Great Ajax Corp.
Form 10-Q
August 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

001-36844

(Commission file number)

GREAT AJAX CORP.

(Exact name of registrant as specified in its charter)

Maryland	47-1271842
State or other jurisdiction	**(I.R.S. Employer**
of incorporation or organization	**Identification No.)**
9400 SW Beaverton-Hillsdale Hwy, Suite 131 Beaverton, OR 97005	97005
(Address of principal executive offices)	**(Zip Code)**

503-505-5670

Registrant's telephone number, including area code

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such report(s), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company x

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

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

As of August 1, 2017, 18,248,304 of the Registrant’s common stock, par value $0.01 per share, were outstanding which includes 624,106 operating partnership units that are exchangeable on a one-for-one basis into shares of the registrant’s common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Interim Financial Statements

GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 42,040	$ 35,723
Cash held in trust	29	1,185
Mortgage loans[1]	1,044,745	869,091
Property held-for-sale, net	28,278	23,882
Rental property, net	1,969	1,289
Investment in debt securities	6,303	6,323
Receivable from servicer	16,067	12,481
Investment in affiliates	1,862	4,253
Prepaid expenses and other assets	4,829	3,175
Total assets	$ 1,146,122	$ 957,402
LIABILITIES AND EQUITY		
Liabilities:		
Secured borrowings, net[1,2]	$ 522,706	$ 442,670
Borrowings under repurchase agreement	245,526	227,440
Convertible senior notes, net[2]	82,083	-
Management fee payable	750	750
Accrued expenses and other liabilities	2,697	3,819
Total liabilities	853,762	674,679
Commitments and contingencies- see Note 7		
Equity:		
Preferred stock $0.01 par value; 25,000,000 shares authorized, none issued or outstanding	-	-
Common stock $0.01 par value; 125,000,000 shares authorized, 18,169,424 shares at June 30, 2017 and 18,122,387 shares at December 31, 2016 issued and	182	181

outstanding		
Additional paid-in capital	248,803	244,880
Retained earnings	32,880	27,231
Accumulated other comprehensive loss	(131)	-
Equity attributable to common stockholders	281,734	272,292
Non-controlling interests	10,626	10,431
Total equity	292,360	282,723
Total liabilities and equity	$ 1,146,122	$ 957,402

(1) Mortgage loans include $699,566 and $598,643 of loans at June 30, 2017 and December 31, 2016, respectively, transferred to securitization trusts that are variable interest entities ("VIEs"); these loans can only be used to settle obligations of the VIEs. Secured borrowings consist of notes issued by VIEs that can only be settled with the assets and cash flows of the VIEs. The creditors do not have recourse to the primary beneficiary (Great Ajax Corp.). See Note 8—Debt.

(2) Secured borrowings and Convertible senior notes are presented net of deferred issuance costs.

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except per share data)

	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
INCOME				
Loan interest income	$21,721	$16,378	$42,528	$32,258
Interest expense	(9,293)	(6,063)	(16,944)	(11,050)
Net interest income	12,428	10,315	25,584	21,208
Income from investment in Manager	142	46	191	90
Other income	535	482	997	1,001
Total income	13,105	10,843	26,772	22,299
EXPENSE				
Related party expense – loan servicing fees	1,935	1,410	3,817	2,786
Related party expense – management fees	1,330	937	2,403	1,843
Loan transaction expense	442	574	967	787
Professional fees	507	407	987	821
Real estate operating expenses	637	268	961	475
Other expense	886	360	1,570	740
Total expense	5,737	3,956	10,705	7,452
Loss on debt extinguishment	218	-	218	-
Income before provision for income taxes	7,150	6,887	15,849	14,847
Provision for income taxes	48	26	49	23
Consolidated net income	7,102	6,861	15,800	14,824
Less: consolidated net income attributable to the non-controlling interest	238	256	527	568
Consolidated net income attributable to common stockholders	$6,864	$6,605	$15,273	$14,256
Basic earnings per common share	$0.38	$0.42	$0.84	$0.92
Diluted earnings per common share	$0.36	$0.42	$0.82	$0.92
Weighted average shares – basic	18,008,499	15,742,932	17,992,692	15,524,725

Weighted average shares – diluted	23,026,679	16,389,126	20,921,070	16,174,164

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Consolidated net income attributable to common stockholders	$ 6,864	$ 6,605	$ 15,273	$ 14,256
Other comprehensive income:				
Net unrealized gain/(loss) on investment, net of non-controlling interest	9	-	(131)	-
Comprehensive income	$ 6,873	$ 6,605	$ 15,142	$ 14,256

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six months ended	
	June 30, 2017	June 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$15,800	$ 14,824
Adjustments to reconcile consolidated net income to net cash from operating activities		
Stock-based management fee and compensation expense	1,331	514
Non-cash interest income accretion	(20,893)	(20,711)
Discount accretion on investment in debt securities	(111)	-
Gain on sale of property	(222)	(1,086)
Non-cash loan charges	26	-
Depreciation of property	32	11
Impairment of real estate owned	909	200
Amortization of prepaid financing costs	2,706	2,889
Net change in operating assets and liabilities		
Prepaid expenses and other assets	(1,981)	(521)
Receivable from servicer	(3,749)	(1,505)
Undistributed income from investment in affiliates	(385)	(259)
Accrued expenses, management fee payable, and other liabilities	(981)	1,693
Net cash used in operating activities	(7,518)	(3,951)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of mortgage loans and related balances	(217,444)	(89,328)
Principal paydowns on mortgage loans	48,401	23,595
Proceeds from sale of property held-for-sale	8,449	5,220
Investment in equity method investee	-	(1,111)
Distribution from affiliates	2,776	95
Renovations of rental property and property held-for-sale	-	(478)
Net cash used in investing activities	(157,818)	(62,007)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from repurchase transactions	66,806	71,086
Repayments on repurchase transactions	(48,861)	(73,379)
Proceeds from sale of secured notes	140,669	101,431
Repayments on secured notes	(60,748)	(19,421)
Proceeds from sale of convertible senior notes	84,866	-
Deferred financing costs	(2,352)	-

Sale of common stock, net of offering costs	-	31,964
Sale of common stock pursuant to dividend reinvestment plan	73	-
Distribution to non-controlling interest	(332)	(305)
Dividends paid on common stock	(9,624)	(7,511)
Net cash provided by financing activities	170,497	103,865
NET CHANGE IN CASH AND CASH EQUIVALENTS AND CASH HELD IN TRUST	5,161	37,907
CASH AND CASH EQUIVALENTS AND CASH HELD IN TRUST, beginning of period	36,908	30,834
CASH AND CASH EQUIVALENTS AND CASH HELD IN TRUST, end of period	$42,069	$ 68,741
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$15,548	$ 7,952
Cash paid for income taxes	$-	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of loans to rental property or property held-for-sale	$14,300	$ 10,930
Issuance of common stock for management and director fees	$1,331	$ 514
Transfer of property held-for-sale to loans	$56	$ 143
Convertible senior notes conversion premium transferred to Equity	$2,520	$ -
Transfer of accrued interest to Borrowings under repurchase agreement	$141	$ -

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

(Dollars in thousands except share data)

	Common stock shares	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Stockholders' equity	Non-controlling interest	Total equity
Balance at December 31, 2015	15,301,946	$ 152	$ 211,729	$ 15,921	-	$ 227,802	$ 10,011	$ 237,813
Net income	-	-	-	14,256	-	14,256	568	14,824
Issuance of shares	2,589,427	27	31,937	-	-	31,964	-	31,964
Stock-based management fee expense	29,826	-	462	-	-	462	-	462
Stock-based compensation expense	3,324	-	52	-	-	52	-	52
Dividends and distributions	-	-	-	(7,511)	-	(7,511)	(305)	(7,816)
Balance at June 30, 2016	17,924,523	$ 179	$ 244,180	$ 22,666	-	$ 267,025	$ 10,274	$ 277,299
Balance at December 31, 2016	18,122,387	$ 181	$ 244,880	$ 27,231	-	$ 272,292	$ 10,431	$ 282,723
Net income	-	-	-	15,273	-	15,273	527	15,800
Issuance of shares	5,494	-	73	-	-	73	-	73
Stock-based management fee expense	41,427	1	902	-	-	903	-	903
Stock-based compensation expense	116	-	428	-	-	428	-	428
Dividends and distributions	-	-	-	(9,624)	-	(9,624)	(332)	(9,956)
Conversion premium – Convertible senior notes	-	-	2,520	-	-	2,520	-	2,520

Accumulated other comprehensive loss	-	-	-	(131)	(131)	-	(131)
Balance at June 30, 2017	18,169,424	$ 182	$ 248,803	$ 32,880	$ (131)	$ 281,734	$ 10,626	$ 292,360

The accompanying notes are an integral part of the consolidated interim financial statements.

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GREAT AJAX CORP. AND SUBSIDIARIESNOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

June 30, 2017

(Unaudited)

Note 1 — Organization and basis of presentation

Great Ajax Corp., a Maryland corporation (the "Company"), is an externally managed real estate company formed on January 30, 2014, and capitalized on March 28, 2014, by its then sole stockholder, Aspen Yo, a company affiliated with Aspen Capital, the trade name for the Aspen group of companies. The Company was formed to facilitate capital raising activities and to operate as a mortgage real estate investment trust ("REIT"). The Company primarily targets acquisitions of re-performing loans ("RPLs") including residential mortgage loans and small balance commercial mortgage loans ("SBC loans") and originations of SBC loans. RPLs are mortgage loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. The SBC loans that the Company intends to opportunistically target, through acquisitions, or originations, generally have a principal balance of up to $5 million and are secured by multi-family residential and commercial mixed use retail/residential properties on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. Additionally, the Company may invest in single-family and smaller commercial properties directly either through a foreclosure event of a loan in our mortgage portfolio or, less frequently, through a direct acquisition. Historically, the Company has also targeted investments in non-performing loans ("NPL"). NPLs are loans on which the most recent three payments have not been made. While the Company may acquire NPLs from time to time and continues to manage the NPLs on its consolidated Balance Sheet, this asset class is no longer a strategic acquisition target. The Company's manager is Thetis Asset Management LLC (the "Manager" or "Thetis"), an affiliated company. The Company owns 19.8% of the Manager. The Company's mortgage loans and real properties are serviced by Gregory Funding LLC ("Gregory" or the "Servicer"), also an affiliated company. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code").

The Company conducts substantially all of its business through its operating partnership, Great Ajax Operating Partnership L.P., a Delaware limited partnership (the "Operating Partnership"), and its subsidiaries. The Company, through a wholly owned subsidiary, is the sole general partner of the Operating Partnership. GA-TRS is a wholly owned subsidiary of the Operating Partnership that owns the equity interest in the Manager. The Company elected to treat GA-TRS as a taxable REIT subsidiary ("TRS") under the Code. Great Ajax Funding LLC is a wholly owned subsidiary of the Operating Partnership formed to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts the Company may form for additional securitizations. The Company generally securitizes its mortgage loans and retains subordinated securities from the securitizations. AJX Mortgage Trust I and AJX Mortgage Trust II are wholly owned subsidiaries of the Operating Partnership formed to hold mortgage loans used as collateral for financings under the Company's repurchase

agreements. In addition, the Company, through its Operating Partnership, holds real estate owned properties ("REO") acquired upon the foreclosure or other settlement of its owned NPLs, as well as through outright purchases. GAJX Real Estate LLC is a wholly owned subsidiary of the Operating Partnership formed to own, maintain, improve and sell REO properties purchased by the Company. The Company has elected to treat GAJX Real Estate LLC as a TRS under the Code.

Basis of presentation and use of estimates

These consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements and the notes thereto for the period ended December 31, 2016, included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 2, 2017.

Interim financial statements are unaudited and prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of consolidated financial statements for the interim period presented, have been included. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2017. The consolidated interim financial statements have been prepared in accordance with U.S. GAAP, as contained within the Accounting Standards Codification ("ASC") of the Financial Accounting Standards Board ("FASB") and the rules and regulations of the SEC, as applied to interim financial statements.

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All controlled subsidiaries are included in the consolidated financial statements and all intercompany accounts and transactions have been eliminated in consolidation. The Operating Partnership is a majority owned partnership that has a non-controlling ownership interest that is included in non-controlling interests on the consolidated Balance Sheet. As of June 30, 2017, the Company owned 96.7% of the outstanding operating partnership units ("OP Units") and the remaining 3.3% of the OP Units are owned by an unaffiliated holder.

The Company's 19.8% investment in the Manager is accounted for using the equity method because the Company exercises significant influence on the operations of the Manager through common officers and directors. There is no traded or quoted price for the interests in the Manager since it is privately held.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company considers significant estimates to include expected cash flows from mortgage loans and fair value measurements, and the net realizable value of REO properties held-for-sale.

Note 2 — Summary of significant accounting policies

Mortgage loans

Purchased mortgage loans are initially recorded at the purchase price, net of any acquisition fees or costs at the time of acquisition and are considered asset acquisitions. As part of the determination of the bid price for mortgage loans, the Company uses a proprietary discounted cash flow valuation model to project expected cash flows, and consider alternate loan resolution probabilities, including liquidation or conversion to REO. Observable inputs to the model include interest rates, loan amounts, status of payments and property types. Unobservable inputs to the model include discount rates, forecast of future home prices, alternate loan resolution probabilities, resolution timelines, the value of underlying properties and other economic and demographic data.

Loans acquired with deterioration in credit quality

The loans acquired by the Company have generally suffered some credit deterioration subsequent to origination. As a result, the Company is required to account for the mortgage loans pursuant to ASC 310-30, *Accounting for Loans with Deterioration in Credit Quality*. The Company's recognition of interest income for loans within the scope of ASC 310-30 is based upon its having a reasonable expectation of the amount and timing of the cash flows expected to be collected. When the timing and amount of cash flows expected to be collected are reasonably estimable, the Company uses expected cash flows to apply the interest method of income recognition.

Under ASC 310-30, acquired loans may be aggregated and accounted for as a pool of loans if the loans have common risk characteristics. A pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. RPLs have been determined to have common risk characteristics and are accounted for as a single loan pool for loans acquired within each three-month calendar quarter. Similarly, NPLs have been determined to have common risk characteristics and are accounted for as a single non-performing pool for loans acquired within each three-month calendar quarter. Excluded from the aggregate pools are loans that pay in full subsequent to the acquisition closing date but prior to pooling. Any gain on these loans is recognized as Interest income in the period the loan pays in full.

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The Company's accounting for loans under ASC 310-30 gives rise to an accretable yield and a non-accretable amount. The excess of all undiscounted cash flows expected to be collected at acquisition over the initial investment in the loans is the accretable yield. Cash flows expected at acquisition include all cash flows directly related to the acquired loan, including those expected from the underlying collateral. The Company recognizes the accretable yield as Interest income on a prospective level yield basis over the life of the pool. The excess of a loan's contractually required payments over the amount of cash flows expected at the acquisition is the non-accretable amount. The Company's expectation of the amount of undiscounted cash flows expected to be collected is evaluated at the end of each calendar quarter. If the Company expects to collect greater cash flows over the life of the pool, the accretable yield amount increases and the expected yield to maturity is adjusted on a prospective basis. A provision for loan losses may be established when it is probable the Company will not collect all amounts previously estimated to be collectible. Management assesses the credit quality of the portfolio and the adequacy of loan loss reserves on a quarterly basis, or more frequently as necessary. Significant judgment is required in this analysis. Depending on the expected recovery of its investment, the Company considers the estimated net recoverable value of the loan pools as well as other factors, such as the fair value of the underlying collateral. When a loan pool is determined to be impaired, the amount of loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan pool's effective interest rate or the fair value of the underlying collateral. Because these determinations are based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized may differ materially from the carrying value as of the reporting date.

Borrower payments on the Company's mortgage loans are classified as principal, interest, payments of fees, or escrow deposits. Amounts applied as interest on the borrower account are similarly classified as interest for accounting purposes and are classified as operating cash flows in the Company's consolidated Statement of Cash Flows. Amounts applied as principal on the borrower account are similarly classified as principal for accounting purposes and are classified as investing cash flows in the consolidated Statement of Cash Flows. Amounts received as payments of fees are recorded in Other income and classified as operating cash flows in the consolidated Statement of Cash Flows. Escrow deposits are recorded on the Servicer's Balance Sheet and do not impact the Company's cash flow.

Loans acquired or originated that have not experienced a deterioration in credit quality

While the Company generally acquires loans that have experienced deterioration in credit quality, it does acquire or originate loans that have not experienced a deterioration in credit quality. The Company recognizes any related loan discount and deferred expenses pursuant to ASC 310-20 by amortizing these amounts over the life of the loan.

Accrual of interest on individual loans is discontinued when management believes that, after considering economic and business conditions and collection efforts, the borrower's financial condition is such that collection of interest is doubtful. The Company's policy is to stop accruing interest when a loan's delinquency exceeds 90 days. All interest accrued but not collected for loans that are placed on non-accrual status or subsequently charged-off are reversed against Interest income. Income is subsequently recognized on the cash basis until, in management's judgment, the borrower's ability to make periodic principal and interest payments returns and future payments are reasonably

assured, in which case the loan is returned to accrual status.

An individual loan is considered to be impaired when, based on current events and conditions, it is probable the Company will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. For individual loans, a troubled debt restructuring is a formal restructuring of a loan where, for economic or legal reasons related to the borrower's financial difficulties, a concession that would not otherwise be considered is granted to the borrower. The concession may be granted in various forms, including providing a below-market interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a combination of these. An individual loan that has had a troubled debt restructuring is considered to be impaired and is subject to the relevant accounting for impaired loans. Loans are tested quarterly for impairment and impairment reserves are recorded to the extent the net realizable value of the underlying collateral falls below net book value.

If necessary, an allowance for loan losses is established through a provision for loan losses charged to expenses. The allowance is an amount that management believes will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans.

