017.
The Company received payoff proceeds on one investment security resulting in a realized loss of $3,000 during the three and six months ended June 30, 2018.

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NOTE 8 - 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 June 30, 2018:				
CMBS	$317,414	$ 2,347	$ (1,337)	$318,424
Total	$317,414	$ 2,347	$ (1,337)	$318,424
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 June 30, 2018 and December 31, 2017, $255.2 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):

	June 30, 2018			December 31, 2017		
	Amortized Cost	Fair Value	Weighted Average Coupon	Amortized Cost	Fair Value	Weighted Average Coupon
Less than one year (1)	$22,563	$22,237	5.32%	$25,475	$25,275	5.55%
Greater than one year and less than five years	172,565	173,646	5.04%	126,273	127,104	4.65%
Greater than five years and less than ten years	122,286	122,541	3.65%	59,317	59,358	3.53%
Total	$317,414	$318,424	4.52%	$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 June 30, 2018, the contractual maturities of the CMBS investment securities available-for-sale range from June 2022 to November 2059.

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 June 30, 2018:									
CMBS	$39,979	$ (883)	13	$4,072	$ (454)	5	$44,051	$ (1,337)	18
Total temporarily impaired securities	$39,979	$ (883)	13	$4,072	$ (454)	5	$44,051	$ (1,337)	18

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.

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The Company recognized no other-than-temporary impairments on its investment securities available-for-sale for the three and six months ended June 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 Six 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]
June 30, 2018:										
ABS	0	$ —	$ —	$ —	$ —	2	$ 411	$ 265	$ (217)	$ 48
CMBS	0	—	—	—	—	0	—	—	—	—
Total	—	$ —	$ —	$ —	$ —	2	$ 411	$ 265	$ (217)	$ 48
June 30, 2017:										
ABS	2	$ 9,605	$ 7,475	$ 1,792	$ 7,235	2	$ 9,605	$ 7,475	$ 1,792	$ 7,235
Total	2	$ 9,605	$ 7,475	$ 1,792	$ 7,235	2	$ 9,605	$ 7,475	$ 1,792	$ 7,235

(1) The realized gains for the three and six months ended June 30, 2017 exclude foreign currency exchange losses that were hedged with foreign currency forward contracts.

(2) Includes unsettled proceeds of $3.1 million, received in July 2017, from the sale of one ABS during the three and six months ended June 30, 2017.

NOTE 9 - INVESTMENTS IN UNCONSOLIDATED ENTITIES

The following table summarizes the Company's investments in unconsolidated entities at June 30, 2018 and December 31, 2017 and equity in earnings (losses) of unconsolidated entities for the three and six months ended June 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 Six Months Ended	
	Ownership % at June 30, 2018	June 30, 2018	December 31, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Pelium Capital [1]	80.2%	$ 154	$ 10,503	$ 75	$ 82	$ (230)	$ (77)
RCM Global	63.8%	80	—	(6)	(166)	7	(170)
RRE VIP Borrower, LLC [2]	—%	—	—	—	37	—	37
Pearlmark Mezzanine Realty Partners IV, L.P. [3]	—%	—	—	—	(193)	—	165
Investment in LCC Preferred Stock [4]	—%	—	—	—	122	—	288
Subtotal		234	10,503	69	(118)	(223)	243
Investment in RCT I and II [5]	3.0%	1,548	1,548	(806)	(663)	(1,530)	(1,300)
Total		$ 1,782	$ 12,051	$ (737)	$ (781)	$ (1,753)	$ (1,057)

(1) During the six months ended June 30, 2018 and 2017, the Company received distributions of $10.2 million and $13.6 million, respectively, on its investment in Pelium Capital.

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

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

(4) The Company's investment in LEAF Commercial Capital, Inc. ("LCC") liquidated in July 2017 as a result of the sale of LCC.

(5) During the six months ended June 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 six months ended June 30, 2018, investments held by Pelium Capital and RCM Global were substantially liquidated.

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NOTE 10 - 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 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 June 30, 2018:						
RCC 2015-CRE3 Senior Notes	$ 16,592	$ 142	$ 16,450	6.07%	13.7 years	$ 80,632
RCC 2015-CRE4 Senior Notes	8,644	132	8,512	5.07%	14.1 years	97,827
RCC 2017-CRE5 Senior Notes	217,954	2,918	215,036	3.12%	16.1 years	336,734
XAN 2018-RSO6 Senior Notes	397,452	5,446	392,006	3.19%	17.0 years	514,225
Unsecured junior subordinated debentures	51,548	—	51,548	6.28%	18.2 years	—
4.50% Convertible Senior Notes	143,750	15,107	128,643	4.50%	4.1 years	—
6.00% Convertible Senior Notes	70,453	425	70,028	6.00%	154 days	—
8.00% Convertible Senior Notes	21,182	352	20,830	8.00%	1.5 years	—
CRE - term repurchase facilities (1)	160,755	1,968	158,787	4.34%	43 days	255,334
Trust certificates - term repurchase facilities (2)	74,134	417	73,717	6.58%	1.6 years	207,901
CMBS - short term repurchase agreements (3)	184,089	—	184,089	3.48%	48 days	262,654
Total	$ 1,346,553	$ 26,907	$ 1,319,646	4.07%	9.2 years	$ 1,755,307

	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 $276,000 and $534,000 at June 30, 2018 and December 31, 2017, respectively.

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

(3) Principal outstanding includes accrued interest payable of $672,000 and $279,000 at June 30, 2018 and December 31, 2017, respectively.

