

BLACKSTONE MORTGAGE TRUST, INC.

Form 10-Q

July 29, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014**

**OR**

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**Commission File Number: 001-14788**

**Blackstone Mortgage Trust, Inc.**

(Exact name of Registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)  
**345 Park Avenue, 42nd Floor**  
**New York, New York 10154**  
(Address of principal executive offices)(Zip Code)  
**(212) 655-0220**  
(Registrant's telephone number, including area code)

**94-6181186**  
(I.R.S. Employer  
Identification No.)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of the Registrant's outstanding shares of class A common stock, par value \$0.01 per share, as of July 22, 2014 was 48,479,505.



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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Blackstone Mortgage Trust, Inc.****Consolidated Balance Sheets (Unaudited)****(in thousands, except per share data)**

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 120,456	\$ 52,342
Restricted cash	11,392	10,096
Loans receivable, net	3,488,179	2,047,223
Equity investments in unconsolidated subsidiaries	14,038	22,480
Accrued interest receivable, prepaid expenses, and other assets	120,704	80,639
<b>Total assets</b>	<b>\$ 3,754,769</b>	<b>\$ 2,212,780</b>
<b>Liabilities and equity</b>		
Accounts payable, accrued expenses, and other liabilities	\$ 71,345	\$ 97,153
Repurchase obligations	1,779,650	1,109,353
Convertible notes, net	160,671	159,524
Participations sold	461,078	90,000
<b>Total liabilities</b>	<b>2,472,744</b>	<b>1,456,030</b>
<b>Equity</b>		
Class A common stock, \$0.01 par value, 100,000 shares authorized, 47,935 and 28,802 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	479	288
Restricted class A common stock, \$0.01 par value, 544 and 700 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	5	7
Additional paid-in capital	1,767,954	1,252,986
Accumulated other comprehensive income	2,728	798
Accumulated deficit	(531,858)	(536,170)
Total Blackstone Mortgage Trust, Inc. stockholders' equity	1,239,308	717,909
Non-controlling interests	42,717	38,841
<b>Total equity</b>	<b>1,282,025</b>	<b>756,750</b>
<b>Total liabilities and equity</b>	<b>\$ 3,754,769</b>	<b>\$ 2,212,780</b>

*See accompanying notes to consolidated financial statements.*

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## Blackstone Mortgage Trust, Inc.

## Consolidated Statements of Operations (Unaudited)

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Income from loans and other investments</b>				
Interest and related income	\$ 42,466	\$ 6,017	\$ 76,122	\$ 7,473
Less: Interest and related expenses	15,720	1,306	27,794	2,083
<b>Income from loans and other investments, net</b>	26,746	4,711	48,328	5,390
<b>Other expenses</b>				
Management fees	4,410	920	7,807	983
General and administrative expenses	15,356	2,507	18,554	4,482
<b>Total other expenses</b>	19,766	3,427	26,361	5,465
Valuation allowance on loans held-for-sale		2,000		1,800
Gain on investments at fair value	7,163	4,000	5,824	4,000
Income from equity investments in unconsolidated subsidiaries	24,294		24,294	
Gain on extinguishment of debt		38		38
<b>Income before income taxes</b>	38,437	7,322	52,085	5,763
<b>Income tax (benefit) provision</b>	(2)	554	530	593
<b>Net income</b>	38,439	6,768	51,555	5,170
<b>Net income attributable to non-controlling interests</b>	(4,973)	(4,020)	(5,024)	(5,537)
<b>Net income (loss) attributable to Blackstone Mortgage Trust, Inc.</b>	\$ 33,466	\$ 2,748	\$ 46,531	\$ (367)
<b>Net income (loss) per share of common stock</b>				
Basic	\$ 0.70	\$ 0.22	\$ 1.08	\$ (0.05)
Diluted	\$ 0.70	\$ 0.22	\$ 1.08	\$ (0.05)
<b>Weighted-average shares of common stock outstanding</b>				
Basic	47,977,813	12,401,274	43,000,242	7,734,774

Diluted	47,977,813	12,401,274	43,000,242	7,734,774
<b>Dividends declared per share of common stock</b>	\$ 0.48	\$	\$ 0.96	\$

*See accompanying notes to consolidated financial statements.*



Table of Contents**Blackstone Mortgage Trust, Inc.****Consolidated Statements of Comprehensive Income (Loss) (Unaudited)****(in thousands)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income	\$ 38,439	\$ 6,768	\$ 51,555	\$ 5,170
Other comprehensive income:				
Unrealized gain on foreign currency remeasurement	1,894		1,930	
Other comprehensive income	1,894		1,930	
Comprehensive income	40,333	6,768	53,485	5,170
Comprehensive income attributable to non-controlling interests	(4,973)	(4,020)	(5,024)	(5,537)
Comprehensive income (loss) attributable to Blackstone Mortgage Trust, Inc.	\$ 35,360	\$ 2,748	\$ 48,461	\$ (367)

*See accompanying notes to consolidated financial statements.*

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## Blackstone Mortgage Trust, Inc.

## Consolidated Statements of Changes in Equity (Unaudited)

(in thousands)

Blackstone Mortgage Trust, Inc.								
	Class		Additional	Accumulated	Other	Total	Non-Controlling	
	Common	A					Class	Interests
	Stock	Common Stock	Paid-In Capital	Comprehensive Income	Accumulated Deficit			
<b>Balance at December 31, 2012</b>	\$ 293	\$	\$ 609,002	\$	\$ (535,851)	\$ 73,444	\$ 80,009	\$ 153,453
Reverse stock split	(263)		263					
Shares of class A common stock issued	258		633,552			633,810		633,810
Deferred directors compensation			75			75		75
Net (loss) income					(367)	(367)	5,537	5,170
Consolidation of subsidiary					5,727	5,727	6,235	11,962
Contributions from non-controlling interests							15,000	15,000
Purchase of and distributions to non-controlling interests							(17,803)	(17,803)
<b>Balance at June 30, 2013</b>	\$ 288	\$	\$ 1,242,892	\$	\$ (530,491)	\$ 712,689	\$ 88,978	\$ 801,667
<b>Balance at December 31, 2013</b>	\$ 288	\$ 7	\$ 1,252,986	\$ 798	\$ (536,170)	\$ 717,909	\$ 38,841	\$ 756,750
Shares of class A common stock issued	191		510,654			510,845		510,845
Restricted class A common stock earned		(2)	4,029			4,027		4,027
Dividends reinvested			97		(97)			