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Real estate

The Company acquires REO properties when it forecloses on the borrower and takes title to the underlying property or the borrower surrenders the deed in lieu of foreclosure. Property is recorded at cost if purchased, or at the present value of future cash flows if obtained through foreclosure by the Company. Property that the Company expects to actively market for sale is classified as held-for-sale. Property held-for-sale is carried at the lower of its acquisition basis or, net realizable value (fair market value less expected selling costs). Fair market value is determined based on appraisals, broker price opinions ("BPOs"), or other market indicators of fair value including list price or contract price. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income. No depreciation or amortization expense is recognized on properties held-for-sale, while holding costs are expensed as incurred.

Rental property is property not held-for-sale. Rental properties are intended to be held as long-term investments but may eventually be held-for-sale. Property is held for investment as rental property if the cash flows from use as a rental exceed the present value of expected cash flows from a sale. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets of three to 27.5 years. The Company performs an impairment analysis for all rental property using estimated cash flows if events or changes in circumstances indicate that the carrying value may be impaired, such as prolonged vacancy, identification of materially adverse legal or environmental factors, changes in expected ownership period or a decline in market value to an amount less than cost. This analysis is performed at the property level. The cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for rental properties, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods.

Renovations are performed by the Servicer, and those costs are then reimbursed to the Servicer. Any renovations on properties which the Company elects to hold as rental properties are capitalized as part of the property's basis and depreciated over the remaining estimated useful life of the property. The Company may perform property renovations to maximize the value of a property for either its rental strategy or for resale.

Secured borrowings

The Company, through securitization trusts, issues callable debt secured by its mortgage loans in the ordinary course of business. The secured borrowings are structured as debt financings, and the loans remain on the Company's consolidated Balance Sheet as the Company is the primary beneficiary of the securitization trusts which are variable interest entities ("VIEs"). These secured borrowing VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. The Company's exposure to the obligations of the VIEs is generally limited to its investments in the entities; the creditors do not have recourse to the primary beneficiary. Coupon interest on the debt is recognized using the accrual method of accounting.

Deferred issuance costs, including original issue discount and debt issuance costs, are carried on the Company's consolidated Balance Sheets as a deduction from Secured borrowings, and are amortized on an effective yield basis based on the underlying cash flow of the mortgage loans. The Company assumes the debt will be called at the specified call date for purposes of amortizing discount and issuance costs because the Company believes it will have the intent and ability to call the debt on the call date. Changes in the actual or projected underlying cash flows are reflected in the timing and amount of deferred issuance cost amortization.

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Repurchase facilities

The Company enters into repurchase financing facilities under which it nominally sells assets to a counterparty and simultaneously enters into an agreement to repurchase the sold assets at a price equal to the sold amount plus an interest factor. Despite being legally structured as sales and subsequent repurchases, repurchase transactions are generally accounted for as debt secured by the underlying assets. At the maturity of a repurchase financing, unless the repurchase financing is renewed, the Company is required to repay the borrowing including any accrued interest and concurrently receives back its pledged collateral from the lender. The repurchase financings are treated as collateralized financing transactions; pledged assets are recorded as assets in the Company's consolidated Balance Sheets, and debt is recognized at the contractual amount. Interest is recorded at the contractual amount on an accrual basis. Costs associated with the set-up of a repurchasing contract are recorded as deferred issuance cost at inception and amortized over the contractual life of the agreement. Any draw fees associated with individual transactions and any facility fees assessed on the amounts outstanding are recorded as deferred costs when incurred and amortized over the contractual life of the related borrowing.

Convertible senior notes

On April 25, 2017, the Company completed the public offer and sale of $87.5 million aggregate principal amount of its Convertible senior notes (the "notes") due 2024. The notes bear interest at a rate of 7.25% per annum, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, beginning on July 15, 2017. The notes will mature on April 30, 2024, unless earlier converted, redeemed or repurchased. During certain periods and subject to certain conditions the notes will be convertible by their holders into shares of the Company's common stock at an initial conversion rate of 1.6267 shares of common stock per $25.00 principal amount of the notes, which represents an initial conversion price of approximately $15.37 per share of common stock.

Coupon interest on the notes is recognized using the accrual method of accounting. Discount and deferred issuance costs are carried on the Company's consolidated Balance Sheets as a deduction from the notes, and are amortized to interest expense on an effective yield basis through April 30, 2023, the date at which the notes can be converted. The Company assumes the debt will be converted at the specified conversion date for purposes of amortizing issuance costs because the Company believes such conversion will be in the economic interest of the holders. Discount of $2.5 million, representing the value of the embedded conversion feature, was recorded to stockholders' equity. No sinking fund has been established for redemption of the principal.

Management fee and expense reimbursement

The Company entered into an amended and restated management agreement with the Manager on October 27, 2015, which had an initial 15-year term (the "Management Agreement"). Under the Management Agreement, the Manager implements the Company's business strategy and manages the Company's business and investment activities and day-to-day operations, subject to oversight by the Company's Board of Directors. Among other services, the Manager, directly or through Aspen Yo LLC ("Aspen") affiliates, provides the Company with a management team and necessary administrative and support personnel. The Company does not currently have any employees that it pays directly and does not expect to have any employees that it pays directly in the foreseeable future. Each of the Company's executive officers is an employee or officer, or both, of the Manager or the Servicer.

Under the Management agreement, the Company pays a quarterly base management fee based on its stockholders' equity and equity equivalents, including the balance due on its Convertible senior notes, and a quarterly incentive management fee based on its cash distributions, if paid out of taxable income in excess of certain thresholds, to its stockholders. Management fees are expensed in the quarter incurred and the portion payable in common stock is included in consolidated Stockholders' equity at quarter end. See Note 9 — Related party transactions.

Servicing fees

On July 8, 2014, the Company entered into a 15-year Servicing Agreement (the "Servicing Agreement") with the Servicer. Under the Servicing Agreement by and between the Company and the Servicer, the Servicer receives servicing fees of 0.65% annually of the Unpaid Principal Balance ("UPB") for loans that are re-performing at acquisition and 1.25% annually of UPB for loans that are non-performing at acquisition. Servicing fees are paid monthly. The total fees incurred by the Company for these services depend upon the UPB and type of mortgage loans that the Servicer services pursuant to the terms of the servicing agreement. The fees do not change if a re-performing loan becomes non-performing or vice versa. Servicing fees for the Company's real property assets are the greater of (i) the servicing fee applicable to the underlying mortgage loan prior to foreclosure, or (ii) 1.00% annually of the fair market value of the REO as reasonably determined by the Manager or 1.00% annually of the purchase price of any REO otherwise purchased by the Company. The Servicer is reimbursed for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations undertaken on the Company's behalf. The total fees incurred by the Company for these services will be dependent upon the UPB and type of mortgage loans that the Servicer services, property values, previous UPB of the relevant loan, and the number of REO properties. The Servicing Agreement will automatically renew for successive one-year terms, subject to prior written notice of non-renewal. In certain cases, the Company may be obligated to pay a termination fee. The Management Agreement will automatically terminate at the same time as the Servicing Agreement if the Servicing Agreement is terminated for any reason. See Note 9 — Related party transactions.

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Stock-based payments

A portion of the management fee is payable in cash, and a portion of the management fee in shares of the Company's common stock, which are issued to the Manager in a private placement and are restricted securities under the Securities Act of 1933, as amended (the "Securities Act"). Shares issued to the Manager are determined based on the higher of the most recently reported book value or the average of the closing prices of our common stock on the New York Stock Exchange ("NYSE") on the five business days after the date on which the most recent regular quarterly dividend to holders of our common stock is paid. Management fees paid in common stock are recognized as an expense in the quarter incurred and recorded in equity at quarter end.

Under the Company's 2014 Director Equity Plan (the "Director Plan"), the Company may make stock-based awards to its directors. The Director Plan is designed to promote the Company's interests by attracting and retaining qualified and experienced individuals for service as non-employee directors. The Director Plan is administered by the Company's Board of Directors. The total number of shares of common stock or other stock-based award, including grants of long-term incentive plan units ("LTIP Units") from the Operating Partnership, available for issuance under the Director Plan is 90,000 shares. The Company has issued to each of its independent directors restricted stock awards of 2,000 shares of its common stock upon joining the Board of Directors, which are subject to a one-year vesting period. In addition, each of the Company's independent directors receives an annual fee of $75,000, an increase of $25,000 over the annual fee paid to the Company's independent directors through December 31, 2016. The fee is payable quarterly, half in shares of the Company's common stock and half in cash. Stock-based expense for the directors' annual fee is expensed as earned, in equal quarterly amounts during the year, and recorded in equity at quarter end.

On June 7, 2016, the Company's stockholders approved the 2016 Equity Incentive Plan (the "2016 Plan") to attract and retain non-employee directors, executive officers, key employees and service providers, including officers and employees of the Company's affiliates. The 2016 Plan authorized the issuance of up to 5% of the Company's outstanding shares from time to time on a fully diluted basis (assuming, if applicable, the exercise of all outstanding options and the conversion of all warrants and Convertible senior notes, including OP Units and LTIP Units, into shares of common stock). Grants of restricted stock to officers of the Company use grant date fair value of the stock as the basis for measuring the cost of the grant. The cost of grants of restricted stock to employees of the Company's affiliates is determined using the stock price as of the date at which the counterparty's performance is complete. Forfeitures are accounted for in the period in which they occur. The shares vest over three years, with one third of the shares vesting on each of the first, second and third anniversaries of the grant date. The shares may not be sold until the third anniversary of the grant date.

Directors' fees

The expense related to directors' fees is accrued, and the portion payable in common stock is reflected in consolidated Stockholders' equity in the period in which it is incurred.

Variable interest entities

In the normal course of business, the Company enters into various types of transactions with special purpose entities, which have primarily consisted of trusts established for the Company's secured borrowings (See "Secured Borrowings" above and Note 8 to the consolidated Financial Statements). Additionally, from time to time, the Company may enter into joint ventures with unrelated entities. The Company evaluates each transaction and its resulting beneficial interest to determine if the entity formed pursuant to the transaction should be classified as a VIE. If an entity created in a transaction meets the definition of a VIE and the Company determines that it or a consolidated subsidiary is the primary beneficiary, the Company will include the entity in its consolidated financial statements.

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Cash and cash equivalents

Highly liquid investments with an original maturity of three months or less when purchased are considered cash equivalents. The Company generally maintains cash and cash equivalents at insured banking institutions with minimum assets of $1 billion. Certain account balances exceed Federal Deposit Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Cash held in trust

Cash held in trust consists of restricted cash balances legally due to lenders, and is segregated from the Company's other cash deposits. Cash held in trust is not available to the Company for any purposes other than the settlement of existing obligations to the lender.

Earnings per share

The Company grants restricted shares which entitle the recipients to receive dividend equivalents during the vesting period on a basis equivalent to the dividends paid to holders of common shares. Unvested share-based compensation awards containing non-forfeitable rights to receive dividends or dividend equivalents (collectively, "dividends") are classified as "participating securities" and are included in the basic earnings per share calculation using the two-class method.

Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities, based on their respective rights to receive dividends. Basic earnings per share is determined by dividing net income available to common shareholders, reduced by income attributable to the participating securities, by the weighted-average common shares outstanding during the period.

Diluted earnings per share is determined by dividing net income attributable to diluted shareholders, which adds back to net income the interest expense, net of applicable income taxes, on the Company's Convertible senior notes, by the weighted-average common shares outstanding, assuming all dilutive securities, including stock grants, shares that would be issued in the event that OP Units are redeemed for shares of common stock of the Company, shares issued in

respect of the stock-based portion of the base fee payable to the Manager and independent directors, and shares that would be issued in the event of conversion of the Company's outstanding Convertible senior notes, were issued. In the event the Company were to record a loss, potentially dilutive securities would be excluded from the diluted loss per share calculation, as their effect on loss per share would be anti-dilutive.

Fair value of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy has been established that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- **Level 1** — Quoted prices in active markets for identical assets or liabilities.

- **Level 2** — Observable inputs other than Level 1 prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- **Level 3** — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The degree of judgment utilized in measuring fair value generally correlates to the level of pricing observability. Assets and liabilities with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of pricing observability and a lesser degree of judgment utilized in measuring fair value. Conversely, assets and liabilities rarely traded or not quoted will generally have little or no pricing observability and a higher degree of judgment utilized in measuring fair value. Pricing observability is impacted by a number of factors, including the type of asset or liability, whether it is new to the market and not yet established, and the characteristics specific to the transaction.

The fair value of mortgage loans is estimated using the Manager's proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The Company reviews its discount rates periodically to ensure the assumptions used to calculate fair value are in line with market conditions.

The Commpany's Investment in debt securities is considered to be available for sale, and is carried at fair value with changes in fair value reflected in the Company's consolidated Statements of Comprehensive Income.

The Company calculates the fair value for the secured borrowings on its consolidated Balance Sheets from securitization trusts by using the Company's proprietary pricing model to estimate the cash flows expected to be generated from the underlying collateral with the discount rate used in the present value calculation representing an estimate of the average rate for debt instruments with similar durations and risk factors.

The Company's Convertible senior notes are traded on the New York Stock Exchange; the debt's fair value is determined from the closing price on the Balance Sheet date.

Property held-for-sale is carried at the lower of its acquisition basis or, net realizable value (fair market value less expected selling costs). Fair market value is determined based on appraisals, broker price opinions, or other market indicators of fair value. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income.

Income taxes

The Company elected REIT status upon the filing of its 2014 income tax return, and has conducted its operations in order to satisfy and maintain eligibility for REIT status. Accordingly, the Company does not believe it will be subject to U.S. federal income tax from the year ended December 31, 2014 forward on the portion of the Company's REIT taxable income that is distributed to the Company's stockholders as long as certain asset, income and stock ownership tests are met. If the Company fails to qualify as a REIT in any taxable year, it generally will not be permitted to qualify for treatment as a REIT for U.S. federal income tax purposes for the four taxable years following the year during which qualification is lost. In addition, notwithstanding the Company's qualification as a REIT, it may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes.

GA-TRS, GAJX Real Estate LLC, and any other TRS that the Company forms will be subject to U.S. federal and state income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences or benefits attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which management expects those temporary differences to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period in which the change occurs. Subject to the Company's judgment, it reduces a deferred tax asset by a valuation allowance if it is "more-likely-than-not" that some or all of the deferred tax asset will not be realized. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in evaluating tax positions, and the Company recognizes tax benefits only if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority.

The Company evaluates tax positions taken in its consolidated financial statements under the interpretation for accounting for uncertainty in income taxes. As a result of this evaluation, the Company may recognize a tax benefit from an uncertain tax position only if it is "more-likely-than-not" that the tax position will be sustained on examination by taxing authorities.

The Company's tax returns remain subject to examination and consequently, the taxability of the distributions and other tax positions taken by the Company may be subject to change. Distributions to stockholders generally will be taxable as ordinary income, although a portion of such distributions may be designated as long-term capital gain or qualified dividend income, or may constitute a return of capital. The Company furnishes annually to each stockholder a statement setting forth distributions paid during the preceding year and their U.S. federal income tax treatment.

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Investment in debt securities

The Company's investment in debt securities consists of a $6.3 million investment in subordinated debt securities issued by a related party trust. The notes have a stated final maturity of October 25, 2056. The notes are considered to be available for sale, and are carried at fair value with changes in fair value reflected in the Company's consolidated Statements of Comprehensive Income.

Segment information

The Company's primary business is acquiring, investing in and managing a portfolio of mortgage loans. The Company operates in a single segment focused on re-performing mortgages, and to a lesser extent non-performing mortgages.

Emerging growth company

Section 107 of the Jumpstart Our Business Startups Act (the "JOBS Act") permits an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Nonetheless, the Company has elected not to use this extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended.

Reclassifications

Certain amounts in the Company's 2016 consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income or equity.

Recently adopted accounting standards

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures,* which is intended to simplify the transition to the equity method of accounting. The guidance eliminates the retrospective application of the equity method of accounting when obtaining significant influence over a previously held investment. The guidance requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This guidance is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company adopted ASU 2016-07 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation*. The guidance primarily simplifies the accounting for employee share-based payment transactions, including a new requirement to record all of the income tax effects at settlement or expiration through the income statement, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company elected to early-adopt ASU 2016-09 during year ended December 31, 2016. Accordingly, the Company made an entity-wide accounting policy election to account for forfeitures under its equity incentive plan as they occur. There was no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

In October 2016, the FASB issued ASU No. 2016-17, *Consolidation – Interests Held through Related Parties That Are Under Common Control*. ASU 2016-17 is intended to revise guidance from ASU 2015-02 which, in practice, was leading to reporting of financial information that was not useful to financial statement users. Accordingly, ASU 2016-17 provides guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining if the reporting entity is the primary beneficiary of the VIE. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2016-17 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

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In March 2017, the FASB issued ASU 2017-08, *Receivables- Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities*. This standard shortens the amortization period for the premium to the earliest call date to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. Adoption of ASU 2017-08 is required for fiscal years and interim periods within those fiscal years, beginning after December, 15, 2018, early adoption is permitted. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements. The Company adopted ASU 2016-17 in 2017 with no effect on its consolidated assets or liabilities, or its consolidated net income or equity.

Recently issued accounting standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 may be applied using either a full retrospective or a modified retrospective approach. In August 2015, the FASB issued ASU 2015-14 deferring the effective date for ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company recognizes revenue on its investments in mortgage loans pursuant to ASC Topic 310 which addresses the accounting treatment for various receivables. ASU 2014-09 provides a specific exemption for revenue recognized pursuant to ASC Topic 310. Accordingly, the Company does not expect the implementation of ASU 2014-09 to have a material effect on its financial statements.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments – Credit Losses. The main objective of this guidance is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. To achieve this, the amendments in this guidance replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Specifically, the amendments in this guidance require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted, beginning with fiscal years after December 15, 2018. The Company is currently evaluating the impact on its consolidated financial statements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall*. ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically the guidance (1) requires equity investments to be measured at fair value with changes in fair value recognized in earnings, (2)

simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (3) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (4) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (5) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (6) requires separate presentation of financial assets and liabilities by measurement category and form on the consolidated balance sheets or the notes to the financial statements, and (7) clarifies that the need for a valuation allowance on a deferred tax asset related to an available-for-sale security should be evaluated with other deferred tax assets. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on the presentation and classification of specific cash flow items to improve consistency within the statement of cash flows. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the effect that ASU 2016-15 will have on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation*. ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is evaluating the effect that ASU 2017-09 will have on its consolidated financial statements and related disclosures.