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

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Securitizations

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

Securitization	Closing Date	Maturity Date	End of Designated Principal Reinvestment Period [1]	Total Note Paydowns Received from Closing Date through June 30, 2018
RCC 2015-CRE3	February 2015	March 2032	February 2017	$ 265,535
RCC 2015-CRE4	August 2015	August 2032	September 2017	$ 215,091
RCC 2017-CRE5	July 2017	July 2034	July 2020	$ 33,495
XAN 2018-RSO6	June 2018	June 2035	December 2020	$ —

(1) The designated principal reinvestment period is the period where principal payments received by each respective securitization may be designated by the Company to purchase funding participations of existing collateral originally underwritten at the close of each securitization, which were or would be funded outside of the deal structure.

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 June 30, 2018 and December 31, 2017 are eliminated in consolidation.

RCC 2015-CRE3

In August 2018, a subsidiary of the Company initiated the optional redemption feature of RCC 2015-CRE3.

RCC 2015-CRE4

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

XAN 2018-RSO6

In June 2018, the Company closed XAN 2018-RSO6, a $514.2 million CRE securitization transaction that provided financing for transitional CRE loans. XAN 2018-RSO6 offered approximately $405.0 million of senior notes, at par, to unrelated investors. A subsidiary of RCC Real Estate purchased 16.7% of the Class D senior notes and 100% of the Class E and Class F notes. In addition, a subsidiary of RCC Real Estate purchased an equity interest representing 100% of the outstanding preference shares. The Class E and Class F notes purchased by a subsidiary of RCC Real Estate are subordinated in right of payment to all other senior notes issued by XAN 2018-RSO6, but are senior in right of the payment to the preference shares. The equity interest is subordinated in right of payment to all other securities issued by XAN 2018-RSO6.

At closing, the senior notes issued to investors consisted of the following classes: (i) $290.5 million of Class A notes bearing interest at one-month LIBOR plus 0.83%, increasing to 1.08% in May 2023; (ii) $39.2 million of Class B notes bearing interest at one-month LIBOR plus 1.15%, increasing to 1.65% in July 2023; (iii) $30.2 million of Class C notes bearing interest at one-month LIBOR plus 1.85%, increasing to 2.35% in July 2023; (iv) $45.0 million of Class D notes bearing interest at one-month LIBOR plus 2.50%, increasing to 3.00% in September 2023; (v) $18.0 million of Class E notes bearing interest at one-month LIBOR plus 4.00%; and (vi) $21.9 million of Class F notes bearing interest at one-month LIBOR plus 5.00%.

All of the notes issued mature in June 2035, although the Company has the right to call the notes any time after July 2020 until maturity.

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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):

	June 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)	$92,621	$146,705	8	4.09%	$179,347	$268,003	19	3.68%
Morgan Stanley Bank, N.A. (3)	67,947	108,629	5	4.68%	112,151	164,122	9	4.05%
Barclays Bank PLC (4)	(1,782)	—	—	—%	—	—	—	—%
CMBS - Term Repurchase Facilities								
Wells Fargo Bank, N.A.	—	—	—	—%	12,272	14,984	8	2.45%
Deutsche Bank AG (7)	—	—	—	—%	15,356	23,076	14	3.53%
Trust Certificates - Term Repurchase Facilities								
RSO Repo SPE Trust 2015 (5)	26,624	89,121	2	7.57%	26,548	89,121	2	6.98%
RSO Repo SPE Trust 2017 (6)	47,093	118,780	2	6.02%	49,596	125,254	2	5.43%
CMBS - Short-Term Repurchase Agreements								
RBC Capital Markets, LLC	156,643	207,291	22	3.48%	72,131	97,745	6	2.77%
JP Morgan Securities LLC	13,780	38,231	5	3.48%	10,516	33,777	2	2.93%
	13,667	17,132	11	3.43%	—	—	—	—%

Deutsche Bank Securities Inc. [7]				
Total	$416,593	$725,889	$477,917	$816,082

(1) Outstanding borrowings includes accrued interest payable.

(2) Includes $59,000 and $565,000 of deferred debt issuance costs at June 30, 2018 and December 31, 2017, respectively.

(3) Includes $127,000 and $448,000 of deferred debt issuance costs at June 30, 2018 and December 31, 2017, respectively.

(4) Includes $1.8 million of deferred debt issuance costs at June 30, 2018 and no deferred debt issuance costs at December 31, 2017.

(5) Includes $59,000 and $133,000 of deferred debt issuance costs at June 30, 2018 and December 31, 2017, respectively.

(6) Includes $263,000 and $320,000 of deferred debt issuance costs at June 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.

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

	Amount at Risk (1)	Weighted Average Remaining Maturity	Weighted Average Interest Rate
At June 30, 2018:			
CRE - Term Repurchase Facilities			
Wells Fargo Bank, N.A.	$54,677	21 days	4.09%
Morgan Stanley Bank, N.A.	$41,066	72 days	4.68%
Trust Certificates - Term Repurchase Facilities			
RSO Repo SPE Trust 2015	$62,515	143 days	7.57%
RSO Repo SPE Trust 2017	$71,438	2.2 years	6.02%
CMBS - Short-Term Repurchase Agreements			
RBC Capital Markets, LLC	$51,135	48 days	3.48%
JP Morgan Securities LLC	$24,535	46 days	3.48%
Deutsche Bank Securities Inc.	$3,510	56 days	3.43%

(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 is in compliance with all covenants in each of the respective agreements at June 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.

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

	Total	2018	2019	2020	2021	2022 and Thereafter
At June 30, 2018:						
CRE securitizations	$640,642	$—	$ —	$—	$ —	$640,642
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	418,978	371,526	—	47,452	—	—
Total	$1,346,553	$441,979	$ —	$68,634	$ —	$835,940

NOTE 11 - 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 six months ended June 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.