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Deferred directors compensation		188		188		188		
Other comprehensive income		1,930		1,930		1,930		
Net income			46,531	46,531	5,024	51,555		
Dividends declared on common stock			(42,122)	(42,122)		(42,122)		
Distributions to non-controlling interests					(1,148)	(1,148)		
<b>Balance at June 30, 2014</b>	\$ 479	\$ 5	\$ 1,767,954	\$ 2,728	\$ (531,858)	\$ 1,239,308	\$ 42,717	\$ 1,282,025

*See accompanying notes to consolidated financial statements.*

**Table of Contents****Blackstone Mortgage Trust, Inc.****Consolidated Statements of Cash Flows (Unaudited)****(in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 51,555	\$ 5,170
Adjustments to reconcile net income to net cash provided by operating activities		
Valuation allowance on loans held-for-sale		(1,800)
Gain on investments at fair value	(5,824)	(4,000)
Income from equity investments in unconsolidated subsidiaries	(24,294)	
Gain on extinguishment of debt		(38)
Non-cash compensation expense	4,769	1,586
Distributions of income from unconsolidated subsidiaries	14,125	
Amortization of deferred interest on loans	(7,702)	(434)
Amortization of deferred financing costs and premiums/discount on debt obligations	4,103	401
Changes in assets and liabilities, net		
Accrued interest receivable, prepaid expenses, and other assets	(5,236)	2,205
Accounts payable, accrued expenses, and other liabilities	2,513	1,293
Net cash provided by operating activities	34,009	4,383
<b>Cash flows from investing activities</b>		
Originations and fundings of loans receivable	(1,740,977)	(756,638)
Origination and exit fees received on loans receivable	21,751	4,219
Principal collections and proceeds from the sale of loans receivable and other assets	271,884	96,895
Increase in restricted cash	(1,296)	(7,726)
Net cash used in investing activities	(1,448,638)	(663,250)
<b>Cash flows from financing activities</b>		
Borrowings under repurchase obligations	1,835,136	216,464
Repayments under repurchase obligations	(1,167,507)	(71,439)
Repayment of other liabilities	(20,794)	(64,674)
Proceeds from sales of loan participations	368,850	
Payment of deferred financing costs	(10,510)	(2,175)
Contributions from non-controlling interests		15,000
Purchase of and distributions to non-controlling interests	(1,148)	(17,672)
Settlement of interest rate swaps		(6,123)
Proceeds from issuance of class A common stock	510,845	633,810
Dividends paid on class A common stock	(32,129)	

Net cash provided by financing activities	1,482,743	703,191
<b>Net increase in cash and cash equivalents</b>	68,114	44,324
Cash and cash equivalents at beginning of period	52,342	15,423
Cash and cash equivalents at end of period	\$ 120,456	\$ 59,747
<b>Supplemental disclosure of cash flows information</b>		
Payments of interest	\$ (21,522)	\$ (1,434)
Payments of income taxes	\$ (1,159)	\$ (410)
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Dividends declared, not paid	\$ 23,322	\$
Consolidation of subsidiaries	\$	\$ (38,913)

*See accompanying notes to consolidated financial statements.*

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. ORGANIZATION**

References herein to Blackstone Mortgage Trust, Company, we, us or our refer to Blackstone Mortgage Trust, Inc. and its subsidiaries unless the context specifically requires otherwise.

Blackstone Mortgage Trust is a real estate finance company that primarily originates and purchases senior loans collateralized by properties in the United States and Europe. We are externally managed by BXMT Advisors L.L.C., or our Manager, a subsidiary of The Blackstone Group L.P., or Blackstone, and are a real estate investment trust, or REIT, traded on the New York Stock Exchange, or NYSE, under the symbol BXMT. We are headquartered in New York City.

We conduct our operations as a REIT for U.S. federal income tax purposes. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. We are organized as a holding company and conduct our business primarily through our various subsidiaries. Our business is organized into two operating segments: the Loan Origination segment and the CT Legacy Portfolio segment.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements, including the notes, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments, consisting of only normal recurring items, so that the consolidated financial statements are presented fairly and that estimates made in preparing its consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the related management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the Securities and Exchange Commission.

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with GAAP and include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries, majority-owned subsidiaries, and variable interest entities, or VIEs, of which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. Certain of the assets and credit of our consolidated subsidiaries are not available to satisfy the debt or other obligations of us, our affiliates, or other entities.

Our subsidiary, CT Legacy Partners, LLC, or CT Legacy Partners, accounts for its operations in accordance with industry-specific GAAP accounting guidance for investment companies, pursuant to which it reports its investments at fair value. We have retained this accounting treatment in consolidation and, accordingly, report the loans and other investments of CT Legacy Partners at fair value on our consolidated balance sheets.

Certain reclassifications have been made in the presentation of the prior period consolidated financial statements to conform to the current presentation including reclassifying loans receivable, at fair value, into accrued interest receivable, prepaid expenses, and other assets and reclassifying securitized debt obligations into accounts payable, accrued expenses, and other liabilities.

### **Principles of Consolidation**

We consolidate all entities that we control through either majority ownership or voting rights. In addition, we consolidate all VIEs of which we are considered the primary beneficiary. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly affect the VIE's economic performance and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE.

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

Certain assets of consolidated VIEs can only be used to satisfy the obligations of those VIEs. The liabilities of consolidated VIEs are non-recourse to us. As of June 30, 2014, our consolidated balance sheet included \$28.9 million of other assets, and \$19.6 million of other liabilities that were attributable to consolidated VIEs. As of December 31, 2013, our consolidated balance sheet included \$49.8 million of other assets, and \$40.2 million of other liabilities, all of which were attributable to consolidated VIEs. As of both June 30, 2014 and December 31, 2013, all assets and liabilities of consolidated VIEs were part of our CT Legacy Portfolio segment.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires us 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 period. Actual results may ultimately differ from those estimates.

**Revenue Recognition**

Interest income from our loans receivable is recognized over the life of each investment using the effective interest method and is recorded on the accrual basis. Recognition of fees, premiums, discounts, and direct costs associated with these investments is deferred until the loan is advanced and is then recorded over the term of the loan as an adjustment to yield. Income accrual is generally suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of our Manager, recovery of income and principal becomes doubtful. Income is then recorded on the basis of cash received until accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed.