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Note 3 — Mortgage loans

Included on the Company's consolidated Balance Sheets as of June 30, 2017 and December 31, 2016 are approximately $1,044.7 million and $869.1 million, respectively, of RPLs, NPLs, and originated SBCs at carrying value. RPLs and NPLs are categorized at acquisition. The carrying value of RPLs and NPLs reflects the original investment amount, plus accretion of interest income, less principal and interest cash flows received. Additionally originated SBC loans are carried at originated cost. The carrying value for all loans is decreased by an allowance for loan losses, if any. To date, the Company has not recorded an allowance for losses against its purchased mortgage loan portfolio.

The Company's mortgage loans are secured by real estate. The Company monitors the credit quality of the mortgage loans in its portfolio on an ongoing basis, principally by considering loan payment activity or delinquency status. In addition, the Company assesses the expected cash flows from the mortgage loans, the fair value of the underlying collateral and other factors, and evaluates whether and when it becomes probable that all amounts contractually due will not be collected.

The following table presents information regarding the accretable yield and non-accretable amount for loans acquired during the following periods. The Company's loan acquisitions for the three and six months ended June 30, 2017 consisted of 1,218 and 1,242, respectively, purchased re-performing loans with $249.0 million and $252.4 million, respectively, UPB and two and four, respectively, originated SBC loans with $1.7 million and $4.2 million, respectively. Comparatively during the three and six months ended June 30, 2016 the Company acquired 251and 469 RPLs, respectively, for $70.3 million and $119.9 million, respectively, representing 74.2% and 74.5% of UPB, respectively.

No NPLs were acquired in any of the three or six month periods in either 2017 or 2016.

	Three months ended June 30, 2017		Three months ended June 30, 2016	
	Re-performing loans	**Non-performing loans**	**Re-performing loans**	**Non-performing loans**
Contractually required principal and interest	$ 397,912	$ -	$ 120,524	$ -
Non-accretable amount	(127,528)	-	(48,244)	-
Expected cash flows to be collected	270,384	-	72,280	-
Accretable yield	(60,180)	-	(20,152)	-
Fair value at acquisition	$ 210,204	$ -	$ 52,128	$ -

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	Re-performing loans	**Non-performing loans**	**Re-performing loans**	**Non-performing loans**
Contractually required principal and interest	$ 404,433	$ -	$ 202,703	$ -
Non-accretable amount	(130,105)	-	(77,392)	-
Expected cash flows to be collected	274,328	-	125,311	-
Accretable yield	(60,981)	-	(36,005)	-
Fair value at acquisition	$ 213,347	$ -	$ 89,306	$ -

The following table presents the change in the accretable yield for the RPLs and NPLs at June 30, 2017 and June 30, 2016. Accretable yield and accretion amounts do not include five originated SBC loans at June 30, 2017 and one originated SBC loan at June 30, 2016 ($ in thousands):

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	Three months ended June 30, 2017		Three months ended June 30, 2016	
	Re-performing loans	**Non-performing loans**	**Re-performing loans**	**Non-performing loans**
Balance at beginning of period	$ 243,852	$ 10,068	$ 138,768	$ 16,151
Accretable yield additions	60,180	-	20,152	-
Accretion	(20,498)	(1,094)	(14,317)	(2,057)
Reclassification from (to) non-accretable amount, net	16,278	501	39,570	2,204
Balance at end of period	$ 299,812	$ 9,475	$ 184,173	$ 16,298

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	Re-performing loans	**Non-performing loans**	**Re-performing loans**	**Non-performing loans**
Balance at beginning of period	$ 239,858	$ 12,065	$ 136,455	$ 18,425
Accretable yield additions	60,981	-	36,005	-
Accretion	(39,651)	(2,429)	(27,857)	(4,331)
Reclassification from (to) non-accretable amount, net	38,624	(161)	39,570	2,204
Balance at end of period	$ 299,812	$ 9,475	$ 184,173	$ 16,298

For the three and six month periods ended June 30, 2017 , the Company accreted $21.6 million and $42.1 million, respectively, into interest income with respect to its loan portfolio. For the three and six month periods ended June 30, 2016 , the Company accreted $16.4 million and $32.2 million, respectively, into interest income with respect to its loan portfolio.

During the three months ended June 30, 2017, the Company reclassified a net $16.8 million from non-accretable amount to accretable yield, consisting of a $16.3 million transfer from non-accretable amount to accretable yield for RPLs, and a $0.5 million transfer from non-accretable amount to accretable yield for NPLs. Comparatively, during the three months ended June 30, 2016, the Company reclassified $39.6 million and $2.2 million from non-accretable amount to accretable yield for its re-performing and non-performing loans, respectively. The reclassification in the second quarter of 2017 is based on an updated assessment of projected loan cash flows as compared to the projection at December 31, 2016. The primary driver of the increase in accretable yield is higher than expected sustained performance rates on RPLs and lower re-default rates on modified NPLs. Performing loans have a longer duration than NPLs and generate higher cash flows over the expected life of the loan thus increasing the amount of accretable yield. This is offset by the removal of the accretable yield for loans that are removed from the pool at foreclosure and for loans that prepay sooner than expected.

The following table sets forth the carrying value of the Company's mortgage loans, and related unpaid principal balance by delinquency status as of June 30, 2017 and December 31, 2016 ($ in thousands):

	June 30, 2017			December 31, 2016		
	Number of loans	**Carrying value**	**Unpaid principal balance**	**Number of loans**	**Carrying value**	**Unpaid principal balance**
Current	2,939	$536,146	$644,219	2,306	$419,500	$510,058
30	944	162,839	192,952	797	141,169	173,482
60	675	116,097	135,004	482	84,468	101,727
90	963	158,736	195,128	911	142,701	179,718
Foreclosure	345	70,927	89,752	414	81,253	105,208
Mortgage loans	5,866	$1,044,745	$1,257,055	4,910	$869,091	$1,070,193

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Note 4 — Real estate assets

The Company primarily acquires REO when a mortgage loan is foreclosed upon and the Company takes title to the property on the foreclosure date or the borrower surrenders the deed in lieu of foreclosure. Additionally, from time to time, the Company may acquire real estate assets in purchase transactions.

Rental property

As of June 30, 2017, the Company owned nine REO properties with an aggregate carrying value of $2.0 million held for investment as rentals, at which time three of the properties were rented. Four of these properties were acquired through foreclosures, and five were transferred from Property held-for-sale. As of December 31, 2016, the Company had three REO properties having an aggregate carrying value of $1.3 million held for use as rentals, which were all rented at that time. Two of these properties were purchased, and one was acquired through foreclosure.

Property held-for-sale

The Company classifies REO as held-for-sale if the REO is being actively marketed for sale. As of June 30, 2017 and December 31, 2016, the Company's net investments in REO held-for-sale were $28.3 million and $23.9 million, respectively. For the six month periods ended June 30, 2017 and 2016, all of the additions to REO Property held-for-sale were acquired through foreclosure or deed in lieu of foreclosure, and reclassified out of its mortgage loan portfolio.

The following table presents the activity in the Company's carrying value of property held-for-sale for the three and six months ended June 30, 2017 and June 30, 2016 ($ in thousands):

Property Held-for-sale	Three months ended				Six months ended			
	June 30, 2017		June 30, 2016		June 30, 2017		June 30, 2016	
	Count	Amount	Count	Amount	Count	Amount	Count	Amount
Balance at beginning of period	165	$27,339	87	$13,380	149	$23,882	73	$10,333
Transfers from mortgage loans	38	5,704	39	5,019	90	13,712	73	9,851
Adjustments to record at lower of cost or fair value	-	(599)	-	(154)	-	(909)	-	(200)
Disposals	(35)	(4,123)	(21)	(2,324)	(67)	(8,227)	(41)	(4,137)

Transfer from held-for-sale to rental	(1)	(42)	6	630	(5)	(179)	6	704
Other	-	(1)	-	-	-	(1)	-	-
Balance at end of period	167	$28,278	111	$16,551	167	$28,278	111	$16,551

Dispositions

During the three months ended June 30, 2017 and June 30, 2016, the Company sold 35 and 21 REO properties, realizing net gains of approximately $0.1 million and $0.2 million, respectively. Comparatively, for the six months ended June 30, 2017 and June 30, 2016, the Company sold 67 and 41 REO properties, realizing net gains of approximately $0.2 million and $1.1 million, respectively. These amounts are included in Other income on the Company's consolidated Statements of Income. The Company recorded lower of cost or estimated fair market value adjustments for the three months ended June 30, 2017 and 2016 of $0.6 million and $0.2 million, respectively. Comparatively, for the six months end June 30, 2017 and June 30, 2016, the Company recorded lower of cost or estimated fair value adjustments of $0.9 million and $0.2 million, repectively.

Note 5 — Fair value

Financial assets and liabilities

The following tables set forth the fair value of financial assets and liabilities by level within the fair value hierarchy as of June 30, 2017 and December 31, 2016 ($ in thousands):

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June 30, 2017	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Financial assets				
Mortgage loans	$1,044,745	$ -	$ -	$ 1,151,225
Investment in debt securities	$6,303	$ -	$ 6,303	$ -
Financial liabilities				
Secured borrowings, net	$522,706	$ -	$ -	$ 515,059
Borrowings under repurchase agreement	$245,526	$ -	$ 245,526	$ -
Convertible senior notes, net	$82,083	$ 89,305	$ -	$ -

December 31, 2016	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Financial Assets				
Mortgage loans	$869,091	$ -	$ -	$ 930,226
Investment in debt securities	$6,323	$ -	$ 6,323	$ -
Financial liabilities				
Secured borrowings, net	$442,670	$ -	$ -	$ 436,623
Borrowings under repurchase agreement	$227,440	$ -	$ 227,440	$ -
Convertible senior notes, net	$-	$ -	$ -	$ -

The fair value of mortgage loans is estimated using the Manager's proprietary pricing model which estimates expected cash flows with the discount rate used in the present value calculation representing the estimated effective yield of the loan. The value of transfers of mortgage loans to REO is based upon the present value of future expected cash flows of the loans being transferred.

The fair value of secured borrowings is estimated using the Manager's proprietary pricing model which estimates expected cash flows of the underlying mortgage loans which collateralize the debt, and which drive the cash flows used to make interest payments. The discount rate used in the present value calculation represents the estimated effective yield of the underlying mortgages.

The Company's borrowings under repurchase agreement are short-term in nature, and the Company's management believes it can renew the current borrowing arrangements on similar terms in the future. Accordingly, the carrying value of these borrowings approximates fair value.

The Company's Convertible senior notes are traded on the New York Stock Exchange ("NYSE"); the debt's fair value is determined from the NYSE closing price on the Balance Sheet date.

The carrying values of its Cash and cash equivalents, Cash held in trust, Receivable from servicer, Investment in affiliates, Management fee payable and Other liabilities are equal to or approximate fair value.

Non-financial assets

Property held-for-sale is carried at the lower of its acquisition basis or net realizable value (fair market value less expected selling costs). Fair market value is determined based on appraisals, broker price opinions, or other market indicators of fair value. Net unrealized losses due to changes in market value are recognized through a valuation allowance by charges to income.

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June 30, 2017	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Non-financial assets				
Property held-for-sale	$ 28,278	$ -	$ -	$ 28,278

December 31, 2016	Carrying Value	Level 1 Quoted prices in active markets	Level 2 Observable inputs other than Level 1 prices	Level 3 Unobservable inputs
Non-financial Assets				
Property held-for-sale	$ 23,882	$ -	$ -	$ 23,882

The Company has not transferred any assets between levels for any of its financial assets or liabilities, or its non-financial assets during either of the three or six month periods ended June 30, 2017 or June 30, 2016.

Note 6 — Unconsolidated affiliates

During the three months ended June 30, 2017, a small-balance commercial loan secured by a commercial property in Portland, Oregon, in which the Company held a 40.5% interest through a Delaware trust, GA-E 2014-12, was paid off in full. The Company received a distribution during the quarter of $2.6 million related to this investment. At June 30 2017, GA-E 2014-12 held cash of $7,000 and had accrued expenses of $5,000. Upon final settlement of all obligations, any remaining cash is expected to be distributed between the investors in proportion to their ownership interests. The Company accounts for its investment in GA-E 2014-12 using the equity method.

Upon the closing of the Company’s original private placement in July 2014, the Company received a 19.8% equity interest in the Manager, a privately held company for which there is no public market for its securities. The Company accounts for its investment in the Manager using the equity method.

On March 14, 2016, the Company formed AS Ajax E LLC, to hold an equity interest in a Delaware trust formed to own residential mortgage loans and residential real estate assets. AS Ajax E LLC owns a 5% equity interest in Ajax E Master Trust which holds a portfolio of RPLs. At the time of the original investment, the Company held a 24.2%

interest in AS Ajax E LLC. In October 2016, additional capital contributions were made, and the Company's ownership interest in AS Ajax E, was reduced to a lower percentage of the total. At both June 30, 2017 and December 31, 2016, the Company's interest in AS Ajax E was approximately 16.5%. The Company accounts for its investment using the equity method.

During the year ended December 31, 2016, the Company sold $78.2 million of RPLs for total proceeds of $78.1 million to Ajax E Master Trust. Additionally, the Company made a loan to AS Ajax E LLC in the amount of $4.0 million at LIBOR plus 5.22% to fund its interest in the purchase, which was subsequently repaid during the year, less $0.3 million which was converted to equity.

The table below shows the net income, assets and liabilities for the Company's unconsolidated affiliates at 100%, and at the Company's share ($ in thousands):

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Net income, assets and liabilities at 100%

Net income at 100%

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
GA-E 2014-12	$ 242	$ 191	$ 426	$ 384
The Manager	$ 723	$ 231	$ 964	$ 453
AS Ajax E LLC	$ 42	$ 57	$ 137	$ 57

Assets and liabilities at 100%

	June 30, 2017		**December 31, 2016**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
GA-E 2014-12	$7	$ 5	$ 6,259	$ -
The Manager	$5,765	$ 1,016	$ 4,864	$ 1,167
AS Ajax E LLC	$7,673	$ 3	$ 7,964	$ 12

Net income, assets and liabilities at Company share

Net income at Company share

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
GA-E 2014-12	$ 98	$ 77	$ 173	$ 156
The Manager	$ 143	$ 46	$ 191	$ 90
AS Ajax E LLC	$ 7	$ 14	$ 23	$ 1

Assets and liabilities at Company share

	June 30, 2017		December 31, 2016	
	Assets	Liabilities	Assets	Liabilities

GA-E 2014-12	$3	$ 2	$ 2,535	$ -
The Manager	$1,141	$ 201	$ 960	$ 231
AS Ajax E LLC	$1,266	$ -	$ 1,314	$ 2

Note 7 — Commitments and contingencies

The Company regularly enters into agreements to acquire additional mortgage loans and mortgage-related assets, subject to continuing diligence on such assets and other customary closing conditions. There can be no assurance that the Company will acquire any or all of the mortgage loans identified in any acquisition agreement as of the date of these consolidated financial statements, and it is possible that the terms of such acquisitions may change.

At June 30, 2017, the Company had commitments to purchase, subject to due diligence, 127 RPLs secured by single-family residences with aggregate UPB of $42.9 million. The Company will only acquire loans that meet its acquisition criteria. See Note 13 – Subsequent events, for remaining open acquisitions as of the filing date.

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Litigation, claims and assessments

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. As of June 30, 2017, the Company was not a party to, and its properties were not subject to, any pending or threatened legal proceedings that individually or in the aggregate, are expected to have a material impact on its financial condition, results of operations or cash flows.

Note 8 — Debt

Repurchase agreements

The Company has entered into two repurchase facilities whereby the Company, through two wholly-owned Delaware trusts (the "Trusts") acquires pools of mortgage loans which are then sold by the Trusts, as "Seller" to two separate counterparties, the "buyer" or "buyers." One facility has a ceiling of $250.0 million and the other $200.0 million at any one time. Upon the time of the initial sale to the buyer, the Trust, with a simultaneous agreement, also agrees to repurchase the pools of mortgage loans from the buyer. Mortgage loans sold under these facilities carry interest calculated based on a spread to one-month LIBOR, which are fixed for the term of the borrowing. The purchase price that the Trust realizes upon the initial sale of the mortgage loans to the buyer can vary between 70% and 85% of the asset's acquisition price, depending upon the facility being utilized and /or the quality of the underlying collateral. The obligations of a Trust to repurchase these mortgage loans at a future date are guaranteed by the Operating Partnership. The difference between the market value of the asset and the amount of the repurchase agreement is generally the amount of equity the Company has in the position and is intended to provide the buyer with some protection against fluctuations in the value of the collateral, and/or a failure by the Company to repurchase the asset and repay the borrowing at maturity. The Company has effective control over the assets subject to these transactions; therefore the Company's repurchase transactions are accounted for as financing arrangements.

The Servicer services these mortgage loans pursuant to the terms of a Servicing Agreement by and among the Servicer and each Buyer which Servicing Agreement has the same fees and expenses terms as the Company's Servicing Agreement described under Note 9 — Related party transactions. The Operating Partnership, as guarantor, will provide to the buyers a limited guaranty of certain losses incurred by the buyers in connection with certain events and/or the Seller's obligations under the mortgage loan purchase agreement, following the breach of certain covenants by the Seller, the occurrence of certain bad acts by the Seller, the occurrence of certain insolvency events of the Seller or other events specified in the Guaranty. As security for its obligations under the Guaranty, the guarantor will pledge the Trust Certificate representing the Guarantor's 100% beneficial interest in the Seller.