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 six months ended June 30, 2018 and 2017, the Company did not repurchase any shares of its common or preferred stock through this program. At June 30, 2018, $44.9 million remains available under this repurchase plan.

At June 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 12 - 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	(29,947)	(237,039)	(23,158)	(290,144)
Forfeited	—	(1,725)	—	(1,725)
Unvested shares at June 30, 2018	31,650	390,132	5,809	427,591

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

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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 six months ended June 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 six months ended June 30, 2018 and 2017 were $255,000 and $290,000, respectively.

At June 30, 2018, the total unrecognized restricted common stock expense for non-employees was $2.2 million, with a weighted average amortization period remaining of 2.2 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 six months ended June 30, 2018:

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 June 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 June 30, 2018	10,000	$ 25.60	2.88	$ —

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Restricted shares granted to non-employees (1)	$587	$675	$1,481	$1,390
Restricted shares granted to non-employee directors	72	59	145	132
Total equity compensation expense (2)	$659	$734	$1,626	$1,522

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

(2) Amounts exclude equity compensation expense for employees of PCM, which is included in net income (loss) from discontinued operations, net of tax on the consolidated statements of operations during the three and six

months ended June 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 six months ended June 30, 2018 or 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.

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NOTE 13 - 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 June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Net income from continuing operations	$9,189	$ 12,568	$9,052	$ 21,742
Net income allocated to preferred shares	(2,587)	(6,015)	(7,797)	(12,029)
Consideration paid in excess of carrying value of preferred shares	—	—	(7,482)	—
Net loss allocable to non-controlling interest, net of taxes	—	95	—	196
Net income (loss) from continuing operations allocable to common shares	6,602	6,648	(6,227)	9,909
Net loss from discontinued operations, net of tax	(450)	(4,184)	(203)	(4,745)
Net income (loss) allocable to common shares	$6,152	$ 2,464	$(6,430)	$ 5,164
Net income (loss) per common share - basic:				
Weighted average number of shares outstanding	31,215,598	30,820,442	31,163,859	30,786,527
Continuing operations	$0.21	$ 0.22	$(0.20)	$ 0.32
Discontinued operations	(0.01)	(0.14)	(0.01)	(0.15)
Net income (loss) per common share - basic	$0.20	$ 0.08	$(0.21)	$ 0.17
Net income (loss) per common share - diluted:				
Weighted average number of shares outstanding	31,215,598	30,820,442	31,163,859	30,786,527
Additional shares due to assumed conversion of dilutive instruments	186,412	200,484	—	181,313
Adjusted weighted-average number of common shares outstanding	31,402,010	31,020,926	31,163,859	30,967,840
Continuing operations	$0.21	$ 0.22	$(0.20)	$ 0.32
Discontinued operations	(0.01)	(0.14)	(0.01)	(0.15)
Net income (loss) per common share - diluted	$0.20	$ 0.08	$(0.21)	$ 0.17
Potentially dilutive shares excluded from calculation due to anti-dilutive effect [1]	14,885,296	6,002,859	14,885,296	6,002,859

(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 10) were not included in the calculation of diluted net income (loss) per share because the effect would be anti-dilutive.

NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in each component of accumulated other comprehensive income for the six months ended June 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	1,604	98	1,702
Amounts reclassified from accumulated other comprehensive income (1)	—	217	217
Balance at June 30, 2018	$ 2,206	$ 1,010	$ 3,216

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

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NOTE 15 - RELATED PARTY TRANSACTIONS

Relationship with C-III and Certain of its Subsidiaries. Resource America 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 June 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 six months ended June 30, 2018, the Manager earned base management fees of approximately $2.8 million and $5.6 million, respectively. For the three and six months ended June 30, 2017, the Manager earned base management fees of $2.6 million and $5.2 million, respectively. No incentive management fees were earned for the three and six months ended June 30, 2018 and 2017. At June 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 six months ended June 30, 2018, the Company reimbursed the Manager $1.9 million and $2.3 million, respectively, for all such compensation and costs. For the three and six months ended June 30, 2017, the Company reimbursed the Manager $1.1 million and $3.0 million, respectively, for all such compensation and costs. At June 30, 2018 and December 31, 2017, the Company had payables to Resource America and its subsidiaries pursuant to the Management Agreement aggregating approximately $463,000 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 June 30, 2018, the Company retained equity in seven securitizations that were structured for the Company by the Manager, although three of the securitizations had been substantially liquidated as of June 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 LCC. LCC, a former subsidiary of Resource America in which the Company owned a minority interest, originated and managed equipment leases and notes on behalf of the Company. In November 2011, the Company, together with LEAF Financial (which is a subsidiary of Resource America) and LCC, entered into a securities purchase agreement with Eos Partners, L.P. and certain of its affiliates. In July 2017, the Company sold its equity interests in LCC and received cash proceeds of $84.3 million and, as a result, LCC is no longer considered a related party. For the three and six months ended June 30, 2018, the Company did not record any income in respect of

its equity interests in LCC. For the three and six months ended June 30, 2017, the Company recorded income of $122,000 and $288,000, respectively, in equity in earnings (losses) of unconsolidated entities on its consolidated statements of operations in respect of its equity interests in LCC.