**Cash and Cash Equivalents**

Cash and cash equivalents represent cash held in banks, cash on hand, and liquid investments with original maturities of three months or less. We may have bank balances in excess of federally insured amounts; however, we deposit our cash and cash equivalents with high credit-quality institutions to minimize credit risk exposure. We have not experienced, and do not expect, any losses on our cash or cash equivalents.

**Restricted Cash**

We classify the cash balances held by CT Legacy Partners as restricted because, while these cash balances are available for use by CT Legacy Partners for its operations, they cannot be used by us until our allocable share is distributed from CT Legacy Partners and cannot be commingled with any of our unrestricted cash balances.

**Loans Receivable and Provision for Loan Losses**



We purchase and originate commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. We are required to periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is determined to be impaired, we write down the loan through a charge to the provision for loan losses. Impairment of these loans, which are collateral dependent, is measured by comparing the estimated fair value of the underlying collateral to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager. Actual losses, if any, could ultimately differ from these estimates.

Our Manager performs a quarterly review of our portfolio of loans. In conjunction with this review, our Manager assesses the performance of each loan, and assigns a risk rating based on several factors, including risk of loss, loan-to-value ratio, or LTV, collateral performance, structure, exit plan, and sponsorship.

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

Loans are rated 1 through 8, from less risk to greater risk, which ratings are defined as follows:

- 1 - Low Risk: A loan that is expected to perform through maturity, with relatively lower LTV, higher in-place debt yield, and stable projected cash flow.
- 2 - Average Risk: A loan that is expected to perform through maturity, with medium LTV, average in-place debt yield, and stable projected cash flow.
- 3 - Acceptable Risk: A loan that is expected to perform through maturity, with relatively higher LTV, acceptable in-place debt yield, and some uncertainty (due to lease rollover or other factors) in projected cash flow.
- 4 - Higher Risk: A loan that is expected to perform through maturity, but has exhibited a material deterioration in cash flow and/or other credit factors. If negative trends continue, default could occur.
- 5 - Low Probability of Default/Loss: A loan with one or more identified weaknesses that we expect to have a 15% probability of default or principal loss.
- 6 - Medium Probability of Default/Loss: A loan with one or more identified weaknesses that we expect to have a 33% probability of default or principal loss.
- 7 - High Probability of Default/Loss: A loan with one or more identified weaknesses that we expect to have a 67% or higher probability of default or principal loss.
- 8 - In Default: A loan which is in contractual default and/or that has a very high likelihood of principal loss.

**Loans Held-for-Sale and Related Allowance**

In certain cases, we may classify loans as held-for-sale based upon the specific facts and circumstances of particular loans, including known or expected transactions. Loans held-for-sale are carried at the lower of their amortized cost basis or fair value, less costs to sell. A reduction in the fair value of loans held-for-sale is recorded as a charge to our consolidated statements of operations as a valuation allowance on loans held-for-sale.

**Participations Sold**

Participations sold represent senior interests in certain loans that we sold. We present these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. Generally, participations sold are recorded as assets and liabilities in equal amounts on our consolidated balance sheets, and an equivalent amount of interest income and interest expense is recorded on our consolidated statements of operations.

**Equity Investments in Unconsolidated Subsidiaries**

Our carried interest in CT Opportunity Partners I, LP, or CTOPI, is accounted for using the equity method. CTOPI's assets and liabilities are not consolidated into our financial statements due to our determination that (i) it is not a VIE and (ii) the other investors in CTOPI have sufficient rights to preclude consolidation by us. As such, we report our allocable percentage of the net assets of CTOPI on our consolidated balance sheets. The recognition of income from CTOPI is generally deferred until cash is collected or appropriate contingencies have been eliminated.

### **Deferred Financing Costs**

The deferred financing costs that are included in accrued interest receivable, prepaid expenses, and other assets on our consolidated balance sheets include issuance and other costs related to our debt obligations. These costs are amortized as interest expense using the effective interest method over the life of the related obligations.

### **Repurchase Obligations**

We record investments financed with repurchase obligations as separate assets and the related borrowings under any repurchase agreements are recorded as separate liabilities on our consolidated balance sheets. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on our consolidated statements of operations.

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

**Convertible Notes**

The Debt with Conversion and Other Options Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or Codification, requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. The initial proceeds from the sale of convertible notes are allocated between a liability component and an equity component in a manner that reflects interest expense at the rate of similar nonconvertible debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. We measured the fair value of the debt component of our convertible notes as of the issuance date based on our nonconvertible debt borrowing rate. The equity component of the convertible notes is reflected within additional paid-in capital on our consolidated balance sheet, and the resulting debt discount is amortized over the period during which the convertible notes are expected to be outstanding (the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to the convertible notes will increase in subsequent periods through the maturity date as the notes accrete to their par value over the same period.

**Fair Value of Financial Instruments**

The Fair Value Measurements and Disclosures Topic of the Codification defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements under GAAP. Specifically, this guidance defines fair value based on exit price, or the price that would be received upon the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date.

The Fair Value Measurement and Disclosures Topic of the Codification also establishes a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring financial instruments. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument, and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Financial instruments measured and reported at fair value are classified and disclosed based on the observability of inputs used in the determination, as follows:

Level 1: Generally includes only unadjusted quoted prices that are available in active markets for identical financial instruments as of the reporting date.

Level 2: Pricing inputs include quoted prices in active markets for similar instruments, quoted prices in less active or inactive markets for identical or similar instruments where multiple price quotes can be obtained, and other observable inputs, such as interest rates, yield curves, credit risks, and default rates.

Level 3: Pricing inputs are unobservable for the financial instruments and include situations where there is little, if any, market activity for the financial instrument. These inputs require significant judgment or estimation by management of third parties when determining fair value and generally represent anything that does not meet the criteria of Levels 1 and 2.

The value of each asset recorded at fair value using Level 3 inputs is determined by an internal committee composed of members of senior management of our Manager, including our Chief Executive Officer, Chief Financial Officer, and other senior officers.

Certain of our other assets are recorded at fair value either (i) on a recurring basis, as of each quarter-end, or (ii) on a nonrecurring basis, as a result of impairment or other events. Our assets that are recorded at fair value are discussed further in Note 12. We generally value our assets recorded at fair value by either (i) discounting expected cash flows based on assumptions regarding the collection of principal and interest and estimated market rates, or (ii) obtaining assessments from third-party dealers. For collateral dependent loans that are identified as impaired, we measure impairment by comparing our Manager's estimation of fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations may require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager.