Additionally, the Company has sold subordinate securities from its mortgage securitizations in repurchase transactions. The following table sets forth the details of the Company's repurchase transactions and facilities ($ in thousands):

		June 30, 2017						
Maturity Date	Origination date	Maximum Borrowing Capacity	Amount Outstanding	Amount of Collateral	Percentage of Collateral Coverage		Interest Rate	
September 8, 2017	March 9, 2017	$ 4,383	$ 4,383	$ 6,261	143	%	3.52	%
September 29, 2017	March 30, 2017	10,762	10,762	15,375	143	%	3.53	%
November 8, 2017	May 8, 2017	15,127	15,127	21,610	143	%	3.54	%
November 21, 2017	November 22, 2016	200,000	5,934	10,980	185	%	4.66	%
July 12, 2019	July 15, 2016	250,000	209,320	273,456	131	%	3.72	%
Totals		$ 480,272	$ 245,526	$ 327,682	133	%	3.72	%

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		December 31, 2016						
Maturity Date	Origination date	**Maximum Borrowing Capacity**	**Amount Outstanding**	**Amount of Collateral**	**Percentage of Collateral Coverage**		**Interest Rate**	
March 9, 2017	September 9, 2016	$ 10,310	$ 10,309	$ 14,728	143	%	3.32	%
March 30, 2017	September 30, 2016	10,797	10,797	15,424	143	%	3.34	%
May 8, 2017	November 9, 2016	14,986	14,986	21,409	143	%	3.35	%
November 21, 2017	November 22, 2016	200,000	21,302	36,044	169	%	4.20	%
July 12, 2019	July 15, 2016	200,000	170,046	226,192	133	%	3.25	%
Totals		$ 436,093	$ 227,440	$ 313,797	138	%	3.35	%

The guaranty establishes a master netting arrangement; the arrangement does not meet the criteria for offsetting. The amount outstanding on the Company's repurchase facility and the carrying value of the Company's loans pledged as collateral are presented as gross amounts in the Company's consolidated Balance Sheets at June 30, 2017 and December 31, 2016 ($ in thousands).

	Gross amounts not offset in balance sheet	
	June 30, 2017	December 31, 2016
Gross amount of recognized liabilities	$ 245,526	$ 227,440
Gross amount pledged as collateral	327,682	313,797
Net Amount	$ 82,156	$ 86,357

Secured borrowings

From inception (January 30, 2014) to June 30, 2017, the Company has completed six securitizations pursuant to Rule 144A under the Securities Act. The securitizations are structured as debt financings and not sales through a real estate investment conduit ("REMIC"), and the loans included in the securitizations remain on the Company's consolidated Balance Sheet as the Company is the primary beneficiary of the securitization trusts, which are VIEs. The securitization VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. The Company's exposure to the obligations of the VIEs is generally limited to its investments in the entities. The notes that are issued by the securitization trusts are secured solely by the mortgages held by the applicable trusts and not by any of the Company's other assets. The mortgage loans of the applicable trusts are the only source of repayment and interest on the notes issued by such trusts. The Company does not guarantee any of the obligations of the trusts under the terms of the agreement governing the notes or otherwise.

The Company’s securitizations are structured with Class A notes, Class B notes, and trust certificates which have rights to the residual interests in the mortgages once the notes are repaid. For each of the Company’s six securitizations outstanding at June 30, 2017, the Company has retained the Class B notes and the trust certificate. The Class A notes are senior, sequential pay, fixed rate notes. The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. If the Class A notes have not been redeemed by the payment date 36 months after issue, or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the Class B-1 and the Class B-2 notes will be paid as principal to the Class A notes on that date and each subsequent payment date until the Class A notes are paid in full. After the Class A notes are paid in full, the Class B-1 and Class B-2 notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid to the Class B notes while the Class A notes were outstanding. As the holder of the trust certificates, the Company is entitled to receive any remaining amounts in the trusts after the Class A notes and Class B notes have been paid in full.

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The following table sets forth the original terms of all securitization notes outstanding at June 30, 2017 at their respective cutoff dates:

Issuing Trust/Issue Date	Security	Original Principal	Interest Rate	
Ajax Mortgage Loan Trust 2015-B / July 2015	Class A notes due 2060	$87.2 million	3.88	%
	Class B-1 notes due 2060(2)(3)	$15.9 million	5.25	%
	Class B-2 notes due 2060(2)(3)	$7.9 million	5.25	%
	Trust certificates(2)	$47.5 million	-	
	Deferred issuance costs	$(1.5) million	-	
Ajax Mortgage Loan Trust 2015-C / November 2015	Class A notes due 2057	$82.0 million	3.88	%
	Class B-1 notes due 2057(2)(3)	$6.5 million	5.25	%
	Class B-2 notes due 2057(2)(3)	$6.5 million	5.25	%
	Trust certificates(2)	$35.1 million	-	
	Deferred issuance costs	$(2.7) million	-	
Ajax Mortgage Loan Trust 2016-A/ April 2016	Class A notes due 2064	$101.4 million	4.25	%
	Class B-1 notes due 2064(1)(3)	$7.9 million	5.25	%
	Class B-2 notes due 2064(1)(3)	$7.9 million	5.25	%
	Trust certificates(2)	$41.3 million	-	
	Deferred issuance costs	$(2.7) million	-	
Ajax Mortgage Loan Trust 2016-B/ August 2016	Class A notes due 2065	$84.4 million	4.00	%
	Class B-1 notes due 2065(1)(3)	$6.6 million	5.25	%
	Class B-2 notes due 2065(1)(3)	$6.6 million	5.25	%
	Trust certificates(2)	$34.1 million	-	
	Deferred issuance costs	$(1.6) million	-	
Ajax Mortgage Loan Trust 2016-C/ October 2016	Class A notes due 2057	$102.6 million	4.00	%
	Class B-1 notes due 2057(1)(3)	$7.9 million	5.25	%
	Class B-2 notes due 2057(1)(3)	$7.9 million	5.25	%
	Trust certificates(2)	$39.4 million	-	
	Deferred issuance costs	$(1.6) million	-	
Ajax Mortgage Loan Trust 2017-A/ May 2017	Class A notes due 2057	$140.7 million	3.47	%
	Class B-1 notes due 2057(1)	$15.1 million	5.25	%
	Class B-2 notes due 2057(1)	$10.8 million	5.25	%
	Trust certificates(2)	$49.8 million	-	
	Deferred issuance costs	$(2.0) million	-	

(1) The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. The Company has retained the Class B notes.

(2) The trust certificates issued by the trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC as the depositor. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trusts after the Class A notes and Class B notes have been paid in full.

(3) These securities are encumbered under a repurchase agreement.

Servicing for the mortgage loans in the Company's securitizations is provided by the Servicer at a servicing fee rate of 0.65% annually of outstanding UPB for RPLs at acquisition and 1.25% annually of outstanding UPB for loans that are non-performing at acquisition, and is paid monthly. The determination of RPL or NPL status is based on the status of the loan at acquisition and does not change regardless of the loan's subsequent performance. The following table sets forth the status of the notes held by others at June 30, 2017, December 31, 2016, and the securitization cutoff date ($ in thousands):

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	Balances at June 30, 2017			Balances at December 31, 2016			Original balances at securitization cutoff date		
Class of Notes	Carrying value of mortgages	Bond principal balance	Percentage of collateral coverage	Carrying value of mortgages	Bond principal balance	Percentage of collateral coverage	Mortgage UPB		Bond principal balance
2015-A	-	-	-	$51,388	$29,476	174 %	$75,835		$35,643
2015-B	$97,457	$68,344	143 %	104,111	75,258	138 %	158,498		87,174
2015-C	94,649	60,503	156 %	100,614	66,979	150 %	130,130		81,982
2016-A	113,246	89,731	126 %	118,189	96,158	123 %	158,485		101,431
2016-B	95,627	76,364	125 %	97,660	80,672	121 %	131,746	(1)	84,430
2016-C	117,988	94,089	125 %	126,681	101,209	125 %	157,808		102,575
2017-A	180,599	140,642	128 %	-	-	-	216,413		140,669
	$699,566	$529,673	132 %	$598,643	$449,752	133 %	$1,028,915		$633,904

(1) Includes $1.9 million of cash collateral.

The Company’s obligations under its secured borrowings are not fixed, and the payments on these borrowings are predicated upon cash flows received on the underlying mortgage loans.

Convertible senior notes

On April 25, 2017, the Company completed the issuance and sale of $87.5 million aggregate principal amount of its 7.25% Convertible senior notes due 2024, in an underwritten public offering. The net proceeds to the Company from the sale of the notes, after deducting the underwriter's discounts, commissions and offering expenses, were approximately $84.9 million. The carrying amount of the equity component of the transaction was $2.5 million representing the fair value to the notes’ owners of the right to convert the notes into shares of the Company’s common stock.

The notes were issued at a 17.5% conversion premium and bear interest at a rate equal to 7.25% per year, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, beginning on July 15, 2017. The notes will mature on April 30, 2024, unless earlier repurchased, redeemed or converted.

Holders may convert their notes at their option prior to April 30, 2023 only under certain circumstances. In addition, the notes will be convertible irrespective of those circumstances from, and including, April 30, 2023 to, and including, the business day immediately preceding the maturity date. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election.

The conversion rate will initially equal 1.6267 shares of the Company's common stock per $25.00 principal amount of notes which is equivalent to a conversion price of approximately $15.37 per share of common stock. The conversion rate, and thus the conversion price, may be subject to adjustment under certain circumstances. As of June 30, 2017, the amount by which the if-converted value exceeds the principal amount is $8,000.

The Company may not redeem the notes prior to April 30, 2022, and may redeem for cash all or any portion of the notes, at its option, on or after April 30, 2022 if the last reported sale price of its common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No "sinking fund" will be provided for the notes.

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At June 30, 2017, the notes' UPB was $87.5 million, and discount and deferred expenses were $5.4 million. Interest expense of $1.3 million was recognized during the quarter which includes $0.1 million of amortization of discount and deferred expenses. The discount will be amortized through April 30, 2023, the date at which the notes can be converted. The effective interest rate of the notes at June 30, 2017 was 8.9%.

Note 9 — Related party transactions

The Company's consolidated Statements of Income included the following significant related party transactions ($ in thousands):

Transaction	Consolidated Statement of Income location	Counterparty	**Three months ended June 30, 2017**	**Three months ended June 30, 2016**
Loan servicing fees [1]	Related party expense – loan servicing fees	Gregory	$ 1,935	$ 1,410
Management fee	Related party expense – management fee	Thetis	1,330	937
Expense reimbursements	Other expense	Gregory	31	-
Due diligence and related loan acquisition costs	Loan transaction expense	Gregory	15	24

Transaction	Consolidated Statement of Income location	Counterparty	**Six months ended June 30, 2017**	**Six months ended June 30, 2016**
Loan servicing fees [1]	Related party expense – loan servicing fees	Gregory	$ 3,817	$ 2,786
Management fee	Related party expense – management fee	Thetis	2,403	1,843
Due diligence and related loan acquisition costs	Loan transaction expense	Gregory	52	50
Expense reimbursements	Other expense	Gregory	34	-
Expense reimbursements	Other expense	Great Ajax FS	16	-

1) Loan servicing fees for the three and six months ended June 30, 2016 are presented net of reclassifications of $43,000 and $70,000, respectively, of servicing fees paid to prior servicers.

The Company's consolidated Balance Sheets included the following significant related party balances ($ in thousands):

($ in thousands)			June 30, 2017	December 31, 2016
Transactions	Consolidated Balance Sheet location	Counterparty	Amount	Amount
Receivables from Servicer	Receivable from Servicer	Gregory	$ 16,067	$ 12,481
Investment in subordinated debt securities	Investment in securities	Oileus Residential Loan Trust	6,303	6,323
Management fee payable	Management fee payable	Thetis	750	750
Servicing fees payable	Accrued expenses and other liabilities	Gregory	208	195

During October 2016, the Company acquired 370 RPLs with aggregate UPB of $69.9 million in three transactions from three related party trusts. These loans, which have been serviced by Gregory, have made at least 24 payments of scheduled principal and interest in the last 24 months and have a weighted average coupon of 5.84%. The loans were acquired at 93% of UPB and the estimated market value of the underlying collateral was $92.2 million.

In October 2016, the Company purchased subordinate debt securities for $6.3 million from Oileus Residential Loan Trust, a related party. The notes have a stated final maturity of October 25, 2056. At June 30, 2017, these securities had an amortized cost basis of $6.4 million. For the three months and six months ended June 30, 2017, respectively, the Company recorded an unrealized gain of $9,000, and an unrealized loss of $0.1 million, respectively, which are reflected in the Company's consolidated Statements of Comprehensive Income.

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Management agreement

The Company is a party to the Management Agreement with the Manager, which expires on July 8, 2029. Under the Management Agreement, the Manager implements the Company's business strategy and manages the Company's business and investment activities and day-to-day operations, subject to oversight by the Company's Board of Directors. Among other services, the Manager, directly or through Aspen affiliates, provides the Company with a management team and necessary administrative and support personnel. The Company does not currently have any employees (other than its Chief Financial Officer) and does not expect to have any other employees in the foreseeable future. Each of the Company's executive officers is an employee or officer, or both, of the Manager or the Servicer.

Under the Management Agreement, the Company pays both a base management fee and an incentive fee to the Manager.

The base management fee equals 1.5% of our stockholders' equity, including equity equivalents such as the Company's recent issuance of Convertible senior notes, per annum and calculated and payable quarterly in arrears.

The initial $1.0 million of the quarterly base management fee will be payable 75% in cash and 25% in shares of the Company's common stock. Any amount of the base management fee in excess of $1.0 million will be payable in shares of the Company's common stock until payment is 50% in cash and 50% in shares (the "50/50 split"). Any remaining amount of the quarterly base management fee after the 50/50 split threshold is reached will be payable in equal amounts of cash and shares. The Manager has agreed to hold any shares of common stock received by it as payment of the base management fee for at least three years from the date such shares of common stock are received.

The Manager is also entitled to an incentive fee, payable quarterly and calculated in arrears, of 20% of the amount by which total dividends on common stock and distributions on OP units exceeds 8% of book value on a per share basis. However, no incentive fee will be payable to the Manager with respect to any calendar quarter unless the Company's cumulative core earnings, defined as U.S. GAAP net income or loss less non-cash equity compensation, unrealized gains or losses from mark-to-market adjustments, one-time adjustments to earnings resulting from changes to U.S. GAAP, and certain other non-cash items, is greater than zero for the most recently completed eight calendar quarters. In the event that the payment of the quarterly base management fee has not reached the 50/50 split, all of the incentive fee will be payable in shares of the Company's common stock until the 50/50 split occurs. In the event that the total payment of the quarterly base management fee and the incentive fee has reached the 50/50 split, 20% of the remaining incentive fee is payable in shares of the Company's common stock and 80% of the remaining incentive fee is payable in cash. To date, no incentive fees have been paid to the Manager.

The Company also reimburses the Manager for all third-party, out-of-pocket costs incurred by the Manager for managing its business, including third-party diligence and valuation consultants, legal expenses, auditors and other financial services. The reimbursement obligation is not subject to any dollar limitation. Expenses will be reimbursed in cash on a monthly basis.

The Company will be required to pay the Manager a termination fee in the event that the Management Agreement is terminated as a result of (i) a termination by the Company without cause, (ii) its decision not to renew the Management Agreement upon the determination of at least two thirds of the Company's independent directors for reasons including the failure to agree on revised compensation, (iii) a termination by the Manager as a result of the Company becoming regulated as an "investment company" under the Investment Company Act of 1940, as amended (the "Investment Company Act") (other than as a result of the acts or omissions of the Manager in violation of investment guidelines approved by the Company's Board of Directors), or (iv) a termination by the Manager if the Company defaults in the performance of any material term of the Management Agreement (subject to a notice and cure period). The termination fee will be equal to twice the combined base fee and incentive fees payable to the Manager during the 12-month period ended as of the end of the most recently completed fiscal quarter prior to the date of termination.

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Servicing agreement

The Company is also a party to the Servicing Agreement, expiring July 8, 2029, with the Servicer. The Company's overall servicing costs under the Servicing Agreement will vary based on the types of assets serviced.

Servicing fees range from 0.65% to 1.25% annually of current UPB (or the fair market value or purchase price of REO the Company owns or acquires), and are paid monthly. The total fees incurred by the Company for these services depend upon the UPB and type of mortgage loans that Gregory services pursuant to the terms of the Servicing Agreement. The fees are determined based on the loan's status at acquisition and do not change if a performing loan becomes non-performing or vice versa.

The Company will also reimburse the Servicer for all customary, reasonable and necessary out-of-pocket costs and expenses incurred in the performance of its obligations, including the actual cost of any repairs and renovations to REO properties. The total fees incurred by the Company for these services will be dependent upon the property value, previous UPB of the relevant loan, and the number of REO properties.

If the Servicing Agreement has been terminated other than for cause and/or the Servicer terminates the servicing agreement, the Company will be required to pay a termination fee equal to the aggregate servicing fees payable under the servicing agreement for the immediate preceding 12-month period.

Trademark licenses

Aspen has granted the Company a non-exclusive, non-transferable, non-sublicensable, royalty-free license to use the name "Great Ajax" and the related logo. The Company also has a similar license to use the name "Thetis." The agreement has no specified term. If the Management Agreement expires or is terminated, the trademark license agreement will terminate within 30 days. In the event that this agreement is terminated, all rights and licenses granted thereunder, including, but not limited to, the right to use "Great Ajax" in its name will terminate. Aspen also granted to the Manager a substantially identical non-exclusive, non-transferable, non-sublicensable, royalty-free license use of the name "Thetis."

Note 10 — Stock-based payments and director fees

Pursuant to the terms of the Management Agreement, the Company pays a portion of the base fee to the Manager in shares of its common stock with the number of shares determined based on the higher of the most recently reported book value or the average of the closing prices of its common stock on the NYSE on the five business days after the date on which the most recent regular quarterly dividend to holders of its common stock is paid. The Company paid the Manager a base management fee for the three and six months ended June 30, 2017 of $1.3 million and $2.4 million, respectively, of which the Company paid $0.6 million and $0.9 million, respectively, in 37,460 and 58,535 shares, respectively, of its common stock. The shares issued to the Manager are restricted securities subject to transfer restrictions and were issued in private placement transactions, with 37,460 shares still issuable at June 30, 2017. See Note 9 — Related party transactions.