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Relationship with CVC Credit Partners. In April 2012, ACM, a former subsidiary of Resource America, was sold to CVC Credit Partners, a joint venture entity in which Resource America indirectly owned a 24% interest through August 2017. CVC Credit Partners managed externally originated syndicated corporate loans on the Company's behalf. In February 2011, one of the Company's subsidiaries purchased 100% of the ownership interests in Churchill Pacific Asset Management LLC ("CPAM") from Churchill Financial Holdings LLC for $22.5 million. CPAM subsequently changed its name to RCAM. Through RCAM, the Company was entitled to collect senior, subordinated and incentive fees related to five CLOs holding approximately $1.9 billion in assets managed by RCAM. RCAM was assisted by CVC Credit Partners in managing these CLOs. CVC Credit Partners is entitled to 10% of all subordinated fees and 50% of the incentive fees received by RCAM. For each of the three and six months ended June 30, 2018, CVC Credit Partners earned subordinated and incentive fees totaling $119,000. For the three and six months ended June 30, 2017, CVC Credit Partners earned subordinated and incentive fees totaling $775,000 and $1.3 million, respectively, netted in other revenue on the Company's consolidated statements of operations. The Company did not record any impairment on the related intangible assets of these CLOs during the six months ended June 30, 2018, and it recorded $177,000 of impairment during the six months ended June 30, 2017. The CLOs were liquidated in February 2013, January 2016, September 2016 and February 2017. At June 30, 2018 and December 31, 2017, the Company no longer had any investment in RCAM. C-III sold its interest in CVC Credit Partners in August 2017, and, as a result, CVC Credit Partners is no longer considered a related party of the Company.

Relationship with LTCC Funding. In December 2012, the Board authorized the Company to reimburse Resource America for costs incurred related to the Company's life care business, LTCC Funding. In December 2016, the Board authorized a reimbursement of $250,000 for fiscal year 2017, paid quarterly, of which $62,000 and $124,000 was incurred during the three and six months ended June 30, 2017. At December 31, 2017, $63,000 of authorized reimbursements were payable by the Company to Resource America and paid in January 2018. The annual reimbursement was not renewed for fiscal year 2018.

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 June 30, 2018 and December 31, 2017, the Company had receivables from Resource Real Estate for loan deposits of $285,000 and $185,000, respectively.

Resource Real Estate serves as special servicer for the following five real estate securitization transactions, which provide financing for CRE loans: (i) RCC CRE Notes 2013, a $307.8 million securitization that closed in December 2013; (ii) RCC 2014-CRE2, a $353.9 million securitization that closed in July 2014; (iii) RCC 2015-CRE3, a $346.2 million securitization that closed in February 2015; (iv) RCC 2015-CRE4, a $312.9 million securitization that closed in August 2015; and (v) 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. In December 2016 and August 2017, RCC CRE Notes 2013 and RCC 2014-CRE2, respectively, were liquidated and, as a result, the remaining assets were returned to RCC Real Estate in exchange for the Company's preference shares and equity notes in those securitizations.

Relationship with C3AM and C-III Commercial Mortgage. C3AM serves as the primary servicer for RCC 2017-CRE5 and 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 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, and C40. During the three and six months ended June 30, 2018, C3AM earned approximately $67,000 and $102,000, respectively, in servicing fees. The Company had payables to C3AM for approximately $16,000 at June 30, 2018.

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.

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Relationship with RCM Global. In July 2014, the Company formed RCM Global Manager to invest in RCM Global, which held a portfolio of structured product securities that were liquidated in the second quarter of 2018. For the three and six months ended June 30, 2018, the Company recorded losses of $6,000 and earnings of $7,000, respectively, on its investment in RCM Global. For the three and six months ended June 30, 2017, the Company recorded losses of $166,000 and $170,000, respectively, on its investment in RCM Global. Earnings and losses on the investment in RCM Global are recorded in equity in earnings (losses) of unconsolidated entities on the consolidated statements of operations. At June 30, 2018, the Company's residual ownership interest in RCM Global was 63.8%, and the remainder was owned by subsidiaries and current and former employees of Resource America.

Relationship with Pelium Capital. The Company holds a partnership interest in Pelium Capital, a specialized credit opportunity fund managed by an indirect wholly-owned subsidiary of C-III that formerly held a portfolio of investment securities. For the three and six months ended June 30, 2018, the Company recorded earnings of $75,000 and losses of $230,000, respectively, on its investment in Pelium Capital. For the three and six months ended June 30, 2017, the Company recorded earnings of $82,000 and losses of $77,000, respectively, on its investment in Pelium Capital. Earnings and losses on the investment in Pelium Capital are recorded in equity in earnings (losses) of unconsolidated entities on the consolidated statements of operations. During the six months ended June 30, 2018 and 2017, the Company received proceeds of $10.2 million and $13.6 million as a result of the substantial liquidation of Pelium Capital's investments. The Company's investment balances in Pelium Capital were $154,000 and $10.5 million at June 30, 2018 and December 31, 2017, respectively. The Company held an 80.2% interest in Pelium Capital at June 30, 2018.

Relationship with Pearlmark Mezzanine Realty Partners IV. In June 2015, the Company committed to invest up to $50.0 million in Pearlmark Mezz. The investment advisor of Pearlmark Mezz is Pearlmark Real Estate LLC ("Pearlmark Manager"), which was 50% owned by Resource America. The Company paid Pearlmark Manager management fees of 1.0% on its unfunded committed capital and 1.5% on its invested capital. The Company was entitled to a management fee rebate of 25% for the first year of the fund, which ended in June 2016. Resource America credited any such fees paid by the Company to Pearlmark Manager against the base management fee that the Company paid to the Manager. In May 2017, the Company sold its equity interest in Pearlmark Mezz for proceeds of $16.2 million, and, as a result, ceased to have any further investment in or commitment to Pearlmark Mezz. As a result, Pearlmark Mezz is no longer considered a related party.