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

We are also required by GAAP to disclose fair value information about financial instruments, which are not otherwise reported at fair value in our consolidated balance sheet, to the extent it is practicable to estimate a fair value for those instruments. These disclosure requirements exclude certain financial instruments and all non-financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments, for which it is practicable to estimate that value:

Cash and cash equivalents: The carrying amount of cash on deposit and in money market funds approximates fair value.

Restricted cash: The carrying amount of restricted cash approximates fair value.

Loans receivable, net: These assets are recorded at their amortized cost and not at fair value. The fair values for these loans are estimated by our Manager taking into consideration factors, including capitalization rates, leasing, occupancy rates, availability and cost of financing, exit plan, sponsorship, actions of other lenders, and indications of market value from other market participants. In the case of impaired loans receivable, fair value is determined by reference to the lower of amortized cost and the value of the underlying real estate collateral.

Repurchase obligations: These facilities are recorded at their aggregate principal balance and not at fair value. The fair value was estimated based on the rate at which a similar credit facility would be priced today.

Convertible notes, net: These notes are recorded at their amortized cost and not at fair value. These convertible notes are publicly traded and their fair values are obtained using quoted market prices.

Participations sold: These obligations are recorded at their face value and not at fair value. The fair value was estimated based on the value of the related loan receivable asset.

**Income Taxes**

Our financial results generally do not reflect provisions for current or deferred income taxes on our REIT taxable income. We believe that we operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, we generally do not expect to pay substantial corporate level taxes other than those payable by our taxable REIT subsidiaries. If we were to fail to meet these requirements, we may be subject to federal, state, and local income tax on

current and past income, and penalties. Refer to Note 10 for additional information.

### **Accounting for Stock-Based Compensation**

Our stock-based compensation consists of awards issued to our Manager and certain of its employees that vest over the life of the awards. Stock-based compensation expense is recognized for these awards in net income on a variable basis over the applicable vesting period of the awards, based on the value of our class A common stock. Refer to Note 11 for additional information.

### **Earnings per Share**

Basic earnings per share, or Basic EPS, is computed in accordance with the two-class method and is based on the net earnings allocable to our class A common stock, restricted class A common stock, and deferred stock units, divided by the weighted-average number of shares of class A common stock, restricted class A common stock, and deferred stock units outstanding during the period. Our restricted class A common stock is considered a participating security, as defined by GAAP, and has been included in our Basic EPS under the two-class method as these restricted shares have the same rights as our other shares of class A common stock, including participating in any gains or losses.

Diluted earnings per share, or Diluted EPS, is determined using the treasury stock method, and is based on the net earnings allocable to our class A common stock, restricted class A common stock, and deferred stock units, divided by the weighted-average number of shares of class A common stock, restricted class A common stock, and deferred stock units. Refer to Note 8 for additional discussion of earnings per share.

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

**Foreign Currency**

In the normal course of business, we enter into transactions not denominated in United States, or U.S., dollars. Foreign exchange gains and losses arising on such transactions are recorded as a gain or loss in our consolidated statements of operations. In addition, we consolidate entities that have a non-U.S. dollar functional currency. Non-U.S. dollar denominated assets and liabilities are translated to U.S. dollars at the exchange rate prevailing at the reporting date and income, expenses, gains, and losses are translated at the prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated subsidiaries are recorded in other comprehensive income.

**Segment Reporting**

We operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes our activities specifically related to CT Legacy Partners, CT CDO I, a securitization vehicle formed in 2004, and our equity investment in CTOPI. Our Manager makes operating decisions and assesses the performance of each of our business segments based on financial and operating data and metrics generated from our internal information systems.

**Recent Accounting Pronouncements**

In June 2013, the FASB issued ASU 2013-08, Financial Services-Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, or ASU 2013-08. ASU 2013-08 amends the criteria for qualification as an investment company under Topic 946 of the FASB Accounting Standards Codification, or Topic 946, and requires additional disclosure by investment companies. ASU 2013-08 is effective for the first interim or annual period beginning after December 15, 2013, and is to be applied prospectively. We currently consolidate CT Legacy Partners, which accounts for its operations as an investment company under Topic 946. The adoption of ASU 2013-08 did not impact CT Legacy Partners' status as an investment company. Further, because ASU 2013-08 specifically excluded REITs from its scope, it did not otherwise impact our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09. ASU 2014-09 broadly amends the accounting guidance for revenue recognition. ASU 2013-08 is effective for the first interim or annual period beginning after December 15, 2016, and is to be applied prospectively. We do not anticipate that the adoption of ASU 2014-09 will have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, or ASU 2014-11. ASU 2014-11 amends the accounting guidance for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings, and requires additional disclosure about certain transactions by the transferor. ASU 2014-11 is effective for certain



transactions that qualify for sales treatment for the first interim or annual period beginning after December 15, 2014. The new disclosure requirements for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions that qualify for secured borrowing treatment is effective for annual periods beginning after December 15, 2014 and for interim periods beginning after March 15, 2014. We currently record our repurchase arrangements as secured borrowings and do not anticipate that ASU 2014-11 will have a material impact on our consolidated financial statements.

### **3. CASH AND CASH EQUIVALENTS, INCLUDING RESTRICTED CASH**

As discussed in Note 2, we deposit our cash and cash equivalents, including restricted cash, with high credit-quality institutions to minimize credit risk exposure.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table provides details of our cash and cash equivalents, including restricted cash balances (\$ in thousands):

<b>Asset Category</b>	<b>Depository</b>	<b>Credit Rating<sup>(1)</sup></b>	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Cash and cash equivalents	Bank of America	A-1	\$ 120,456	\$ 52,342
Restricted cash	Bank of America	A-1	11,392	10,096
			\$ 131,848	\$ 62,438

(1) Represents the short-term credit rating for the Bank of America, N.A. legal entity as issued by Standard & Poor's as of June 30, 2014.

**4. LOANS RECEIVABLE**

Activity relating to our loans receivable was (\$ in thousands):

	<b>Principal Balance</b>	<b>Deferred Fees and Other Items<sup>(1)</sup></b>	<b>Net Book Value</b>
December 31, 2013	\$ 2,076,411	\$ (29,188)	\$ 2,047,223
Loan fundings	1,740,977		1,740,977
Loan repayments and sales	(265,809)		(265,809)
Deferred origination fees and expenses		(21,751)	(21,751)
Amortization of deferred fees and expenses		7,702	7,702
Unrealized gain on foreign currency translation		6,837	6,837
Realized loan losses	(10,547)	10,547	
Reclassification to other assets	(27,000)		(27,000)
June 30, 2014	\$ 3,514,032	\$ (25,853)	\$ 3,488,179

(1) Includes a loan loss reserve of \$10.5 million as of December 31, 2013, related to one loan in the CT Legacy Portfolio segment, owned by CT CDO I, with a principal balance of \$10.5 million. This loan was subsequently

written-off resulting in an aggregate loan loss reserve of zero as of June 30, 2014.