In addition, each of the Company’s independent directors receives an annual fee of $75,000, payable quarterly, half of which is paid in shares of the Company’s common stock on the same basis as the stock portion of the management fee payable to the Manager and half in cash. Until December 31, 2016, directors received an annual fee of $50,000 payable quarterly, half of which was paid in shares of the Company’s common stock and half in cash. The following table sets forth the Company’s stock-based management fees and independent director fees ($ in thousands except share amounts).

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Management fees and director fees

	Three months ended June 30, 2017		Three months ended June 30, 2016	
	Number of shares	**Amount of expense recognized[1]**	**Number of shares**	**Amount of expense recognized[1]**
Management fees	37,460	$ 581	15,684	$ 234
Independent director fees	2,420	38	1,672	25
	39,880	$ 619	17,356	$ 259

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	Number of shares	**Amount of expense recognized[1]**	**Number of shares**	**Amount of expense recognized[1]**
Management fees	58,535	$ 903	30,600	$ 462
Independent director fees	4,876	76	3,320	52
	63,411	$ 979	33,920	$ 514

(1) All management fees and independent director fees are fully expensed in the period in which they are incurred.

Restricted stock grants

Each independent director is issued a restricted stock award of 2,000 shares of the Company’s common stock subject to a one-year vesting period. Additionally, on August 17, 2016, the Company granted 153,000 shares of restricted stock to employees of its Manager and Servicer; and on July 24, 2017, the Company granted 39,000 shares of restricted stock to employees of its Manager and Servicer. The shares vest over three years, with one third of the shares vesting on each of the first, second and third anniversaries of the grant date. The shares may not be sold until the third anniversary of the grant date. The 2017 grant also includes a provision whereby the shares vest automatically upon the death of the grantee. Grants of restricted stock to officers of the Company use grant date fair value of the stock as the basis for measuring the cost of the grant. The cost of grants of restricted stock to employees of the Company’s affiliates is determined using the stock price as of the date at which the counterparty's performance is complete.

The following table sets forth the activity in the Company’s restricted stock plan ($ in thousands, except share and per share amounts):

	Total grants		Current period activity			Non-vested shares at June 30, 2017		Fully-vested shares at June 30, 2017	
Three months ended June 30, 2017	Total shares granted	Total expected cost of grant	Shares granted during the year	Expected cost of current year grant	Grant expense recognized for the three months ended June 30, 2017	Shares	Per share grant date fair value	Shares	Per share grant date fair value
Directors' Grants[1]	10,000	$ 146	-	$ -	$ 7	2,000	$ 13.79	8,000	$ 14.81
Employee and Service Provider Grant[2]	149,000	2,040	-	-	170	149,000	13.78	-	-
	159,000	$ 2,186	-	$ -	$ 177	151,000	$ 13.78	8,000	$ 14.81

(1) Vesting period is one year from grant date. Weighted average remaining life of grant at June 30, 2017 is 0.02 years.

(2) Vesting is ratable over three-year period from grant date. Weighted average remaining life of grant at June 30, 2017 is 2.1 years.

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	Total grants		Current period activity			Non-vested shares at June 30, 2016		Fully-vested shares at June 30, 2016	
Three months ended June 30, 2016	Total shares granted	Total expected cost of grant	Shares granted during the year	Expected cost of current year grant	Grant expense recognized for the three months ended June 30, 2016	Shares	Per share grant date fair value	Shares	Per share grant date fair value
Directors' Grants[1]	8,000	$ 119	2,000	$ 29	$ 2	2,000	$ 14.25	6,000	$ 15.00
Employee and Service Provider Grant	-	-	-	-	-	-	-	-	-
	8,000	$ 119	2,000	$ 29	$ 2	2,000	$ 14.25	6,000	$ 15.00

(1) Vesting period is one year from grant date.

	Total grants		Current period activity			Non-vested shares at June 30, 2017		Fully-vested shares at June 30, 2017	
Six months ended June 30, 2017	Total shares granted	Total expected cost of grant	Shares granted during the year	Expected cost of current year grant	Grant expense recognized for the six months ended June 30, 2017	Shares	Per share grant date fair value	Shares	Per share grant date fair value
Directors' Grants[1]	10,000	$ 146	-	$ -	$ 14	2,000	$ 13.79	8,000	$ 14.81
Employee and Service Provider Grant[2]	149,000	2,040	-	-	339	149,000	13.78	-	-
	159,000	$ 2,186	-	$ -	$ 353	151,000	$ 13.78	8,000	$ 14.81

(1) Vesting period is one year from grant date. Weighted average remaining life of grant at June 30, 2017 is 0.02 years.

(2) Vesting is ratable over three-year period from grant date. Weighted average remaining life of grant at June 30, 2017 is 2.1 years.

	Total grants		Current period activity			Non-vested shares at June 30, 2016		Fully-vested shares at June 30, 2016	
Six months ended June 30, 2016	Total shares granted	Total expected cost of grant	Shares granted during the year	Expected cost of current year grant	Grant expense recognized for the six months ended June 30, 2016	Shares	Per share grant date fair value	Shares	Per share grant date fair value
Directors' Grants[1]	8,000	$ 119	2,000	$ 29	$ 4	2,000	$ 14.25	6,000	$ 15.00
Employee and Service Provider Grant[2]	-	-	-	-	-	-	-	-	-
	8,000	$ 119	2,000	$ 29	$ 4	2,000	$ 14.25	6,000	$ 15.00

Note 11 — Income taxes

As a REIT, the Company must meet certain organizational and operational requirements including the requirement to distribute at least 90% of its annual REIT taxable income to its stockholders. As a REIT, the Company generally will not be subject to U.S. federal income tax to the extent the Company distributes its REIT taxable income to its stockholders and provided the Company satisfies the REIT requirements including certain asset, income, distribution and stock ownership tests. If the Company fails to qualify as a REIT, and does not qualify for certain statutory relief provisions, it will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as a REIT for the subsequent four taxable years following the year in which it lost its REIT qualification.

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The Company's consolidated financial statements include the operations of two TRS entities, GA-TRS and GAJX Real Estate LLC, which are subject to U.S. federal, state and local income taxes on their taxable income.

For the three and six months ended June 30, 2017, the Company's consolidated taxable income was $7.3 million and $14.8 million, respectively; and provisions for income taxes of $48,000, and $49,000 were recorded for the three and six month periods, respectively. For the three and six months ended June 30, 2016, the Company's consolidated taxable income was $6.9 million and $14.8 million; and provisions for income taxes of $26,000 and $23,000, respectively, were recorded for the three and six months, respectively. The Company recognized no deferred income tax assets or liabilities on its consolidated Balance Sheet at June 30, 2017 or December 31, 2016. The Company also recorded no interest or penalties for either of the six-month periods ended June 30, 2017 or 2016.

Note 12 — Earnings per share

The following table sets forth the components of basic and diluted earnings per share ($ in thousands, except share and per share amounts):

	Three months ended June 30, 2017			Three months ended June 30, 2016		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Basic EPS						
Consolidated net income attributable to common stockholders	$ 6,864	18,008,499		$ 6,605	15,742,932	
Allocation of earnings to participating restricted shares	(76)	-		(9)	-	
Consolidated net income attributable to unrestricted common stockholders	$ 6,788	18,008,499	$ 0.38	$ 6,596	15,742,932	$ 0.42
Effect of dilutive securities						
Operating partnership units	238	624,106		257	624,106	
Restricted stock grants and Manager and director fee shares	76	202,193		9	22,088	
Interest expense (add back) and assumed conversion of shares from convertible senior notes	1,268	4,191,881		-	-	
Diluted EPS	$ 8,370	23,026,679	$ 0.36	$ 6,862	16,389,126	$ 0.42

Consolidated net income attributable to common stockholders and dilutive securities

	Six months ended June 30, 2017			Six months ended June 30, 2016		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
Basic EPS						
Consolidated net income attributable to common stockholders	$ 15,273	17,992,692		$ 14,256	15,524,725	
Allocation of earnings to participating restricted shares	(165)	-		(23)	-	
Consolidated net income attributable to unrestricted common stockholders	$ 15,108	17,992,692	$ 0.84	$ 14,233	15,524,725	$ 0.92
Effect of dilutive securities						
Operating partnership units	527	624,106		569	624,106	
Restricted stock grants and Manager and director fee shares	165	196,751		23	25,333	
Interest expense (add back) and assumed conversion of shares from convertible senior notes	1,270	2,107,520		-	-	
Diluted EPS						
Consolidated net income attributable to common stockholders and dilutive securities	$ 17,070	20,921,070	$ 0.82	$ 14,825	16,174,164	$ 0.92

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Note 13 — Subsequent events

Loan Acquisitions

During July 2017, the Company acquired 89 RPLs with an aggregate UPB of $30.5 million in three transactions from three different sellers. The loans were acquired at 81.5% of UPB and the estimated market value of the underlying collateral is $39.7 million. The purchase price equaled 62.6% of the estimated market value of the underlying collateral.

Additionally, the Company has agreed to acquire, subject to due diligence, 16 RPLs with aggregate UPB of $2.8 million in three transactions from three different sellers. The purchase price equals 86.8% of UPB and 65.0% of the estimated market value of the underlying collateral of $3.8 million. Any loans the Company purchases must meet its acquisition criteria, therefore the Company has not entered into a definitive agreement with respect to these loans, and there is no assurance that it will enter into a definitive agreement relating to these loans or, if such an agreement is executed, that it will actually close the acquisitions or that the terms will not change.

Dividend declaration

On July 24, 2017 the Company’s Board of Directors declared a dividend of $0.30 per share, to be paid on August 30, 2017 to stockholders of record as of August 15, 2017.

Restricted stock grant

On July 24, 2017, the Company granted 39,000 shares of restricted stock to employees of its Manager and Servicer. The shares vest over three years, with one third of the shares vesting on each of the first, second and third anniversaries of the grant date, or upon the death of the grantee if earlier. The shares may not be sold until the third anniversary of the grant date.

Management fees

On August 1, 2017 the Company issued 37,460 shares of its common stock to the Manager in payment of the stock-based portion of the management fee due for the second quarter of 2017 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the second quarter of 2017.

Directors' fees

On August 1, 2017 the Company issued each of its independent directors 605 shares of its common stock in payment of half of their quarterly director fees for the second quarter of 2017.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will" and "woul negatives of these terms or other comparable terminology.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the factors referenced in this report, including those set forth under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations";
- our ability to implement our business strategy;
- difficulties in identifying re-performing loans ("RPLs") to acquire or small balance commercial mortgage loans ("SBC loans") and properties to originate and/or acquire; the impact of changes to the supply of, value of and the returns on RPLs and SBC loans;
- our ability to compete with our competitors;
- our ability to control our costs;
- the impact of changes in interest rates and the market value of the collateral underlying our RPL and non-performing loan ("NPL") portfolios or of our other real estate assets; our ability to convert NPLs into performing loans, or to modify or otherwise resolve such loans;
- our ability to convert NPLs to properties that can generate attractive returns either through sale or rental;

- our ability to obtain financing arrangements on favorable terms, or at all;
- our ability to retain our engagement of our Manager;
- the failure of the Servicer to perform its obligations under the Servicing Agreement;
- general volatility of the capital markets;
- the impact of adverse real estate, mortgage or housing markets and changes in the general economy;
- changes in our business strategy;
- our failure to qualify or maintain qualification as a real estate investment trust ("REIT");
- our expectations regarding the time during which we will be an emerging growth company under the Jumpstart Our Business Startups Act (the "JOBS Act");
- our failure to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and
- the impact of adverse legislative or regulatory tax changes.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this quarterly report on Form 10-Q ("report"), unless the context indicates otherwise, references to "Great Ajax," "we," "the company," "our" and "us" refer to the activities of and the assets and liabilities of the business and operations of Great Ajax Corp.; "operating partnership" refers to Great Ajax Operating Partnership L.P., a Delaware limited partnership; "our Manager" refers to Thetis Asset Management LLC, a Delaware limited liability company; "Aspen Capital" refers to the Aspen Capital group of companies; "Aspen" and "Aspen Yo" refers to Aspen Yo LLC, an Oregon limited liability company that is part of Aspen Capital; "the Servicer" and "Gregory" refer to Gregory Funding LLC, an Oregon limited liability company and our affiliate, and an indirect subsidiary of Aspen Yo.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the unaudited interim consolidated financial statements and related notes included in Item 1. Consolidated interim financial statements of this report and in Item 8. Financial statements and supplementary data in our most recent Annual Report on Form 10-K, as well as the sections entitled "Risk Factors" in Item 1A. of our most recent Annual Report on Form 10-K and Part II, Item 1A. of this report, as well as other cautionary statements and risks described elsewhere in this report and our most recent Annual Report on Form 10-K.

Overview

Great Ajax Corp. is a Maryland corporation that is organized and operated in a manner intended to allow us to qualify as a REIT. We primarily target RPLs, including residential mortgage loans and SBC loans. RPLs are mortgage loans on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. The SBC loans that we opportunistically purchase or originate have a principal balance of up to $5 million and are secured by multi-family residential and commercial mixed use retail/residential properties on which at least five of the seven most recent payments have been made, or the most recent payment has been made and accepted pursuant to an agreement, or the full dollar amount, to cover at least five payments has been paid in the last seven months. Additionally, we may invest in single-family and smaller commercial properties directly either through a foreclosure event of a loan in our mortgage portfolio or, less frequently, through a direct acquisition. Historically, we have also targeted investments in NPLs. NPLs are loans on which the most recent three payments have not been made. While we may acquire NPLs from time to time and continue to manage the NPLs on our consolidated Balance Sheet, this asset class is no longer a strategic acquisition target.

In September 2014, we formed Great Ajax Funding LLC, a wholly owned subsidiary of the Operating Partnership, to act as the depositor of mortgage loans into securitization trusts and to hold the subordinated securities issued by such trusts and any additional trusts we may form for additional securitizations. AJX Mortgage Trust I and AJX Mortgage Trust II are wholly owned subsidiaries of the Operating Partnership formed to hold mortgage loans used as collateral

for financings under the our repurchase agreements. On February 1, 2015, we formed GAJX Real Estate LLC, as a wholly owned subsidiary of the Operating Partnership, to own, maintain, improve and sell certain REO purchased by us. We have elected to treat GAJX Real Estate LLC as a TRS under the Code.

We elected to be taxed as a REIT for U.S. federal income tax purposes beginning with our taxable year ended December 31, 2014. Our qualification as a REIT depends upon our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code, and that our current intended manner of operation enables us to meet the requirements for taxation as a REIT for U.S. federal income tax purposes.

Our Portfolio

The following table outlines the carrying value of our portfolio of mortgage loan assets and single-family and smaller commercial properties as of June 30, 2017 and December 31, 2016:

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Our portfolio:	June 30, 2017	December 31, 2016
RPL Residential Mortgage Loans	$983.1 million	$ 803.7 million
Re-Performing SBC Loans	8.6 million	7.7 million
Originated SBC Loans	6.6 million	2.5 million
NPLs	46.4 million	55.2 million
REO	30.2 million	25.2 million
Total Real Estate Assets	$1,074.9 million	$ 894.3 million

Loan classification is based on status at acquisition. REO consists primarily of loans that transition from loan pools to REO, but also includes nine and one purchased REO at June 30, 2017 and December 31, 2016, respectively.

Market trends and outlook

We believe that cyclical trends continue to drive a significant realignment within the mortgage sector. These trends and their effects include:

- low interest rates and elevated operating costs resulting from new regulatory requirements that continue to drive sales of residential mortgage assets by banks and other mortgage lenders;

- declining home ownership due to rising prices, low inventory and increased down payment requirements that have increased the demand for single-family and multi-family residential rental properties;

- rising home prices are increasing homeowner equity and reducing the incidence of strategic default;

- low interest rates combined with rising prices has resulted in millions of homeowners being in the money to refinance;

- the Dodd-Frank risk retention rules for asset backed securities have reduced the universe of participants in the securitization markets; and

- the lack of a robust market for non-conforming mortgage loans in the aftermath of the financial crisis.

The current market landscape is also generating new opportunities in residential mortgage-related whole loan strategies. The origination of subprime and alternative residential mortgage loans remain substantially below 2008 levels and the qualified mortgage and ability-to-repay rule requirements have put pressure on new originations. Additionally, many banks and other mortgage lenders have increased their credit standards and down payment

requirements for originating new loans.

The combination of these factors has also resulted in a significant number of families that cannot qualify to obtain new residential mortgage loans. We believe the U.S. federal regulations addressing “qualified mortgages” based, among other factors on employment status, debt-to-income level, impaired credit history or lack of savings, limit mortgage loan availability from traditional mortgage lenders. In addition, we believe that many homeowners displaced by foreclosure or who either cannot afford to own or cannot be approved for a mortgage will prefer to live in single-family rental properties with similar characteristics and amenities to owned homes as well as smaller multi-family residential properties. In certain demographic areas, new households are being formed at a rate that exceeds the new homes being added to the market, which we believe favors future demand for non-federally guaranteed mortgage financing for single-family and smaller multi-family rental properties. For all these reasons, we believe that demand for single-family and smaller multi-family rental properties will increase in the near term and remain at heightened levels for the foreseeable future.

We also believe that banks and other mortgage lenders have strengthened their capital bases and are more aggressively foreclosing on delinquent borrowers or selling these loans to dispose of their inventory. Additionally, many NPL buyers are now interested in reducing their investment duration and have begun selling RPLs.

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We believe that investments in residential RPLs with positive equity provide the optimal investment value. As a result, we focus on acquiring pools of RPLs and are no longer actively acquiring pools of NPLs. We do, however, from time to time, acquire NPLs in connection with our acquisition of RPLs.

We also believe there are significant attractive investment opportunities in the SBC loan and property markets and originate as well as purchase these loans. We focus on densely populated urban areas where we expect positive economic change based on certain demographic, economic and social statistical data. The primary lenders for smaller multi-family and mixed retail/residential properties are community banks and not regional and national banks and large institutional lenders. We believe the primary lenders and loan purchasers are less interested in these assets because they typically require significant commercial and residential mortgage credit and underwriting expertise, special servicing capability and active property management. It is also more difficult to create the large pools that these primary banks, lenders and portfolio acquirers typically desire. Many community banks also remain under financial and regulatory pressure since the financial crisis and are now beginning to sell smaller commercial mortgage loans as property values have begun to increase. We continually monitor opportunities to increase our holdings of these SBC loans and properties.