NOTE 16 - DISTRIBUTIONS

For the quarters ended June 30, 2018 and 2017, the Company declared and subsequently paid dividends of $0.10 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.

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The following tables present dividends declared (on a per share basis) for the six months ended June 30, 2018 and 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
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
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

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NOTE 17 - 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 June 30, 2018:				
Assets:				
Investment securities available-for-sale	$ —	$—	$318,424	$318,424
Derivatives	—	2,273	—	2,273
Total assets at fair value	$ —	$2,273	$318,424	$320,697
Liabilities:				
Derivatives	$ —	$67	$—	$67
Total liabilities at fair value	$ —	$67	$—	$67
At December 31, 2017:				
Assets:				
Investment securities available-for-sale	$ —	$—	$211,737	$211,737
Investment securities, trading	—	—	178	178
Loans held for sale	—	—	13	13
Derivatives	—	602	—	602
Total assets at fair value	$ —	$602	$211,928	$212,530
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, investment securities, trading, loans held 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	Structured Notes	Loans Held for Sale	Total
Balance, January 1, 2018	$211,579	$158	$ 178	$ 13	$211,928
Included in earnings [(1)]	1,346	(217)	55	16	1,200
Purchases	113,783	—	—	—	113,783
Sales	—	(48)	(11)	(29)	(88)
Paydowns	(8,522)	—	(222)	—	(8,744)
Capitalized interest	—	7	—	—	7
Included in OCI	238	100	—	—	338

Balance, June 30, 2018	$318,424	$—	$ —	$—	$318,424

(1) For loans held for sale classified as Level 3 at June 30, 2018, the Company recorded changes in unrealized gains of $9,000 and $16,000 for the three and six months ended June 30, 2018, in fair value adjustments on assets held for sale on the consolidated statements of operations.

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 six months ended June 30, 2018, a loss of $4.7 million was recorded on one legacy CRE loan, which included protective advances of $172,000, to adjust the loan to the average value of two appraisals, equal to $18.0 million at June 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 June 30, 2018.

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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, trading are reported in Note 7. The fair values of the Company's investment securities available-for-sale are reported in Note 8. The fair values of the Company's loans held for sale are reported in Note 5. The fair values of the Company's derivative instruments are reported in Note 18.

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 4.48% to 8.26% and 5.06% to 7.63% at June 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.

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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 June 30, 2018:					
Assets:					
CRE whole loans held for investment	$1,422,127	$1,432,072	$ —	$ —	$ 1,432,072
Legacy CRE loans held for sale	$18,000	$18,000	$ —	$ —	$ 18,000
CRE mezzanine loan	$4,700	$4,700	$ —	$ —	$ 4,700
CRE preferred equity investment	$19,191	$19,374	$ —	$ —	$ 19,374
Liabilities:					
Senior notes in CRE securitizations	$632,005	$640,427	$ —	$ —	$ 640,427
Junior subordinated notes	$51,548	$28,870	$ —	$ —	$ 28,870
Convertible notes	$219,501	$235,385	$ —	$ —	$ 235,385
Repurchase agreements	$416,592	$418,882	$ —	$ —	$ 418,882
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 18 - 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 risks managed by the Company through the use of derivative instruments are interest rate risk and foreign currency exchange rate risk.

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

purchase or to deliver a quantity of a currency (foreign currency hedging) at a predetermined future date, at a predetermined rate or price and are used to manage currency risk with respect to the Company's long positions in foreign currency-denominated investment securities.

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.

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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.

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 June 30, 2018 and December 31, 2017, the Company had fifteen and seven, respectively, interest rate swap contracts outstanding whereby the Company paid a weighted average fixed rate of 2.39% and 2.08%, respectively, and received a variable rate equal to one-month LIBOR. The aggregate notional amount of these contracts was $72.8 million and $41.8 million at June 30, 2018 and December 31, 2017, respectively. The counterparty for the Company's designated interest rate hedge contracts at June 30, 2018 and December 31, 2017 was Wells Fargo.

At June 30, 2018, the estimated fair values of the Company's assets and liabilities related to interest rate swaps were $2.3 million and $67,000, respectively. At December 31, 2017, the estimated fair value of the Company's assets related to interest rate swaps was $602,000. The Company had aggregate unrealized gains of $2.2 million and $602,000 on the interest rate swaps at June 30, 2018 and December 31, 2017, respectively, which are recorded in accumulated other comprehensive income on the consolidated balance sheets.

The Company incurred interest expense of $18,000 during the six months ended June 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 six months ended June 30, 2018 and the three months ended June 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 June 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 June 30, 2018, the Company had centrally cleared interest rate swaps with fair values in an asset and liability position of $2.3 million and $67,000, respectively. At December 31, 2017, the Company had centrally cleared interest rate swap contracts with a fair value in an asset position of $602,000.

The Company was also exposed to foreign currency exchange rate risk, a form of risk that arises from the change in price of one currency against another. However, substantially all of the Company's revenues were transacted in U.S. dollars. To address this market risk, the Company generally hedged foreign currency-denominated exposures (typically investments in debt instruments, including forecasted principal and interest payments) with foreign currency forward contracts. The Company classified these hedges as fair value hedges, which are hedges that mitigated the risk of changes in the fair values of assets, liabilities, and certain types of firm commitments. The Company recorded changes in fair value of derivatives designated and effective as fair value hedges in earnings offset by corresponding changes in the fair values of the hedged items. As of June 30, 2018, the Company did not hold any foreign currency forward contracts.