As of June 30, 2014, we had unfunded commitments of \$407.3 million related to 28 loans receivable, which amounts will primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will expire over the next five years.

The following table details overall statistics for our loans receivable portfolio (\$ in thousands):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Number of loans	48	31
Principal balance	\$ 3,514,032	\$ 2,076,411
Net book value	\$ 3,488,179	\$ 2,047,223
Weighted-average cash coupon <sup>(1)</sup>	L+4.46%	L+4.64%
Weighted-average all-in yield <sup>(1)</sup>	L+5.02%	L+5.26%
Weighted-average maximum maturity (years) <sup>(2)</sup>	4.1	4.1

- (1) As of June 30, 2014, 83% of our loans are indexed to one-month LIBOR and 17% are indexed to three-month LIBOR. In addition, 18% of our loans currently earn interest based on LIBOR floors, with an average floor of 0.31%, as of June 30, 2014. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of exit fees.
- (2) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date. As of June 30, 2014, 89% of our loans are subject to yield maintenance, lock-out provisions, or other prepayment restrictions and 11% are open to repayment by the borrower.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The tables below detail the types of loans in our loan portfolio, as well as the property type and geographic distribution of the properties securing these loans (\$ in thousands):

<b>Asset Type</b>	<b>June 30, 2014</b>		<b>December 31, 2013</b>	
	<b>Net Book Value</b>	<b>Percentage</b>	<b>Net Book Value</b>	<b>Percentage</b>
Senior loans <sup>(1)</sup>	\$ 3,285,398	94%	\$ 1,800,329	88%
Subordinate loans <sup>(2)</sup>	202,781	6	246,894	12
	\$ 3,488,179	100%	\$ 2,047,223	100%

<b>Property Type</b>	<b>Net Book</b>		<b>Net Book</b>	
	<b>Value</b>	<b>Percentage</b>	<b>Value</b>	<b>Percentage</b>
Office	\$ 1,296,464	37%	\$ 864,666	42%
Hotel	1,117,724	32	390,492	19
Multifamily	451,193	13	341,819	17
Condominium	317,876	9	275,645	13
Other	304,922	9	174,601	9
	\$ 3,488,179	100%	\$ 2,047,223	100%

<b>Geographic Location</b>	<b>Net Book</b>		<b>Net Book</b>	
	<b>Value</b>	<b>Percentage</b>	<b>Value</b>	<b>Percentage</b>
<b>United States</b>				
Northeast	\$ 1,149,246	33%	\$ 828,571	40%
West	708,564	20	469,262	23
Southeast	437,627	12	243,798	12
Southwest	304,747	9	216,429	11
Northwest	240,685	7	166,207	8
Midwest	100,865	3	85,708	4
Subtotal	2,941,734	84	2,009,975	98
<b>International</b>				
United Kingdom	508,872	15	37,248	2
Netherlands	37,573	1		

Subtotal	546,445	16	37,248	2
<b>Total</b>	<b>\$ 3,488,179</b>	<b>100%</b>	<b>\$ 2,047,223</b>	<b>100%</b>

- (1) Includes senior mortgages and similar credit quality loans, including related contiguous subordinate loans, note financings of senior mortgage loans, and pari passu participations in senior mortgage loans.
- (2) Includes subordinate interests in mortgages and mezzanine loans.

#### **Loan Risk Ratings**

As described in Note 2, our Manager evaluates our loan portfolio on a quarterly basis. In conjunction with our quarterly loan portfolio review, our Manager assesses the performance of each loan, and assigns a risk rating based on several factors. One of the primary factors considered is how senior or junior each loan is relative to other debt obligations of the borrower. Additional factors considered in the assessment include risk of loss, current LTV, collateral performance, structure, exit plan, and sponsorship. Loans are rated 1 (less risk) through 8 (greater risk), which ratings are defined in Note 2.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table allocates the principal balance and net book value of our loans receivable based on our internal risk ratings as of June 30, 2014 (\$ in thousands):

Risk Rating	Senior Loans <sup>(1)</sup>			Subordinate Loans <sup>(2)</sup>			Total Net Book Value
	Number of Loans	Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value	
1 - 3	46	\$ 3,306,575	\$ 3,285,398	2	\$ 207,457	\$ 202,781	\$ 3,488,179
4 - 5							
6 - 8							
	46	\$ 3,306,575	\$ 3,285,398	2	\$ 207,457	\$ 202,781	\$ 3,488,179

(1) Includes senior mortgages and similar credit quality loans, including related contiguous subordinate loans, note financings of senior mortgage loans, and pari passu participations in senior mortgage loans.

(2) Includes subordinate interests in mortgages and mezzanine loans.

The following table allocates the principal balance and net book value of our loans receivable based on our internal risk ratings as of December 31, 2013 (\$ in thousands):

Risk Rating	Senior Loans <sup>(1)</sup>			Subordinate Loans <sup>(2)</sup>			Total Net Book Value
	Number of Loans	Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value	
1 - 3	26	\$ 1,811,513	\$ 1,800,329	3	\$ 227,350	\$ 219,894	\$ 2,020,223
4 - 5							
6 - 8				2	37,548	27,000	27,000
	26	\$ 1,811,513	\$ 1,800,329	5	\$ 264,898	\$ 246,894	\$ 2,047,223

(1) Includes senior mortgages and similar credit quality loans, including related contiguous subordinate loans, note financings of senior mortgage loans, and pari passu participations in senior mortgage loans.

(2) Includes subordinate interests in mortgages and mezzanine loans.

### **Loan Impairments**

We do not have any loan impairments or loans in maturity default as of June 30, 2014. As of December 31, 2013, CT CDO I, which is a component of our CT Legacy Portfolio segment, had one impaired subordinate interest in a mortgage loan with a gross book value of \$10.5 million that was delinquent on its contractual payments. As of December 31, 2013, we had recorded a 100% loan loss reserve on this loan. This loan was subsequently written-off resulting in an aggregate loan loss reserve of zero as of June 30, 2014. As of December 31, 2013, CT CDO I had one loan with a net book value of \$27.0 million in maturity default, but which had no reserve recorded due to our expectation of future repayment. In June 2014, this loan was restructured and reclassified to other assets.