Factors that may affect our operating results

Acquisitions. Our operating results depend heavily on sourcing residential RPLs and SBC loans and, to a lesser extent, NPLs. We believe that there is currently a large supply of RPLs available to us for acquisition. We believe the available supply provides for a steady acquisition pipeline of assets since we plan to target just a small percentage of the population. We expect that our residential mortgage loan portfolio may grow at an uneven pace, as opportunities to acquire distressed residential mortgage loans may be irregularly timed and may involve large portfolios of loans, and the timing and extent of our success in acquiring such loans cannot be predicted. In addition, for any given portfolio of loans that we agree to acquire, we typically acquire fewer loans than originally expected, as certain loans may be resolved prior to the closing date or may fail to meet our diligence standards. The number of loans not acquired typically constitutes a small portion of a particular portfolio. In any case where we do not acquire the full portfolio, we make appropriate adjustments to the applicable purchase price.

Financing. Our ability to grow our business by acquiring residential RPLs and SBC loans, and to a lesser extent, NPLs depends on the availability of adequate financing, including additional equity financing, debt financing or both in order to meet our objectives. We intend to leverage our investments with debt, the level of which may vary based upon the particular characteristics of our portfolio and on market conditions. We have funded and intend to continue to fund our asset acquisitions with non-recourse securitizations in which the underlying collateral is not marked-to-market and employ repurchase agreements without the obligation to mark-to-market the underlying collateral to the extent available. We securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate mortgage-backed securities (“MBS”) so created. The securitizations are structured as debt financings and not real estate investment conduit (“REMIC”) sales, and the loans included in the

securitizations remain on the Company's consolidated Balance Sheet. We completed the securitization transactions pursuant to Rule 144A under the Securities Act of 1933, in which we issued notes primarily secured by seasoned, performing and non-performing mortgage loans primarily secured by first liens on one-to-four family residential properties.

To qualify as a REIT under the Code, we generally will need to distribute at least 90% of our taxable income each year (subject to certain adjustments) to our stockholders. This distribution requirement limits our ability to retain earnings and thereby replenish or increase capital to support our activities.

Resolution Methodologies. We, through the Servicer, or our affiliates, employ various loan resolution methodologies with respect to our residential mortgage loans, including loan modification, collateral resolution and collateral disposition. The manner in which a non-performing loan is resolved will affect the amount and timing of revenue we will receive. Our preferred resolution methodology is to modify NPLs. Once successfully modified and there is a period of continued performance, we expect that borrowers will typically refinance these loans at or near the estimated value of the underlying property. We believe modification followed by refinancing generates near-term cash flows, provides the highest possible economic outcome for us and is a socially responsible business strategy because it keeps more families in their homes. In certain circumstances, we may also consider selling these modified loans. Though we do not actively seek to acquire REO or rental properties, through historical experience, we expect that many of our non-performing residential mortgage loans will enter into foreclosure or similar proceedings, ultimately becoming REO that we can convert into single-family rental properties that we believe will generate long-term returns for our stockholders. REO property can be converted into single-family rental properties or they may be sold through REO liquidation and short sale processes. We expect the timelines for each of the different processes to vary significantly, and final resolution could take up to 48 months or longer from the loan acquisition date. The exact nature of resolution will depend on a number of factors that are beyond our control, including borrower willingness, property value, availability of refinancing, interest rates, conditions in the financial markets, regulatory environment and other factors. To avoid the 100% prohibited transaction tax on the sale of dealer property by a REIT, we may dispose of assets that may be treated as held "primarily for sale to customers in the ordinary course of a trade or business" by contributing or selling the asset to a TRS prior to marketing the asset for sale.

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The state of the real estate market and home prices will determine proceeds from any sale of real estate. We will opportunistically and on an asset-by-asset basis determine whether to rent any REO we acquire, whether upon foreclosure or otherwise, we may determine to sell such assets if they do not meet our investment criteria. In addition, while we seek to track real estate price trends and estimate the effects of those trends on the valuations of our portfolios of residential mortgage loans, future real estate values are subject to influences beyond our control. Generally, rising home prices are expected to positively affect our results. Conversely, declining real estate prices are expected to negatively affect our results.

Conversion to Rental Property. While rental real estate is not currently a material component of our operations, from time to time we will retain an REO property as a rental property. The key variables that will affect our residential rental revenues over the long-term will be the extent to which we acquire REO, which, in turn, will depend on the amount of our capital invested, average occupancy and rental rates in our owned rental properties. We expect the timeline to convert multi-family and single-family loans, into rental properties will vary significantly by loan, which could result in variations in our revenue and our operating performance from period to period. There are a variety of factors that may inhibit our ability, through the Servicer, to foreclose upon a residential mortgage loan and get access to the real property within the time frames we model as part of our valuation process. These factors include, without limitation: state foreclosure timelines and the associated deferrals (including from litigation); unauthorized occupants of the property; U.S. federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures that may delay the foreclosure process; U.S. federal government programs that require specific procedures to be followed to explore the non-foreclosure outcome of a residential mortgage loan prior to the commencement of a foreclosure proceeding; and declines in real estate values and high levels of unemployment and underemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems. We do not expect to retain a material number of single family residencial properties for use as rentals. We do, however, intend to focus, on retaining multi-unit residences as rentals.

Expenses. Our expenses primarily consist of the fees and expenses payable by us under the Management Agreement and the Servicing Agreement. Our Manager incurs direct, out-of-pocket costs related to managing our business, which are contractually reimbursable by us. Depreciation and amortization is a non-cash expense associated with the ownership of rental real estate properties and generally remains relatively consistent each year at an asset level since we depreciate our properties on a straight-line basis over a fixed life. Interest expense consists of the costs to borrow money.

Changes in Home Prices. As discussed above, generally, rising home prices are expected to positively affect our results, particularly as it should result in greater levels of re-performance of mortgage loans, faster refinancing of those mortgage loans, more re-capture of principal on greater than 100% LTV (loan-to-value) mortgage loans and increased recovery of the principal of the mortgage loans upon sale of any REO. Conversely, declining real estate prices are expected to negatively affect our results, particularly if the price should decline below our purchase price for the loans and especially if borrowers determine that it is better to strategically default as their equity in their homes

decline. While home prices have risen to nearly pre-Great Recession levels in many parts of the United States, there are still significant regions where values have not materially increased. When we analyze loan and property acquisitions we do not take home price appreciation ("HPA") into account except for rural properties for which we model negative HPA related to our expectation of worse than expected property condition.

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We typically concentrate our investments in specific urban geographic locations in which we expect stable or better property markets, although we do not use any appreciation expectation in the performance modeling.

Changes in Market Interest Rates. With respect to our business operations, increases in interest rates, in general, may over time cause: (1) the value of our mortgage loan and MBS (retained from our securitizations) portfolio to decline; (2) coupons on our adjustable rate mortgages ("ARM") and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to higher interest rates; (3) prepayments on our mortgage loans and MBS portfolio to slow, thereby slowing the amortization of our purchase premiums and the accretion of our purchase discounts; (4) the interest expense associated with our borrowings to increase; and (5) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to increase. Conversely, decreases in interest rates, in general, may over time cause: (a) prepayments on our mortgage loan and MBS portfolio to increase, thereby accelerating the accretion of our purchase discounts; (b) the value of our mortgage loan and MBS portfolio to increase; (c) coupons on our ARM and hybrid ARM mortgage loans and MBS to reset, although on a delayed basis, to lower interest rates; (d) the interest expense associated with our borrowings to decrease; and (e) to the extent we enter into interest rate swap agreements as part of our hedging strategy, the value of these agreements to decrease.

Market Conditions. Due to the dramatic repricing of real estate assets during the most recent financial crisis and the continuing uncertainty in the direction and continuing strength of the real estate markets, we believe a void in the debt and equity capital available for investing in real estate has been created as many financial institutions, insurance companies, finance companies and fund managers face insolvency or have determined to reduce or discontinue investment in debt or equity related to real estate. We believe the dislocations in the residential real estate market have resulted or will result in an "over-correction" in the repricing of real estate assets, creating a potential opportunity for us to capitalize on these market dislocations and capital void.

We believe that in spite of the continuing uncertain market environment for mortgage-related assets, current market conditions offer potentially attractive investment opportunities for us, even in the face of a riskier and more volatile market environment, as the depressed trading prices of our target assets have caused a corresponding increase in available yields. We expect that market conditions will continue to impact our operating results and will cause us to adjust our investment and financing strategies over time as new opportunities emerge and risk profiles of our business change.

Critical accounting policies and estimates

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, and other subjective assessments. In particular, we have identified three policies that, due to the judgment and estimates inherent in those policies, are critical to understanding of our consolidated financial statements. These policies relate to (i) accounting for Interest income on our mortgage loan portfolio; (ii) accounting for Interest expense on our secured

borrowings; and, (iii) accounting for Interest expense on our borrowings under repurchase agreements. We believe that the judgment and estimates used in the preparation of our consolidated financial statements are appropriate given the factual circumstances at the time. However, given the sensitivity of our consolidated financial statements to these critical accounting policies, the use of other judgments or estimates could result in material differences in our results of operations or financial condition. For further information on our critical accounting policies, please refer to the Critical accounting policies in our form 10-K for our calendar year ended December 31, 2016, as there have been no changes to these policies.

Recent accounting pronouncements

Refer to the notes to our interim consolidated financial statements for a description of relevant recent accounting pronouncements.

Emerging growth company

Section 107 of the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Nonetheless, the Company has elected not to use this extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended.

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Results of operations

For the three months ended June 30, 2017, we had consolidated net income attributable to common stockholders of $6.9 million, or $0.38 per share and $0.36 per share, respectively, for both basic and diluted earnings per common share. For the six months ended June 30, 2017, we had consolidated net income attributable to common stockholders of $15.3 million, or $0.84 per share, and $0.82 per share for basic and diluted earnings per common share, respectively. This compares to the three months ended June 30, 2016, when we had consolidated net income attributable to common stockholders of $6.6 million, or $0.42 per share for both basic and diluted earnings per common share. For the six months ended June 30, 2016, we had consolidated net income attributable to common stockholders of $14.3 million, or $0.92 per share for both basic and diluted earnings per common share. Key items for the three months ended June 30, 2017 include:

- Purchased $210.2 million of RPLs with an aggregate UPB of $249.0 million and underlying collateral value of $357.7 million; and originated $1.7 million of SBC loans to end the quarter with $1,044.7 million of mortgage loans with an aggregate UPB of $1,257.1 million.
- Issued $87.5 million of Convertible senior notes and a net increase in secured borrowings of $98.1 million.
- Portfolio interest income of $21.7 million; net interest income of $12.4 million.
- Net income attributable to common stockholders of $6.9 million.
- Basic earnings per share of $0.38 per share.
- Taxable income of $0.39 per share.
- Book value per share of $15.49 at June 30, 2017.
- Collected $44.5 million on our mortgage loan and REO portfolios through payments, payoffs and sales of REO (including our equity method investments).
- $42.0 million of cash and cash equivalents at June 30, 2017.

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Table 1: Results of operations

GREAT AJAX CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except shares and per share data)

	Three months ended June 30,		**Six months ended June 30,**	
	(unaudited)		**(unaudited)**	
	2017	2016	2017	2016
INCOME				
Loan interest income	$ 21,721	$ 16,378	$ 42,528	$ 32,258
Interest expense	(9,293)	(6,063)	(16,944)	(11,050)
Net interest income	12,428	10,315	25,584	21,208
Income from investment in manager	142	46	191	90
Other income	535	482	997	1,001
Total income	13,105	10,843	26,772	22,299
EXPENSE				
Related party expense – loan servicing fees	1,935	1,410	3,817	2,786
Related party expense – management fees	1,330	937	2,403	1,843
Loan transaction expense	442	574	967	787
Professional fees	507	407	987	821
Real estate operating expenses	637	268	961	475
Other expense	886	360	1,570	740
Total expense	5,737	3,956	10,705	7,452
Loss on debt extiguishment	218	-	218	-
Income before provision for income taxes	7,150	6,887	15,849	14,847
Provision for income taxes	48	26	49	23
Consolidated net income	7,102	6,861	15,800	14,824
Less: consolidated net income attributable to the non-controlling interest	238	256	527	568
Consolidated net income attributable to common stockholders	$ 6,864	$ 6,605	$ 15,273	$ 14,256

Net interest income

Our primary source of income is accretion earned on our mortgage loan portfolio offset by the interest expense incurred to fund portfolio acquisitions. Net interest income increased to $12.4 million for the three months ended June 30, 2017 compared to $10.3 million for the three months ended June 30, 2016. The key driver of increased net interest income was an increase in the average balance of our mortgage loan portfolio net of related funding costs partially offset by lower yields on our mortgage loan pools and the issuance of our Convertible senior notes (the “notes”). Our funding costs have declined as we have continued to take advantage of favorable market conditions for issuing senior bonds secured by our mortgage loans and entering into repurchase transactions with our mortgage loans. The average balance of our mortgage loan portfolio increased to $972.8 million for the three months ending June 30, 2017 versus $607.9 million for the three months ending June 30, 2016. Additionally, we collected $44.5 million in cash payments and proceeds on our mortgage loans and REO held-for-sale (including our equity method investments) for the three months ended June 30, 2017 compared to collections of $15.4 million for the three months ended June 30, 2016.

The average yield on our mortgage loan portfolio declined compared to the comparable periods in 2016 primarily due to a continued increase in the percentage of RPLs that have remained performing and an increase in the number of NPLs that have become performing. Performing loans generally have a longer duration than NPLs resulting in increased expected principal and interest collections over the life of the loan but lower current period income as recovery of our purchase discount occurs over a longer period. Our average cost of funds declined compared to the comparable period in 2016 primarily due to lower funding costs on our secured borrowings and repurchase lines of credit.

The average balance of our mortgage loan portfolio and debt outstanding for the three month periods ended June 30, 2017 and 2016 are included in the table below ($ in thousands):

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Table 2: Quarterly average balances

	For the three months ended June 30,	
	2017	2016
Mortgage loan portfolio	$ 972,773	$ 607,906
Total debt	$ 775,717	$ 433,595

Other income

Other income for the three and six months ended June 30, 2017 versus the comparable period in 2016 decreased primarily due to lower gains on sale of REO, partially offset by higher late fees collected from borrowers ($ in thousands):

Table 3: Other income

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
HAMP fees	$ 162	$ 59	$ 262	$ 156
Late fee income	149	81	299	163
Net gain (loss) on sale of Property held-for-sale	113	573	222	1,086
Income from equity investments	105	91	195	169
Other income	6	(322)	19	(573)
Total Other Income	$ 535	$ 482	$ 997	$ 1,001

Operating Expenses

Table 4: Operating expenses

Total expenses for the three and six months ended June 30, 2017 increased versus the comparable period in 2016 consistent with the overall growth in the portfolio. The primary drivers of the overall increase were loan servicing fees, management fees and loan transactions costs.

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Related party expense – loan servicing fees	$ 1,935	$ 1,410	$ 3,817	$ 2,786
Related party expense – management fee	1,330	937	2,403	1,843
Other expense	886	360	1,570	740
Real estate operating expense	637	268	961	475
Professional fees	507	407	987	821
Loan transaction expense	442	574	967	787
Total operating expenses	$ 5,737	$ 3,956	$ 10,705	$ 7,452

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Our real estate operating expense increased for the three and six months period ending June 30, 2017, primarily as a result of impairments on REO held-for-sale. We routinely assess the net realizable value on our REO property held-for-sale and record impairment if the carrying value of the REO property held-for-sale exceeds its net realizable value. Impairment charges and realized losses on REO property held-for-sale are primarily arising from loans acquired in NPL pools in the second half of 2014 and the first half of 2015.

Other expense increased for the three and six months ended June 30, 2017, primarily due to restricted stock granted to our employees and service providers and expenses related to our repurchase lines of credit. Under the terms of our repurchase agreements, we obtain updated broker price opinions every six months for the collateral underlying our mortgage loans that are pledged to our repurchase lines of credit. A breakdown of other expense is provided in Table 5 ($ in thousands).