Forward contracts also contain an element of risk in that the counterparties may be unable to meet the terms of such agreements. In the event the parties to deliver commitments are unable to fulfill their obligations, the Company could potentially incur significant additional costs by replacing the positions at then current market rates. The Company manages its risk of exposure by limiting counterparties to those banks and institutions deemed appropriate by

management. The Company does not expect any counterparty to default on its obligations and, therefore, the Company does not expect to incur any cost related to counterparty default.

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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 June 30, 2018 (in thousands)

	Asset Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging [1]	$ 52,610	Derivatives, at fair value	$ 2,273

	Liability Derivatives		
	Notional Amount	Consolidated Balance Sheets Location	Fair Value
Interest rate swap contracts, hedging [1]	$ 20,216	Derivatives, at fair value	$ 67
Interest rate swap contracts, hedging	$ 72,826	Accumulated other comprehensive income	$ 2,206

(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 Six Months Ended June 30, 2018 (in thousands)

Derivatives	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) [1]
Interest rate swap contracts, hedging	Interest expense	$ (80)

(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 Six Months Ended June 30, 2017 (in thousands)

Derivatives	Consolidated Statements of Operations Location	Realized and Unrealized Gain (Loss) [1]
Interest rate swap contracts, hedging	Interest expense	$ (20)
Forward contracts - foreign currency, hedging	Net realized and unrealized (loss) gain on investment securities available-for-sale and loans and derivatives	$ (1,479)

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

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NOTE 19 - 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 June 30, 2018:						
Derivatives, at fair value	$ 2,273	$ —	$ 2,273	$ —	$ —	$ 2,273
At December 31, 2017:						
Derivatives, at fair value [(1)]	$ 602	$ —	$ 602	$ —	$ —	$ 602

(1) The Company posted cash margin of $1.9 million related to interest rate swap contracts entered into at December 31, 2017.

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 June 30, 2018:						
Derivatives, at fair value [(2)]	$ 67	$ —	$ 67	$—	$ 67	$ —
Repurchase agreements and term facilities [(3)]	416,593	—	416,593	416,593	—	—
Total	$ 416,660	$ —	$ 416,660	$416,593	$ 67	$ —

At December 31, 2017:						
Derivatives, at fair value	$ 76	$ —	$ 76	$—	$ —	$ 76
Repurchase agreements and term facilities (3)	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 derivative transactions.

(2) The Company posted cash margin of $739,000 related to interest rate swap contracts entered into at June 30, 2018.

(3) The combined fair value of securities and loans pledged against the Company's various repurchase agreements and term facilities was $725.9 million and $816.1 million at June 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.

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NOTE 20 - 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 June 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.

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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 June 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 June 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 June 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, which has been filed publicly with the Court, 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 the Kingsway mezzanine loan until the final maturity date in 2020. At June 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. No reserve for probable losses was recorded during the three or six months ended June 30, 2018.

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PCM is subject to additional claims for repurchases or indemnifications on loans that PCM has sold to investors. At both June 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.

NOTE 21 - 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-real estate businesses identified for sale were the residential mortgage and middle market lending segments as well as the Company's life settlement policy portfolio, or 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 June 30, 2018, the Company has disposed of substantially all of the non-real estate businesses identified for sale.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Interest income:				
Loans	$10	$893	$580	$1,790
Other	9	19	13	32
Total interest income	19	912	593	1,822
Interest expense	—	—	—	—
Net interest income	19	912	593	1,822
Gain (loss) on sale of residential mortgage loans	13	3,049	(1)	6,874
Fee (loss) income	(66)	1,497	33	3,677
Total revenues	(34)	5,458	625	12,373
OPERATING EXPENSES				
Equity compensation	—	162	—	221
General and administrative	443	8,922	1,103	16,395
Total operating expenses	443	9,084	1,103	16,616
	(477)	(3,626)	(478)	(4,243)
OTHER INCOME (EXPENSE)				
Net realized and unrealized gain (loss) on investment securities available-for-sale and loans and derivatives	27	(83)	275	(85)
Fair value adjustments on financial assets held for sale	—	(475)	—	(417)
Total other income (expense)	27	(558)	275	(502)
LOSS FROM DISCONTINUED OPERATIONS BEFORE TAXES	(450)	(4,184)	(203)	(4,745)
Income tax expense	—	—	—	—
NET LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(450)	(4,184)	(203)	(4,745)
Loss from disposal of discontinued operations	—	—	—	—
TOTAL LOSS FROM DISCONTINUED OPERATIONS	$(450)	$(4,184)	$(203)	$(4,745)

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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 June 30, 2018 and December 31, 2017 (in thousands, except amounts in the footnote):

	June 30, 2018	December 31, 2017
ASSETS		
Restricted cash	$—	$ 138
Accrued interest receivable	—	67
Loans held for sale [(1)]	19,978	93,063
Other assets [(2)]	978	14,450
Total assets held for sale	$20,956	$ 107,718
LIABILITIES		
Accounts payable and other liabilities	$2,421	$ 10,283
Management fee payable	—	56
Accrued interest payable	—	3
Total liabilities held for sale	$2,421	$ 10,342

(1) Includes a directly originated middle market loan with a carrying value of $2.0 million at June 30, 2018 and 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, which were transferred to held for sale in the fourth quarter of 2016. There were no life settlement contracts remaining at June 30, 2018.

In the first quarter of 2018, the Company sold its remaining syndicated middle market loans and recognized a $243,000 net realized gain on these sales for the six months ended June 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 June 30, 2018:			
Legacy CRE loans [(1)]	1	$24,614	$18,000
Mezzanine loans [(2)]	1	—	—
Middle market loans [(3)]	1	13,837	1,978
Total loans held for sale	3	$38,451	$19,978
At December 31, 2017:			
Legacy CRE loans [(1)]	5	$63,783	$61,841
Mezzanine loans [(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 cost of $28.3 million were reclassified as CRE loans on the consolidated balance sheets at June 30, 2018 as it is now the Company's intent to hold these loans to maturity.