### **Nonaccrual Loans**

As of June 30, 2014, we did not have any nonaccrual loans in our loan portfolio. As of December 31, 2013, CT CDO I had one subordinate interest in a mortgage loan on nonaccrual status with a principal balance of \$10.5 million and a net book value of zero. This loan was subsequently written-off resulting in an aggregate loan loss reserve of zero as of June 30, 2014. In accordance with our revenue recognition policies discussed in Note 2, we do not accrue interest on loans that are 90 days past due or, in the opinion of our Manager, are otherwise uncollectable. Accordingly, we did not have any material interest receivable accrued on nonperforming loans as of June 30, 2014 or December 31, 2013.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****5. EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES**

As of June 30, 2014, our equity investments in unconsolidated subsidiaries consisted solely of our carried interest in CTOPI, a fund sponsored and managed by an affiliate of our Manager. Activity relating to our equity investments in unconsolidated subsidiaries was (\$ in thousands):

	<b>CTOPI Carried Interest</b>
Total as of December 31, 2013	\$ 22,480
Distributions	(14,125)
Deferred income allocation <sup>(1)</sup>	5,683
Total as of June 30, 2014	\$ 14,038

(1) In instances where we have not received cash or all appropriate contingencies have not been eliminated, we have deferred the recognition of promote revenue allocated to us from CTOPI in respect of our carried interest in CTOPI, and recorded an offsetting liability as a component of accounts payable, accrued expenses, and other liabilities on our consolidated balance sheets.

Our carried interest in CTOPI entitles us to earn promote revenue in an amount equal to 17.7% of the fund's profits, after a 9% preferred return and 100% return of capital to the CTOPI partners. As of June 30, 2014, we had been allocated \$14.0 million of promote revenue from CTOPI based on a hypothetical liquidation of the fund at its net asset value. Accordingly, we have recognized this allocation as an equity investment in CTOPI on our consolidated balance sheets. Generally, we defer recognition of income from CTOPI until cash is received and appropriate contingencies have been eliminated. During the three months ended June 30, 2014, we received a \$14.1 million distribution from CTOPI in respect of our carried interest and recorded such amount as income in our consolidated statement of operations. In addition, we had previously recorded, but deferred recognition of, \$10.2 million of advance distributions in respect of our carried interest to allow us to pay any income owed on phantom taxable income allocated to us from the partnership. We recognized these prior distributions as income during the three months ended June 30, 2014 as all fund-level contingencies have been satisfied.

**CTOPI Incentive Management Fee Grants**

In January 2011, we created a management compensation pool for employees equal to 45% of the CTOPI promote distributions received by us. As of June 30, 2014, we had granted 96% of the pool, and the remainder was unallocated. If any awards remain unallocated at the time promote distributions are received by us, any amounts otherwise payable to the unallocated awards will be distributed pro rata to the plan participants then employed by an affiliate of our



Manager.

Approximately 65% of these grants have the following vesting schedule: (i) one-third on the date of grant; (ii) one-third on September 13, 2012; and (iii) the remainder is contingent on continued employment with an affiliate of our Manager and upon our receipt of promote distributions from CTOPI. Of the remaining 35% of these grants, 31% are fully vested as a result of an acceleration event, and 4% vest solely upon our receipt of promote distributions from CTOPI or the disposition of certain investments owned by CTOPI.

During the three months ended June 30, 2014, we made payments of \$11.2 million under the CTOPI incentive plan, which amount was recognized as a component of general and administrative expenses in our consolidated statement of operations.

## **6. DEBT OBLIGATIONS**

### **Repurchase Facilities**

During the six months ended June 30, 2014, we entered into three revolving repurchase facilities and one asset-specific repurchase agreement, providing an additional \$1.6 billion of credit capacity.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table details our repurchase obligations outstanding (\$ in thousands):

Lender	Maximum Facility Size <sup>(1)</sup>	Collateral Assets <sup>(2)</sup>	June 30, 2014			Dec. 31, 2013 Borrowings Outstanding
			Potential	Repurchase Borrowings <sup>(3)</sup> Outstanding	Available	
<b>Revolving Repurchase Facilities</b>						
Bank of America	\$ 500,000	\$ 517,280	\$ 406,653	\$ 387,653	\$ 19,000	\$ 271,320
Citibank	500,000	611,459	461,556	351,245	110,311	334,692
JP Morgan <sup>(4)</sup>	510,697	467,722	354,776	293,600	61,176	257,610
Wells Fargo	500,000	301,083	231,600	190,125	41,475	
Morgan Stanley <sup>(5)</sup>	425,875	169,804	135,765	135,765		
MetLife	500,000	214,524	165,369	165,369		
Subtotal	2,936,572	2,281,872	1,755,719	1,523,757	231,962	863,622
<b>Asset-Specific Repurchase Agreements</b>						
Wells Fargo <sup>(6)</sup>	148,110	155,184	120,485	120,485		245,731
Goldman Sachs	194,400	169,260	135,408	135,408		
<b>Total</b>	<b>\$ 3,279,082</b>	<b>\$ 2,606,316</b>	<b>\$ 2,011,612</b>	<b>\$ 1,779,650</b>	<b>\$ 231,962</b>	<b>\$ 1,109,353</b>

- (1) Maximum facility size represents the total amount of borrowings provided for in each repurchase agreement, however these borrowings are only available to us once sufficient collateral assets have been pledged under each facility.
- (2) Represents the principal balance of the collateral assets.
- (3) Potential borrowings represent the total amount we could draw under each facility based on collateral already approved and pledged. When undrawn, these amounts are immediately available to us at our sole discretion under the terms of each revolving credit facility.
- (4) The JP Morgan maximum facility size is composed of a \$250.0 million facility and a £153.0 million (\$260.7 million) facility.
- (5) The Morgan Stanley maximum facility size represents a £250.0 million (\$425.9 million) facility.
- (6) Represents an aggregate of two asset-specific repurchase agreements with Wells Fargo.

The weighted-average outstanding repurchase obligation balance was \$1.4 billion and \$1.3 billion for the three and six months ended June 30, 2014, respectively.

*Revolving Repurchase Facilities*

As of June 30, 2014, we had aggregate borrowings of \$1.5 billion outstanding under our revolving repurchase facilities, with a weighted-average cash coupon of LIBOR plus 1.95% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.19% per annum. As of June 30, 2014, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 2.3 years. Borrowings under each facility are subject to the initial approval of eligible collateral loans by the lender and the maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan.