Table 5: Other Expense

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Employee and service provider share grants	$ 170	$ -	$ 338	$ -
Insurance	138	103	273	229
Travel, meals, entertainment	123	45	178	116
Directors' fees and grants	114	57	179	117
Other expense	106	100	191	155
Communications	101	17	117	18
Borrowing related expenses	80	19	227	68
Taxes and regulatory expense	54	19	67	37
Total other expense	$ 886	$ 360	$ 1,570	$ 740

Equity and Net Book Value Per Share

Our net book value per share was $15.49 and $15.06 at June 30, 2017 and December 31, 2016, respectively, an increase of $0.43 due primarily from the $5.7 million net increase in equity from our six-month earnings after subtracting the effect of dividends paid, and partially from the $2.5 million conversion premium from the sale of our Convertible senior notes. The net book value per share is calculated by dividing adjusted equity by total adjusted shares outstanding, including OP Units (which are redeemable on a 1-for-1 basis into shares of our common stock after one year of ownership) and Manager and director shares not issued as of the date indicated, and the common shares from assumed conversion of our Convertible senior notes. ($ in thousands except per share amounts):

Table 6: Book value per share

	June 30, 2017	December 31, 2016
Outstanding shares	18,169,424	18,122,387
Adjustments for:		
Operating partnership units	624,106	624,106
Unvested grants of restricted stock, and Manager and director shares earned but not issued as of the date indicated	39,880	22,012
Conversion of convertible senior notes into shares of common stock	5,693,450	-
Total adjusted shares outstanding	24,526,860	18,768,505
Equity at period end	$ 292,360	$ 282,723
Increase in equity from conversion of convertible senior notes	87,500	-
Adjusted equity	$ 379,860	$ 282,723
Book value per share	$ 15.49	$ 15.06

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Mortgage loan portfolio

For the three and six months ended June 30, 2017, we acquired 1,218 and 1,344 RPLs respectively for acquisition prices of $210.2 million and $213.3 million respectively, representing 84.4% and 84.5% of UPB, respectively, for the three and six month periods, and ended the period with $1,044.7 million of mortgage loans with an aggregate UPB of $1,257.1 million. Comparatively during the three and six months ended June 30, 2016 we acquired 251 and 469 RPLs, respectively, for $70.3 million and $119.9 million, respectively, representing 74.2% and 74.5% of UPB, respectively, and ended the period with $869.1 million of mortgage loans with an aggregate UPB of $1,070.2 million. No NPLS were acquired in any of the three or six month periods in either 2017 or 2016. The following table shows loan portfolio RPL acquisitions for the three and six months ended June 30, 2017 and June 30, 2016 ($ in thousands):

Table 7: Portfolio acquisitions (excludes loan originations)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
RPLs				
Count	1,218	251	1,242	469
UPB	$ 249,000	$ 70,262	$ 252,445	$ 119,947
Purchase price	$ 210,204	$ 52,128	$ 213,347	$ 89,335
Purchase price % of UPB	84.4 %	74.2 %	84.5 %	74.5 %
NPLs				
Count	-	-	-	-
UPB	$ -	$ -	$ -	$ -
Purchase price	$ -	$ -	$ -	$ -
Purchase price % of UPB	-	-	-	-

During the three and six month periods ended June 30, 2017, 149 and 238 mortgage loans, representing 2.3% and 3.6%, respectively, of our ending UPB were liquidated. Comparatively, during the three and six month periods ended June 30, 2016, 56 and 100 mortgage loans representing 1.2% and 2.2%, respectively, of our ending UPB were liquidated. Our loan portfolio activity for the three and six months ended June 30, 2017 and 2016 is presented below ($ in thousands):

Table 8: Loan portfolio activity

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Beginning carrying value [1]	$ 855,447	$ 584,913	$ 869,091	$ 555,171
Mortgage loan portfolio acquisitions and originations [2]	211,872	52,128	217,444	89,328
Payments received	(36,667)	(20,083)	(68,687)	(38,630)
Income recognized	21,682	16,375	42,236	32,188
Reclassifications to REO	(6,144)	(5,019)	(14,244)	(10,787)
Interim payoffs	(968)	-	(968)	-
Other non-cash adjustments to principal	(477)	3,376	(127)	4,420
Ending carrying value [1]	$ 1,044,745	$ 631,690	$ 1,044,745	$ 631,690

(1) Ending carrying value for June 30, 2016, March 31, 2016 and December 31, 2016 has been presented net of $1.2 million, $0.6 million and $(0.3) million of borrower advances reclassified to Prepaid expenses and other assets.

(2) Acquisitions for the three and six months ended June 30, 2017 include two originated SBC loans, and four originated SBC loans, respectively, that we originated.

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Table 9: Portfolio composition

As of June 30, 2017 and December 31, 2016, our portfolio of mortgage-related assets consisted of the following ($ in thousands):

June 30, 2017			December 31, 2016		
No. of Loans	5,866		No. of Loans	4,910	
Total UPB	$1,257,055		Total UPB	$1,070,193	
Interest-Bearing Balance	$1,166,406		Interest-Bearing Balance	$989,818	
Deferred Balance[1]	$90,649		Deferred Balance[1]	$80,381	
Market Value of Collateral[2]	$1,606,068		Market Value of Collateral[2]	$1,293,611	
Price/Total UPB[3]	79.0	%	Price/Total UPB[3]	77.0	%
Price/Market Value of Collateral	62.5	%	Price/Market Value of Collateral	64.4	%
Weighted Average Coupon[4]	4.3	%	Weighted Average Coupon[4]	4.41	%
Weighted Average LTV[4]	91.9	%	Weighted Average LTV[4]	97.1	%
Weighted Average Remaining Term (months)	292.8		Weighted Average Remaining Term (months)	323	
No. of first liens	5,843		No. of first liens	4,886	
No. of second liens	23		No. of second liens	24	
No. of Rental Properties	9		No. of Rental Properties	3	
Market Value of Rental Properties	$2,336		Market Value of Rental Properties	$1,263	
Capital Invested in Rental Properties	$1,969		Capital Invested in Rental Properties	$1,289	
Price/Market Value of Rental Properties	84.3	%	Price/Market Value of Rental Properties	102.1	%
No. of Other REO	167		No. of Other REO	149	
Market Value of Other REO	$39,876		Market Value of Other REO	$28,286	

(1) Amounts that have been deferred in connection with a loan modification on which interest does not accrue. These amounts generally become payable at the time of maturity.

(2) As of date of acquisition.

(3) At June 30, 2017 and December 31, 2016 our loan portfolio consists of fixed rate (59.4% of UPB), ARM (11.1% of UPB) and Hybrid ARM (29.5% of UPB) mortgage loans and fixed rate (60.1% of UPB), ARM (11.1% of UPB) and Hybrid ARM (28.8% of UPB) respectively, of mortgage loans with original terms to maturity of not more than 40 years.

(4) UPB as of June 30, 2017 and December 31, 2016 divided by market value of collateral and weighted by the UPB of the loan.

We closely monitor the status of our mortgage loans through our Servicer as it works with our borrowers to improve their payment records. The following table shows the percentages of our portfolio, based on UPB, represented by non-performing loans and re-performing loans at June 30, 2017, and December 31, 2016, based on loan status as of

the consolidated Balance Sheet date.

Table 10: Loan portfolio by purchased re-performing and non-performing loans, and originated loans

	June 30, 2017		December 31, 2016	
Re-performing loans	94.9	%	93.4	%
Non-performing loans	4.4	%	6.3	%
Originated SBC loans	0.7	%	0.3	%
Total loans	100.0	%	100.0	%

Table 11: Portfolio characteristics

The following table presents certain characteristics about our mortgage loans by years of origination as of June 30, 2017 and December 31, 2016, respectively ($ in thousands):

Portfolio at June 30, 2017	Years of Origination									
	After 2008		2006-2008		2001-2005		1990-2000		Prior to 1990	
Number of loans	542		3,400		1,593		310		21	
Unpaid principal balance	$117,241		$837,964		$279,272		$21,835		$ 743	
Mortgage loan portfolio by year of origination	9.3	%	66.7	%	22.2	%	1.7	%	0.1	%
Loan Attributes:										
Weighted average loan age (months)	76.9		124.0		155.3		233.9		378.5	
Weighted average loan-to-value	86.1	%	96.0	%	80.5	%	62.7	%	28.5	%

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Delinquency Performance:					
Current	50.7%	51.1%	52.8%	39.2%	35.0%
30 days delinquent	15.9%	15.8%	13.1%	24.6%	11.1%
60 days delinquent	9.1 %	10.6%	11.9%	9.2 %	34.5%
90+ days delinquent	19.3%	15.4%	14.1%	19.6%	15.5%
Foreclosure	5.0 %	7.1 %	8.1 %	7.4 %	3.9 %

Portfolio at December 31, 2016	Years of Origination				
	After 2008	2006-2008	2001-2005	1990-2000	Prior to 1990
Number of loans	461	2,863	1,303	262	21
Unpaid principal balance	$94,733	$723,685	$231,093	$19,328	$1,354
Mortgage loan portfolio by year of origination	8.9 %	67.6 %	21.6 %	1.8 %	0.1 %
Loan Attributes:					
Weighted average loan age (months)	74.7	118.3	148.8	229.8	365.6
Weighted average loan-to-value	92.9 %	105.2 %	88.3 %	65.8 %	25.6 %
Delinquency Performance:					
Current	49.8 %	47.9 %	46.8 %	40.0 %	19.2 %
30 days delinquent	14.8 %	16.0 %	17.1 %	18.8 %	62.2 %
60 days delinquent	8.3 %	9.7 %	9.7 %	6.0 %	0.0 %
90+ days delinquent	21.3 %	16.3 %	15.8 %	25.5 %	8.9 %
Foreclosure	5.8 %	10.1 %	10.6 %	9.7 %	9.7 %

Table 12: Loans by state

The following table identifies our mortgage loans by state, number of loans, loan value and collateral value and percentages thereof at June 30, 2017 and December 31, 2016 ($ in thousands):

June 30, 2017						December 31, 2016					
State	Count	UPB	%UPB	Collateral Value[1]	% of Collateral Value	State	Count	UPB	%UPB	Collateral Value[1]	% of Collateral Value
CA	965	347,901	27.7 %	470,473	29.2 %	CA	809	292,319	27.6 %	384,018	29.7 %
FL	764	146,227	11.6 %	175,931	11.0 %	FL	685	135,608	12.7 %	148,413	11.5 %
NY	319	108,064	8.6 %	153,577	9.6 %	NY	276	94,939	8.9 %	122,790	9.4 %
NJ	285	77,069	6.1 %	86,917	5.4 %	NJ	235	66,023	6.2 %	71,898	5.6 %

MD	233	59,586	4.7	%	66,151	4.1	%	MD	188	50,332	4.7	%	54,263	4.2	%
MA	195	43,462	3.5	%	55,201	3.4	%	MA	176	38,762	3.6	%	45,939	3.6	%
TX	368	40,331	3.2	%	62,160	3.9	%	IL	171	34,433	3.2	%	35,136	2.7	%
IL	200	40,269	3.2	%	42,545	2.7	%	TX	296	34,054	3.2	%	49,466	3.8	%
VA	164	37,934	3.0	%	46,432	2.9	%	VA	141	30,269	2.8	%	35,769	2.8	%
GA	283	36,993	2.9	%	43,666	2.7	%	GA	222	29,649	2.8	%	33,687	2.6	%
NC	220	31,272	2.5	%	38,440	2.4	%	NC	183	25,995	2.4	%	30,553	2.4	%
WA	118	29,324	2.3	%	37,941	2.4	%	WA	92	22,196	2.1	%	26,001	2.0	%
AZ	145	24,666	2.0	%	28,590	1.8	%	AZ	117	22,180	2.1	%	23,522	1.8	%
NV	113	22,771	1.8	%	26,376	1.6	%	NV	101	20,593	1.9	%	23,445	1.8	%
PA	163	17,832	1.4	%	22,107	1.4	%	PA	141	15,577	1.5	%	18,836	1.5	%
SC	121	15,353	1.2	%	19,618	1.2	%	SC	102	13,029	1.2	%	15,870	1.2	%
CO	70	14,742	1.2	%	22,201	1.4	%	OH	102	12,885	1.2	%	12,907	1.0	%
MI	94	13,976	1.1	%	20,603	1.3	%	CO	59	12,729	1.2	%	18,643	1.4	%

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June 30, 2017						December 31, 2016					
State	Count	UPB	%UPB	Collateral Value[1]	% of Collateral Value	State	Count	UPB	%UPB	Collateral Value[1]	% of Collateral Value
TN	114	13,773	1.1 %	18,764	1.2 %	OR	60	12,124	1.1 %	16,495	1.3 %
OH	106	13,298	1.1 %	14,169	0.9 %	TN	89	10,150	0.9 %	12,250	0.9 %
OR	63	12,390	1.0 %	17,126	1.1 %	MI	74	9,879	0.9 %	11,117	0.9 %
CT	58	10,922	0.9 %	13,274	0.8 %	CT	46	8,789	0.8 %	10,396	0.8 %
MN	53	10,162	0.8 %	12,870	0.8 %	UT	44	7,903	0.7 %	9,841	0.8 %
UT	55	9,541	0.8 %	12,896	0.8 %	IN	77	7,234	0.7 %	8,108	0.6 %
IN	97	9,348	0.7 %	11,166	0.7 %	MN	37	6,646	0.6 %	8,432	0.7 %
MO	58	7,370	0.6 %	8,420	0.5 %	AL	40	6,428	0.6 %	6,338	0.5 %
AL	47	6,777	0.5 %	7,125	0.4 %	MO	43	5,400	0.5 %	5,789	0.4 %
WI	37	5,510	0.4 %	6,283	0.4 %	WI	31	4,688	0.4 %	5,141	0.4 %
LA	50	5,465	0.4 %	7,660	0.5 %	LA	36	4,203	0.4 %	4,889	0.4 %
DE	26	4,971	0.4 %	5,490	0.3 %	DE	20	3,988	0.4 %	5,343	0.4 %
DC	17	4,748	0.4 %	7,368	0.5 %	KY	30	3,688	0.3 %	3,942	0.3 %
KY	33	4,437	0.4 %	4,868	0.3 %	RI	15	3,274	0.3 %	3,259	0.3 %
NM	21	3,819	0.3 %	4,550	0.3 %	HI	11	2,690	0.3 %	3,989	0.3 %
RI	16	3,258	0.3 %	3,898	0.2 %	DC	9	2,661	0.2 %	4,292	0.3 %
NH	17	3,239	0.3 %	4,217	0.3 %	NH	13	2,636	0.2 %	3,131	0.2 %
HI	13	3,234	0.3 %	5,131	0.3 %	NM	12	2,511	0.2 %	3,121	0.2 %
OK	34	3,121	0.3 %	4,257	0.3 %	MS	22	2,026	0.2 %	2,432	0.2 %
MS	22	2,296	0.2 %	2,554	0.2 %	OK	18	1,844	0.2 %	2,080	0.2 %
KS	20	1,593	0.1 %	2,262	0.1 %	KS	14	1,358	0.1 %	1,615	0.1 %
ME	10	1,579	0.1 %	1,704	0.1 %	ID	9	1,296	0.1 %	2,095	0.2 %
ID	10	1,396	0.1 %	2,290	0.1 %	PR	10	1,258	0.1 %	1,626	0.1 %
WV	13	1,328	0.1 %	1,444	0.1 %	ME	8	1,210	0.1 %	1,119	0.1 %
PR	10	1,242	0.1 %	1,641	0.1 %	WV	12	1,167	0.1 %	1,342	0.1 %
AR	16	1198	0.1 %	1,509	0.1 %	IA	11	938	0.1 %	1,052	0.1 %
IA	13	1014	0.1 %	1,215	0.1 %	AR	11	905	0.1 %	1,032	0.1 %
SD	3	608	0.1 %	807	0.1 %	SD	3	618	0.1 %	787	0.1 %
MT	2	361	0.0 %	485	0.0 %	MT	2	364	0.0 %	485	0.0 %
WY	3	345	0.0 %	440	0.0 %	NE	3	255	0.0 %	258	0.0 %
AK	3	316	0.0 %	538	0.0 %	VT	1	254	0.0 %	208	0.0 %
VT	1	253	0.0 %	225	0.0 %	ND	2	157	0.0 %	284	0.0 %
NE	3	251	0.0 %	258	0.0 %	WY	1	79	0.0 %	167	0.0 %
ND	2	120	0.0 %	235	0.0 %	-	-	-	-	-	-
Totals	5,866	1,257,055	100 %	1,606,068	100 %		4,910	1,070,193	100 %	1,293,611	100 %

(1) As of date of acquisition.

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Liquidity and capital resources

Source and uses of cash

Our primary sources of cash have consisted of proceeds from our securities offerings, our securitizations, repurchase agreements, principal and interest payments on our loan portfolio, and sales of properties held-for-sale. Depending on market conditions, we expect that our primary financing sources will continue to include securitizations, repurchase agreements, and securities offerings in addition to transaction or asset specific funding arrangements and credit facilities (including term loans and revolving facilities). We expect that these sources of funds will be sufficient to meet our short-term and long-term liquidity needs. From time to time, we may invest with third parties and acquire interests in loans through investments in joint ventures.

We use cash to purchase mortgage-related assets, repay principal and interest on any borrowings, make distributions to our stockholders and holders of our OP units and fund operations.

As of June 30, 2017, substantially all of our invested capital was in RPLs, NPLs, and REO property held-for-sale. We also held approximately $42.0 million of cash, and cash equivalents, an increase of $6.3 million from our balance of $35.7 million at December 31, 2016. Our average daily cash balance during the quarter was $47.7 million, an increase of $12.2 million from our average daily cash balance of $35.5 million for the quarter ended March 31, 2017.

Our operating cash outflows, including the effect of restricted cash, for the six months ended June 30, 2017 and 2016 were $(7.5) million and $(4.0) million, respectively. The primary operating cash inflow is cash interest payments on our mortgage loan pools of $21.2 million and $11.5 million for the six months ended June 30, 2017 and 2016, respectively. Operating cash flows are negative for both periods, however, as a result of non-cash interest income accretion of $20.9 million for the six months ended June 30, 2017 and $20.7 million for the six months ended June 30, 2016. Operating cash flows do not include the cash portion of accretion that we receive through principal payments on our mortgage loans or the proceeds on the sales of our property held-for-sale.

For the six months ended June 30, 2017, our investing cash outflows of $(157.8) million were driven primarily by acquisitions of mortgage loans offset by principal payments on and payoffs of our mortgage loan portfolio and proceeds on the sale of our property held-for-sale offset by mortgage loan acquisitions. For the six months ended June 30, 2016, our investing cash outflows of $(62.0) million were driven primarily by net mortgage loan acquisitions offset by principal payments on and repayments of our mortgage loan portfolio and proceeds on the sale of our

property held-for-sale. Principal payments, payoffs and proceeds on the sale of our property held-for-sale were $56.9 million and $28.8 million for the six months ended June 30, 2017 and 2016, respectively.

Our financing cash flows are driven primarily by funding used to acquire mortgage loan pools and pay dividends on our common stock and distributions on our OP units. We fund our mortgage loan pool acquisitions primarily through secured borrowings, repurchase agreements and the proceeds from our equity offerings. For the six months ended June 30, 2017, we had net financing cash inflows of $170.5 million as we issued notes, convertible into shares of the common stock for net proceeds of $84.9 million, and issued secured notes, secured by mortgage loans, for proceeds of $140.7 million. For the six months ended June 30, 2016, we had net cash inflows from financing activities of $103.9 million driven primarily by the issuance of secured notes for proceeds of $101.4 million to fund mortgage loan acquisitions. For the six months ended June 30, 2017 and 2016 we paid $10.0 million and $7.8 million, respectively, in combined dividends and distributions.