(2) Includes a mezzanine loan with a par value of $38.1 million that 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 June 30, 2018 and 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 the projected proceeds from the sale of the business at June 30, 2018 and 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.

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NOTE 22 - SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing of this report and determined that there have not been any events that have occurred that would require adjustments to or disclosures in the consolidated financial statements.

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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 June 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. Historically, we have generated revenues from the interest and fees earned on our CRE whole loans, B notes, mezzanine loans,

preferred equity investments, CMBS, middle market loans, other asset-backed securities ("ABS") and structured note investments.

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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 include 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 June 30, 2018. At June 30, 2018, we have approximately $47.6 million left in the Plan, of which $46.3 million relates to 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]	Monetized through June 30, 2018 [3]	Net Book Value at June 30, 2018 [3]
Discontinued operations and assets held for sale:					
Legacy CRE loans [4]	$ 162.2	$ (11.5)	$ (17.5)	$ (115.2)	$ 18.0
Middle market loans	73.8	—	(17.7)	(56.1)	—
Residential mortgage lending segment [5]	56.6	(2.2)	(9.6)	(43.7)	1.1
Other assets held for sale	5.9	—	3.8	(9.7)	—
Subtotal - discontinued operations and assets held for sale	298.5	(13.7)	(41.0)	(224.7)	19.1
Legacy CRE loans held for investment [6][7]	32.5	—	—	(4.2)	28.3
Investments in unconsolidated entities	86.6	—	38.3	(124.7)	0.2
Commercial finance assets	62.5	—	2.1	(64.6)	—
Total	$ 480.1	$ (13.7)	$ (0.6)	$ (418.2)	$ 47.6

(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 (2) below.

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

(3) Middle market loans include a pro forma adjustment of $2.1 million for proceeds received in July 2018.

(4) Legacy CRE loans include $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 $2.6 million of cash and cash equivalents not classified as assets held for sale in the residential mortgage lending segment at June 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 it is now our intent to hold these loans to maturity.

(7) Legacy CRE loans held for investment 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.

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We have deployed the incremental capital received 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 47 CRE loans with total commitments of $941.9 million, of which $195.3 million of loan commitments were originated during the three months ended June 30, 2018. Since December 31, 2016, we have acquired CMBS with total face values of $333.3 million, of which $77.1 million were acquired during the three months ended June 30, 2018. These investments were initially financed, in part, through our CRE and CMBS term facilities and, in the case of CRE loans, through securitizations. In furtherance of our Plan, we intend to continue to utilize proceeds from the monetized assets, coupled with available debt financing of $739.6 million at June 30, 2018, to grow our CRE lending operation in 2018.

In furtherance of the actions taken to reduce our cost of capital, we redeemed all shares 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. The redemptions eliminated approximately $13.7 million of preferred stock dividends on an annual basis.

As a result of the Plan, the allocation of our equity at June 30, 2018 was: 91% in core assets and 9% 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 June 30, 2018 was $6.2 million, or $0.20 per share-basic ($0.20 per share-diluted), and our net loss allocable to common shares for the six months ended June 30, 2018 was $6.4 million, or $(0.21) per share-basic ($(0.21) per share-diluted) as compared to net income allocable to common shares for the three and six months ended June 30, 2017 of $2.5 million, or $0.08 per share-basic ($0.08 per share-diluted), and $5.2 million, or $0.17 per share-basic ($0.17 per share-diluted), respectively.

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Net Interest Income

The following tables analyze the change in interest income and interest expense for the comparative three and six months ended June 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 June 30, 2018 Compared to Three Months Ended June 30, 2017		
		Due to Changes in	
	Net Change	Volume	Rate
Increase (decrease) in interest income:			
CRE loans	$3,594	$2,161	$1,433
Securities	2,876	3,060	(184)
Other	(445)	(436)	(9)
Total increase in interest income	6,025	4,785	1,240
Increase (decrease) in interest expense:			
Securitized borrowings:			
RCC 2014-CRE2 Senior Notes	(927)	(927)	—
RCC 2015-CRE3 Senior Notes	(1,761)	(2,358)	597
RCC 2015-CRE4 Senior Notes	(374)	(748)	374
RCC 2017-CRE5 Senior Notes	2,040	2,040	—
XAN 2018-RSO6 Senior Notes	158	158	—
Unsecured junior subordinated debentures	124	—	124
Convertible senior notes:			
4.50% Convertible Senior Notes	2,388	2,388	—
6.00% Convertible Senior Notes	(835)	(835)	—
8.00% Convertible Senior Notes	(1,805)	(1,805)	—
CRE - term repurchase facilities	1,131	235	896
CMBS - term repurchase facilities	(416)	(480)	64
Trust certificates - term repurchase facilities	803	809	(6)
CMBS - short term repurchase agreements	1,259	1,259	—
Hedging	27	27	—
Total increase (decrease) in interest expense	1,812	(237)	2,049
Net increase (decrease) in net interest income	$4,213	$5,022	$(809)