Our \$500.0 million master repurchase agreement with Bank of America has an initial maturity date of May 21, 2017, subject to two one-year extension options, each of which may be exercised by us. The weighted-average pricing rate of the \$387.7 million of borrowings outstanding as of June 30, 2014 was LIBOR plus 1.78% and the weighted-average maximum advance rate was 78.7%. We guarantee 50% of the advances related to senior collateral and 100% of the advances related to mezzanine and junior mortgage collateral under this facility. Otherwise, obligations under this repurchase agreement are not recourse to us.

Our \$500.0 million master repurchase agreement with Citibank has an initial facility expiration date of June 12, 2017, which may be extended annually by us. If upon the initial facility expiration date, Citibank does not extend the facility availability period, in its sole discretion, then no new advances may be drawn and all collateral interest and principal proceeds would be required to repay existing advances, subject to certain provisions for REIT income distribution requirements. In either case, individual advances mature upon the maturity date of the respective collateral maturity dates.

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

The weighted-average pricing rate of the \$351.2 million of borrowings outstanding as of June 30, 2014 was LIBOR plus 1.95% and the weighted-average maximum advance rate was 75.6%. We guarantee 25% of the advances under this facility. Otherwise, obligations under this master repurchase agreement are not recourse to us.

Our \$250.0 million master repurchase agreement with JP Morgan specifies an availability period ending on June 28, 2015, during which new advances can be made and which availability period is renewable at the discretion of JP Morgan. In the event that the availability period is not renewed, it is followed by a two-year stabilization period and then a term out period, during which all collateral interest and principal proceeds would be required to repay existing advances, subject to certain provisions for REIT income distribution requirements. Maturity dates for individual advances are tied to their respective collateral loan maturity dates. Our £153.0 million (\$260.7 million as of June 30, 2014) master repurchase agreement with JP Morgan is linked to the \$250.0 million agreement through cross-collateralization and cross-default provisions. Individual advances can be made under this agreement at any time prior to the maturity date of December 20, 2016. The weighted-average pricing rate of the \$293.6 million of borrowings outstanding under the JP Morgan facilities as of June 30, 2014 was LIBOR plus 2.02% and the weighted-average maximum advance rate was 75.8%. We guarantee 25% of the advances related to senior mortgage collateral and 100% of the advances related to mezzanine and junior mortgage collateral under these facilities. Otherwise, obligations under these master repurchase agreements are not recourse to us.

Our \$500.0 million master repurchase agreement with Wells Fargo specifies a one-year availability period, during which new advances can be made and which availability period is renewable at the discretion of Wells Fargo. Maturity dates for individual advances are tied to their respective collateral loan maturity dates subject to annual renewal at our discretion. The weighted-average pricing rate of the \$190.1 million of borrowings outstanding as of June 30, 2014 was LIBOR plus 2.00% and the weighted-average maximum advance rate was 77.0%. We guarantee 25% of the advances under this facility. Otherwise, obligations under this master repurchase agreement are not recourse to us.

Our £250.0 million (\$425.9 million as of June 30, 2014) master repurchase agreement with Morgan Stanley provides for advances at any time prior to its maturity date of March 3, 2017. The weighted-average pricing rate of the \$135.8 million of borrowings outstanding as of June 30, 2014 was three-month LIBOR plus 2.32% and the weighted-average maximum advance rate was 78.6%. We guarantee 25% of the advances under this facility. Otherwise, obligations under this master repurchase agreement are not recourse to us.

Our \$500.0 million master repurchase agreement with MetLife has an initial facility expiration date of June 29, 2015, subject to five one-year extension options, each of which may be exercised at our option. Maturity dates for individual advances are tied to their respective collateral loan maturity dates subject to annual renewal at our discretion. The weighted-average pricing rate of the \$165.4 million of borrowings outstanding as of June 30, 2014 was LIBOR plus 1.89% and the weighted-average maximum advance rate was 77.0%. We guarantee 50% of the advances under this facility. Otherwise, obligations under this master repurchase agreement are not recourse to us.



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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

*Asset-specific Repurchase Agreements*

Our \$88.3 million asset-specific repurchase agreement with Wells Fargo accrues interest at a per annum pricing rate equal to LIBOR plus a margin of 2.50%. The initial maturity date of the facility is June 7, 2016, which may be extended pursuant to (i) two one-year extension options, each of which may be exercised by us, and (ii) an additional one-year extension option, contingent upon notice regarding the failure of the collateral mortgage loan to be repaid at its final maturity. We do not guarantee the obligations under this repurchase agreement other than in the case of customary bad-boy events.

Our \$59.8 million asset-specific repurchase agreement with Wells Fargo accrues interest at a per annum pricing rate equal to LIBOR plus a margin of 2.25%. The initial maturity date of the facility is August 8, 2015, which may be extended pursuant to three one-year extension options, each of which may be exercised by us. We do not guarantee the obligations under this repurchase agreement other than in the case of customary bad-boy events.

Our \$32.0 million asset-specific repurchase agreement with Wells Fargo was repaid in full on May 23, 2014 in conjunction with the repayment of its collateral asset. Advances under the repurchase agreement accrued interest at a per annum pricing rate equal to LIBOR plus a margin of 4.00%.

Our \$194.4 million asset-specific repurchase agreement with Goldman Sachs accrues interest at a per annum pricing rate equal to LIBOR plus a margin of 2.75%. The initial maturity date of the facility is April 25, 2017. We guarantee 50% of the advances under this facility. Otherwise, obligations under this repurchase agreement are not recourse to us.

*Debt Covenants*

Each of the guarantees related to our master repurchase agreements and asset-specific repurchase agreements contain the following uniform financial covenants: (i) our ratio of earnings before interest, taxes, depreciation, and amortization, or EBITDA, to fixed charges shall be not less than 1.40 to 1.0; (ii) our tangible net worth, as defined in the agreements, shall not be less than \$908.1 million plus 75% of the net cash proceeds of future equity issuances; (iii) cash liquidity shall not be less than the greater of (x) \$10.0 million or (y) 5% of our recourse indebtedness; and (iv) our indebtedness shall not exceed 83.33% of our total assets. As of June 30, 2014, we were in compliance with these covenants.