Financing activities – secured borrowings and repurchase arrangements

From inception (January 30, 2014) to June 30, 2017, we have completed nine secured borrowings pursuant to Rule 144A under the Securities Act. The secured borrowings are structured as debt financings and not REMIC sales, and the loans included in the secured borrowings remain on our consolidated Balance Sheet as we are the primary beneficiary of the secured borrowing trusts, which are VIEs. The secured borrowing VIEs are structured as pass through entities that receive principal and interest on the underlying mortgages and distribute those payments to the holders of the notes. Our exposure to the obligations of the VIEs is generally limited to our investments in the entities. The notes that are issued by the secured borrowing trusts are secured solely by the mortgages held by the applicable trusts and not by any of our other assets. The mortgage loans of the applicable trusts are the only source of repayment and interest on the notes issued by such trusts. We do not guarantee any of the obligations of the trusts under the terms of the agreement governing the notes or otherwise.

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Our secured borrowings are structured with Class A notes, Class B notes, and a trust certificate representing the residual interests in the mortgages. For each of our nine secured borrowings through June 30, 2017, we have retained the Class B notes and the trust certificate. The Class A notes are senior, sequential pay, fixed rate notes. The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. If the Class A notes have not been redeemed by the payment date 36 months after issue, or otherwise paid in full by that date, an amount equal to the aggregate interest payment amount that accrued and would otherwise be paid to the Class B-1 and the Class B-2 notes will be paid as principal to the Class A notes on that date and each subsequent payment date until the Class A notes are paid in full. After the Class A notes are paid in full, the Class B-1 and Class B-2 notes will resume receiving their respective interest payment amounts and any interest that accrued but was not paid to the Class B notes while the Class A notes were outstanding. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trust after the Class A notes and Class B notes have been paid in full.

On May 25, 2017, we completed our ninth securitization, Ajax Mortgage Loan Trust 2017-A. An aggregate of $140.7 million of senior securities were issued in a private offering with respect to $216.4 million UPB of mortgage loans. During the three months ended June 30, 2017, we called the $27.3 million of outstanding debt associated with our 2015-A securitization, and re-securitized $33.6 million of mortgage loans from the underlying collateral in 2017-A at a lower cost of funds and higher advance rate. Based on UPB, approximately 91.8% of these mortgage loans were RPLs and approximately 8.2% were NPLs. Net proceeds from the sale of the senior securities provided leverage of approximately 3.9 times the related equity.

On October 25, 2016, we called our senior bonds issued by Ajax Mortgage Loan Trust 2014-A and 2014-B (the “2014 Trusts”). The remaining assets of the 2014 Trusts were re-securitized in Ajax Mortgage Loan Trust 2016-C. A portion of the proceeds from the senior bond issued by Ajax Mortgage Loan Trust 2016-C were used to redeem the senior bonds from the 2014 Trusts.

The following table sets forth the original terms of all securitization notes at their respective cutoff dates on our consolidated Balance sheet at June 30, 2017:

Table 13: Securitizations

Issuing Trust/Issue Date	Security	Original Principal	Interest Rate	
Ajax Mortgage Loan Trust 2015-B / July 2015	Class A notes due 2060	$87.2 million	3.88	%
	Class B-1 notes due 2060(2)(3)	$15.9 million	5.25	%

	Class B-2 notes due 2060(2)(3)	$7.9 million	5.25	%
	Trust certificates(2)	$47.5 million	-	
	Deferred issuance costs	$(1.5) million	-	
Ajax Mortgage Loan Trust 2015-C / November 2015	Class A notes due 2057	$82.0 million	3.88	%
	Class B-1 notes due 2057(2)(3)	$6.5 million	5.25	%
	Class B-2 notes due 2057(2)(3)	$6.5 million	5.25	%
	Trust certificates(2)	$35.1 million	-	
	Deferred issuance costs	$(2.7) million	-	
Ajax Mortgage Loan Trust 2016-A/ April 2016	Class A notes due 2064	$101.4 million	4.25	%
	Class B-1 notes due 2064(1)(3)	$7.9 million	5.25	%

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	Class B-2 notes due 2064(1)(3)	$7.9 million	5.25%
	Trust certificates(2)	$41.3 million	-
	Deferred issuance costs	$(2.7) million	-
Ajax Mortgage Loan Trust 2016-B/ August 2016	Class A notes due 2065	$84.4 million	4.00%
	Class B-1 notes due 2065(1)(3)	$6.6 million	5.25%
	Class B-2 notes due 2065(1)(3)	$6.6 million	5.25%
	Trust certificates(2)	$34.1 million	-
	Deferred issuance costs	$(1.6) million	-
Ajax Mortgage Loan Trust 2016-C/ October 2016	Class A notes due 2057	$102.6 million	4.00%
	Class B-1 notes due 2057(1)(3)	$7.9 million	5.25%
	Class B-2 notes due 2057(1)(3)	$7.9 million	5.25%
	Trust certificates(2)	$39.4 million	-
	Deferred issuance costs	$(1.6) million	-
Ajax Mortgage Loan Trust 2017-A/ May 2017	Class A notes due 2057	$140.7 million	3.47%
	Class B-1 notes due 2057(1)	$15.1 million	5.25%
	Class B-2 notes due 2057(1)	$10.8 million	5.25%
	Trust certificates(2)	$49.8 million	-
	Deferred issuance costs	$(2.0) million	-

(1) The Class B notes are subordinate, sequential pay, fixed rate notes with Class B-2 notes subordinate to the Class B-1 notes. The Company has retained the Class B notes.

(2) The trust certificates issued by the trusts and the beneficial ownership of the trusts are retained by Great Ajax Funding LLC as the depositor. As the holder of the trust certificates, we are entitled to receive any remaining amounts in the trusts after the Class A notes and Class B notes have been paid in full.

(3) These securities are encumbered under a repurchase agreement.

Repurchase transactions

We entered into two repurchase facilities whereby we, through two wholly-owned Delaware trusts (the “Trusts”), acquire pools of mortgage loans which are then sold by the Trusts, as “Seller” to two separate counterparties, the “buyer” or “buyers.” One facility has a ceiling of $250.0 million and the other $200.0 million at any one time. Upon the time of the initial sale to the buyer, each Trust, with a simultaneous agreement, also agrees to repurchase the pools of mortgage loans from the buyer. Mortgage loans sold under these facilities carry interest calculated based on a spread to one-month LIBOR, which are fixed for the term of the borrowing. The purchase price that the Trust realizes upon the initial sale of the mortgage loans to the buyer can vary between 70% and 85% of the asset’s acquisition price, depending upon the facility being utilized and/or the quality of the underlying collateral. The obligations of the Trust to repurchase these mortgage loans at a future date are guaranteed by the Operating Partnership. The difference

between the market value of the asset and the amount of the repurchase agreement is generally the amount of equity we have in the position and is intended to provide the buyer with some protection against fluctuations in the value of the collateral, and/or a failure by us to repurchase the asset and repay the borrowing at maturity. We also entered into three repurchase facilities substantially similar to the mortgage loan repurchase facilities. However, the pledged assets are the class B bonds from our securitization transactions. We have effective control over the assets subject to these transactions; therefore our repurchase transactions are accounted for as financing arrangements.

A summary of our outstanding repurchase transactions at June 30, 2017 and December 31, 2016 follows ($ in thousands):

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Table 14: Repurchase transactions by maturity date

		June 30, 2017						
Maturity Date	Origination date	**Maximum Borrowing Capacity**	**Amount Outstanding**	**Amount of Collateral**	**Percentage of Collateral Coverage**		**Interest Rate**	
September 8, 2017	March 9, 2017	$ 4,383	$4,383	$ 6,261	143	%	3.52	%
September 29, 2017	March 30, 2017	10,762	10,762	15,375	143	%	3.53	%
November 8, 2017	May 8, 2017	15,127	15,127	21,610	143	%	3.54	%
November 21, 2017	November 22, 2016	200,000	5,934	10,980	185	%	4.66	%
July 12, 2019	July 15, 2016	250,000	209,320	273,456	131	%	3.72	%
Totals		$ 480,272	$245,526	$ 327,682	133	%	3.72	%

		December 31, 2016						
Maturity Date	Origination date	**Maximum Borrowing Capacity**	**Amount Outstanding**	**Amount of Collateral**	**Percentage of Collateral Coverage**		**Interest Rate**	
March 9, 2017	September 9, 2016	$ 10,310	$10,309	$ 14,728	143	%	3.32	%
March 30, 2017	September 30, 2016	10,797	10,797	15,424	143	%	3.34	%
May 8, 2017	November 9, 2016	14,986	14,986	21,409	143	%	3.35	%
November 21, 2017	November 22, 2016	200,000	21,302	36,044	169	%	4.20	%
July 12, 2019	July 15, 2016	200,000	170,046	226,192	133	%	3.25	%
Totals		$ 436,093	$227,440	$ 313,797	138	%	3.35	%

As of June 30, 2017, we had $245.5 million outstanding under our repurchase transactions. The maximum month-end balance outstanding during the three-month period ended June 30, 2017 was $284.5 million, compared to a maximum month-end balance for the three-month period ended December 31, 2016 of $227.4 million. The following table presents certain details of our repurchase transactions for the three-month periods ended June 30, 2017 and December 31, 2016 ($ in thousands):

Table 15: Repurchase balances

	Three months ended June 30, 2017	Three months ended December 31, 2016
Balance at the end of period	$ 245,526	$ 227,440
Maximum month-end balance outstanding during the period	$ 284,488	$ 227,440
Average balance	$ 245,491	$ 127,890

The increase in our average balance from $127.9 million for the three months ended December 31, 2016 to our average balance of $245.5 million for the three months ended June 30, 2017 was due to a net increase in repurchase financing during the three months ended June 30, 2017, as a result of additional investments in mortgage loans.

On April 25, 2017, we completed the public offer and sale of $87.5 million aggregate principal amount of our 7.25% Convertible senior notes due 2024. The notes bear interest at a rate of 7.25% per annum, payable quarterly. The notes mature on April 30, 2024, unless earlier converted, redeemed or repurchased. The conversion rate equals 1.6267 shares of common stock per $25.00 principal amount of notes (equivalent to a conversion price of approximately $15.37 per share of common stock), a 17.5% premium over our stock price on the issue date. We are using the net proceeds to acquire additional mortgage loans and mortgage-related assets consistent with our investment strategy and for general corporate purposes.

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We are not required by our investment guidelines to maintain any specific debt-to-equity ratio, and we believe that the appropriate leverage for the particular assets we hold depends on the credit quality and risk of those assets, as well as the general availability and terms of stable and reliable financing for those assets.

We may declare dividends based on, among other things, our earnings, our financial condition, our working capital needs, new opportunities, and distribution requirements imposed on REITs. The declaration of dividends to our stockholders and the amount of such dividends are at the discretion of our Board of Directors. On July 24, 2017, our Board of Directors declared a dividend of $0.30 per share, to be paid on August 30, 2017 to stockholders of record as of August 15, 2017. Our Management agreement with our Manager requires the payment of an incentive management fee above the amount of the base management fee if we distribute a quarterly dividend out of our taxable income on shares of our common stock in excess of 8% (on an annualized basis) of our stock's book value. Our dividend payments are driven by the amount of our taxable income, subject to IRS rules for maintaining our status as a REIT.

Our most recently declared quarterly dividend represents a payment of approximately 7.75% of our book value of $15.49 at June 30, 2016. If future increases in our taxable income continue to drive our dividend rate higher, we could exceed the threshold for paying an incentive fee to our Manager. See Note 9 — Related party transactions.

We believe that our capital resources will be sufficient to enable us to meet anticipated short-term and long-term liquidity requirements.

Off-Balance Sheet arrangements

Other than the trusts holding assets pledged as security against our borrowings and equity method investments discussed elsewhere in this report, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-Balance Sheet arrangements or other contractually narrow or limited purposes. Further, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitment or intent to provide funding to any such entities. As such, we are not materially exposed to any market, credit, liquidity or financing risk that could arise if we had engaged in such relationships.

Contractual obligations

A summary of our contractual obligations as of June 30, 2017 and December 31, 2016 is as follows ($ in thousands):

Table 16: Contractual obligations

June 30, 2017	Payments Due by Period				
	Total	**Less than 1 Year**	1-3 Years	3-5 Years	**More than 5 Years**
Convertible senior notes	$87,500	$ -	$-	$ -	$ 87,500
Borrowings under repurchase agreements	215,254	5,934	209,320	-	-
Interest on convertible senior notes	48,765	7,091	14,390	14,706	12,578
Interest on repurchase agreements	16,234	4,343	11,891	-	-
Total	$367,753	$ 17,368	$235,601	$ 14,706	$ 100,078

December 31, 2016	Payments Due by Period				
	Total	**Less than 1 Year**	1-3 Years	3-5 Years	**More than 5 Years**
Borrowings under repurchase agreements	$227,440	$ 57,394	$170,046	$ -	$ -
Interest on repurchase agreements	27,270	11,676	15,594	-	-
Total	$254,710	$ 69,070	$185,640	$ -	$ -

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Our secured borrowings are not included in the table above as such borrowings are non-recourse to us and are only paid to the extent that cash flows from mortgage loans (in the securitization trust) collateralizing the debt are received. Accordingly, a projection of contractual maturities over the next five years is inapplicable.

Inflation

Virtually all of our assets and liabilities are interest-rate sensitive in nature. As a result, interest rates and other factors influence our performance far more so than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our activities and consolidated Balance Sheet are measured with reference to historical cost and/or fair market value without considering inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary components of our market risk are related to real estate risk, interest rate risk, prepayment risk and credit risk. We seek to actively manage these and other risks and to acquire and hold assets at prices that we believe justify bearing those risks, and to maintain capital levels consistent with those risks.

Real Estate Risk

Residential property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions (such as an oversupply of housing); construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. Decreases in property values could cause us to suffer losses.

Interest Rate Risk

We expect to continue to securitize our whole loan portfolios, primarily as a financing tool, when economically efficient to create long-term, fixed rate, non-recourse financing with moderate leverage, while retaining one or more tranches of the subordinate MBS so created. 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 our control. Changes in interest rates may affect the fair value of the mortgage loans and real estate underlying our portfolios as well as our financing interest rate expense.

We believe that a rising interest rate environment could have a positive net effect on our operations to the extent we will own rental real property or seek to sell real property. Rising interest rates could be accompanied by inflation and higher household incomes which generally correlate closely to higher rent levels and property values. Even if our interest and operating expenses rise at the same rate as rents, our operating profit could still increase. Despite our beliefs, it is possible that the value of our real estate assets and our net income could decline in a rising interest rate environment to the extent that our real estate assets are financed with floating rate debt and there is no accompanying increase in rental yield or property values.

Prepayment Risk

Prepayment risk is the risk of change, whether an increase or a decrease, in the rate at which principal is returned in respect of the mortgage loans we will own as well as the mortgage loans underlying our retained MBS, including both through voluntary prepayments and through liquidations due to defaults and foreclosures. This rate of prepayment is affected by a variety of factors, including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Prepayment rates, besides being subject to interest rates and borrower behavior, are also substantially affected by government policy and regulation. Changes in prepayment rates will have varying effects on the different types of assets in our portfolio. We attempt to take these effects into account. We will generally purchase re-performing and non-performing loans at significant discounts from UPB and underlying property values. An increase in prepayments would accelerate the repayment of the discount and lead to increased yield on our assets while also causing re-investment risk that we can find additional assets with the same interest and return levels. A decrease in prepayments would likely have the opposite effects.

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Credit Risk

We are subject to credit risk in connection with our assets. While we will engage in diligence on assets we will acquire, such due diligence may not reveal all of the risks associated with such assets and may not reveal other weaknesses in such assets, which could lead us to misprice acquisitions. Property values are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors), local real estate conditions (such as an oversupply of housing), changes or continued weakness in specific industry segments, construction quality, age and design, demographic factors and retroactive changes to building or similar codes.

There are many reasons borrowers will fail to pay including but not limited to, in the case of residential mortgage loans, reductions in personal income, job loss and personal events such as divorce or health problems, and in the case of commercial mortgage loans, reduction in market rents and occupancies and poor property management services by borrowers. We will rely on the Servicer to mitigate our risk. Such mitigation efforts may include loan modifications and prompt foreclosure and property liquidation following a default. If a sufficient number of re-performing borrowers default, our results of operations will suffer and we may not be able to pay our own financing costs.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. The controls evaluation was conducted under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Disclosure controls and procedures are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), such as this Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on the controls evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Form 10-Q, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information related to our

company and our consolidated subsidiaries is made known to management, including the Chief Executive Officer and Chief Financial Officer, particularly during the period when our periodic reports are being prepared.

Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. other information

Item 1. Legal Proceedings

Neither we nor any of our affiliates are the subject of any material legal or regulatory proceedings. We and our affiliates may be involved, from time to time, in legal proceedings that arise in the ordinary course of business.

Item 1A. Risk Factors

For information regarding factors that could affect our results of operations, financial condition, and liquidity, see the risk factors discussed under “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016. There have been no material changes from these previously disclosed risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

On August 1, 2017 we issued 37,460 shares of our common stock to the Manager in payment of the stock-based portion of the management fee due for the second quarter of 2017 in a private transaction. The management fee expense associated with these shares was recorded as an expense in the secondt quarter of 2017. These shares were issued in reliance on the exemption from registration set forth in Section 4(a)(2) of the Securities Act.

On August 1, 2017 we issued each of our independent directors 605 shares of common stock in partial payment of their quarterly director fees for the second quarter of 2017. These shares were issued in reliance on the exemption from registration set forth in Section 4(a)(2) of the Securities Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed or furnished as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREAT AJAX CORP.

Date: August 3, 2017 By: /s/ Lawrence Mendelsohn
Lawrence Mendelsohn
Chairman and Chief Executive Officer

(Principal Executive Officer)

Date: August 3, 2017 By: /s/ Mary Doyle
Mary Doyle
Chief Financial Officer

(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit Number	Exhibit Description
31.1*	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Section 1350 Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Section 1350 Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.