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	Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017		
		Due to Changes in	
	Net Change	Volume	Rate
Increase (decrease) in interest income:			
CRE loans	$4,444	$1,787	$2,657
Securities	4,024	5,036	(1,012)
Other	(1,957)	(1,930)	(27)
Total increase in interest income	6,511	4,893	1,618
Increase (decrease) in interest expense:			
Securitized borrowings:			
RCC 2014-CRE2 Senior Notes	(2,358)	(2,358)	—
RCC 2015-CRE3 Senior Notes	(2,663)	(3,921)	1,258
RCC 2015-CRE4 Senior Notes	(1,281)	(2,054)	773
RCC 2017-CRE5 Senior Notes	3,897	3,897	—
XAN 2018-RSO6 Senior Notes	158	158	—
Unsecured junior subordinated debentures	208	—	208
Convertible senior notes:			
4.50% Convertible Senior Notes	4,753	4,753	—
6.00% Convertible Senior Notes	(1,672)	(1,672)	—
8.00% Convertible Senior Notes	(3,608)	(3,608)	—
CRE - term repurchase facilities	1,602	8	1,594
CMBS - term repurchase facilities	(695)	(887)	192
Trust certificates - term repurchase facilities	1,558	1,577	(19)
CMBS - short term repurchase agreements	1,983	1,983	—
Hedging	60	60	—
Total increase (decrease) in interest expense	1,942	(2,064)	4,006
Net increase (decrease) in net interest income	$4,569	$6,957	$(2,388)

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The following table presents the average net yield and average cost of funds for the three months ended June 30, 2018 and 2017 (in thousands, except percentages):

	For the Three Months Ended June 30, 2018			For the Three Months Ended June 30, 2017		
	Average Balance	Interest Income (Expense)	Average Net Yield (Cost of Funds)	Average Balance	Interest Income (Expense)	Average Net Yield (Cost of Funds)
Interest-earning assets						
CRE loans	$1,479,171	$25,435	6.93 %	$1,429,352	$21,841	6.13 %
Securities	269,252	4,205	6.26 %	97,581	1,329	6.24 %
Other	3,368	20	0.59 %	38,200	465	13.48 %
Total interest income/average net yield	1,751,791	29,660	6.81 %	1,565,133	23,635	6.32 %
Interest-bearing liabilities						
Collateralized by:						
CRE whole loans	751,422	(8,482)	(4.53)%	772,625	(8,215)	(4.26)%
CMBS	162,808	(1,385)	(3.41)%	71,658	(542)	(3.03)%
General corporate debt:						
Unsecured junior subordinated debentures	51,548	(806)	(6.19)%	51,548	(682)	(5.09)%
4.50% Convertible Senior Notes	143,750	(2,388)	(6.57)%	—	—	— %
6.00% Convertible Senior Notes	70,453	(1,309)	(7.35)%	115,000	(2,145)	(7.38)%
8.00% Convertible Senior Notes	21,182	(481)	(8.98)%	100,000	(2,285)	(9.04)%
Trust certificates - term repurchase facilities	73,931	(1,278)	(6.93)%	26,598	(475)	(7.17)%
Hedging	47,612	(30)	(0.25)%	1,501	(3)	(0.73)%
Total interest expense/average cost of funds	$1,322,706	(16,159)	(4.88)%	$1,138,930	(14,347)	(5.02)%
Total net interest income/average spread		$13,501			$9,288	

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The following table presents the average net yield and average cost of funds for the six months ended June 30, 2018 and 2017 (in thousands, except percentages):

	For the Six Months Ended June 30, 2018			For the Six Months Ended June 30, 2017		
	Average Balance	Interest Income (Expense)	Average Net Yield (Cost of Funds)	Average Balance	Interest Income (Expense)	Average Net Yield (Cost of Funds)
Interest-earning assets						
CRE loans	$1,436,685	$47,818	6.71 %	$1,447,704	$43,374	6.03 %
Securities	243,206	7,661	6.37 %	97,638	3,637	6.83 %
Other	19,652	138	0.71 %	43,516	2,095	13.66 %
Total interest income/average net yield	1,699,543	55,617	6.59 %	1,588,858	49,106	6.29 %
Interest-bearing liabilities						
Collateralized by:						
CRE whole loans	718,426	(15,742)	(4.42)%	801,198	(16,387)	(4.12)%
CMBS	140,917	(2,372)	(3.39)%	74,126	(1,084)	(2.95)%
General corporate debt:						
Unsecured junior subordinated debentures	51,548	(1,530)	(5.90)%	51,548	(1,322)	(5.02)%
4.50% Convertible Senior Notes	143,750	(4,753)	(6.58)%	—	—	— %
6.00% Convertible Senior Notes	70,453	(2,617)	(7.39)%	115,000	(4,289)	(7.42)%
8.00% Convertible Senior Notes	21,182	(961)	(9.02)%	100,000	(4,569)	(9.09)%
Trust certificates - term repurchase facilities	74,174	(2,488)	(6.76)%	26,598	(930)	(7.05)%
Hedging	44,915	(80)	(0.36)%	755	(20)	(0.73)%
Total interest expense/average cost of funds	$1,265,365	(30,543)	(4.85)%	$1,169,225	(28,601)	(4.90)%
Total net interest income/average spread		$25,074			$20,505	

Interest Income

The following tables set forth information relating to our interest income recognized for the periods presented (in thousands, except percentages):

	For the Three Months Ended June 30, 2018		For the Three Months Ended June 30, 2017	
	Weighted Average Yield [1]	Balance	Weighted Average Yield [1]	Balance
Interest income:				
Interest income from loans:				
CRE whole loans	7.14%	$1,383,028	6.59%	$1,269,726
Legacy CRE loans held for sale [2]	1.79%	$75,692	2.47%	$159,626
CRE preferred equity investment	11.69%	$19,263	—%	$—
CRE mezzanine loan	10.14%	$1,188	—%	$—
Interest income from securities:				
CMBS				