**Convertible Notes, Net**

In November 2013, we issued \$172.5 million of 5.25% convertible senior notes due on December 1, 2018, or Convertible Notes. The Convertible Notes issuance costs are amortized through interest expense over the life of the Convertible Notes using the effective interest method. Including this amortization, our all-in cost of the Convertible Notes is 5.87% per annum. As of June 30, 2014, the Convertible Notes were carried on our consolidated balance sheet at \$160.7 million, net of an unamortized discount of \$8.2 million.

The Convertible Notes are convertible at the holders' option into shares of our class A common stock, only under specific circumstances, prior to the close of business on August 31, 2018, at the applicable conversion rate in effect on the conversion date. Thereafter, the Convertible Notes are convertible at the option of the holder at any time until the second scheduled trading day immediately preceding the maturity date. The conversion rate is initially set to equal 34.8943 shares of class A common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of \$28.66 per share of class A common stock, subject to adjustment upon the occurrence of certain events. We may not redeem the Convertible Notes prior to maturity. As of June 30, 2014, we had the intent and ability to settle the Convertible Notes in cash. As a result, the Convertible Notes did not have any impact on our diluted earnings per share.

We recorded a \$9.1 million discount upon issuance of the Convertible Notes based on the implied value of the conversion option and an effective interest rate of 6.50%. Including the amortization of this discount and the issuance costs, our total cost of the Convertible Notes is 7.16% per annum. Refer to Note 2 for additional discussion of our accounting policies for the Convertible Notes.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****7. PARTICIPATIONS SOLD**

Participations sold represent senior interests in certain loans that we sold. We present these participations sold as both assets and non-recourse liabilities because these arrangements do not qualify as sales under GAAP. The income earned on these loan participations is recorded as interest income and an identical amount is recorded as interest expense on our consolidated statements of operations.

The following table details overall statistics for our participations sold (\$ in thousands):

	June 30, 2014		December 31, 2013	
	Underlying Loans	Participations Sold	Underlying Loans	Participations Sold
Number of loans	3	3	1	1
Principal balance	\$ 632,503	\$ 461,078	\$ 173,837	\$ 90,000
Weighted-average cash coupon <sup>(1)</sup>	L+4.55%	L+2.99%	L+5.66%	L+5.12%
Weighted-average all-in yield / cost <sup>(1)</sup>	L+5.77%	L+3.21%	L+9.25%	L+5.26%

(1) As of June 30, 2014, 39% of our participations sold are indexed to one-month LIBOR and 61% are indexed to three-month LIBOR. In addition to cash coupon, all-in yield / cost includes the amortization of deferred origination fees / financing costs.

**8. EQUITY**

Total equity increased \$525.3 million during the six months ended June 30, 2014 to \$1.3 billion. This increase was primarily driven by the issuance of additional shares of our class A common stock in January and April 2014. See below for further discussion of the share issuance.

**Share and Share Equivalents***Authorized Capital*

We have the authority to issue up to 200,000,000 shares of stock, consisting of 100,000,000 shares of class A common stock and 100,000,000 shares of preferred stock. Subject to applicable NYSE listing requirements, our board of directors is authorized to cause us to issue additional shares of authorized stock without stockholder approval. In addition, to the extent not issued, currently authorized stock may be reclassified between class A common stock and preferred stock.

*Class A Common Stock and Deferred Stock Units*



Holders of shares of our class A common stock are entitled to vote on all matters submitted to a vote of stockholders and are entitled to receive such dividends as may be authorized by our board of directors and declared by us, in all cases subject to the rights of the holders of shares of outstanding preferred stock, if any. On January 14, 2014, we issued 9,775,000 shares of class A common stock in a public offering at a price to the underwriters of \$26.25 per share. We generated net proceeds from the issuance of \$256.1 million after underwriting discounts and other offering expenses. On April 7, 2014, we issued 9,200,000 shares of class A common stock in a public offering at a price to the underwriters of \$27.72 per share. We generated net proceeds from the issuance of \$254.8 million after underwriting discounts and other offering expenses.

In addition to our class A common stock, we also issue deferred stock units to certain members of our board of directors in lieu of cash compensation for services rendered. These deferred stock units are non-voting, but carry the right to receive dividends in the form of additional deferred stock units in an amount equivalent to the cash dividends paid to holders of shares of class A common stock. During the three months ended June 30, 2014, we issued 2,851 shares of class A common stock to Joshua A. Polan in exchange for his deferred stock units upon his decision not to stand for reelection to our board of directors.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table details the movement in our outstanding shares of class A common stock, restricted class A common stock, and deferred stock units:

<b>Common Stock Outstanding<sup>(1)</sup></b>	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
Beginning balance	29,602,884	3,016,405
Issuance of class A common stock	19,130,868	25,875,000
Issuance of deferred stock units	10,009	3,070
Vesting of restricted class A common stock	(155,867)	
Ending balance	48,587,894	28,894,475

(1) Deferred stock units held by members of our board of directors totalled 108,391 and 92,824 as of June 30, 2014 and 2013, respectively.

*At the Market Stock Offering Program*

On May 9, 2014, we entered into equity distribution agreements, or ATM Agreements, pursuant to which we may sell, from time to time, up to an aggregate sales price of \$200.0 million of our class A common stock. Sales of class A common stock made pursuant to the ATM Agreements, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933, as amended. Actual sales will depend on a variety of factors including market conditions, the trading price of our class A common stock, capital needs, and our determination of the appropriate sources of funding to meet such needs. As of June 30, 2014, we had not sold any shares of class A common stock under the ATM Agreements.

*Preferred Stock*

We do not have any shares of preferred stock issued and outstanding as of June 30, 2014.

**Dividends**

We generally intend to distribute each year substantially all of our taxable income, which does not necessarily equal net income as calculated in accordance with GAAP, to our stockholders to comply with the REIT provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

Our dividend policy remains subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend upon our taxable income, our financial condition, our maintenance of REIT status, applicable law, and other factors as our board of directors deems relevant.

On June 13, 2014, we declared a dividend of \$0.48 per share, or \$23.3 million, which was paid on July 15, 2014 to stockholders of record as of June 30, 2014. On March 14, 2014, we declared a dividend of \$0.48 per share, or \$18.9 million, which was paid on April 15, 2014 to stockholders of record as of March 31, 2014. No dividends were declared during the six months ended June 30, 2013.

#### *Dividend Reinvestment and Direct Stock Purchase Plan*

On March 25, 2014, we adopted a dividend reinvestment and direct stock purchase plan, under which we registered and reserved for issuance, in the aggregate, 10,000,000 shares of class A common stock. Under the dividend reinvestment component of this plan, our class A common stockholders can designate all or a portion of their cash dividends to be reinvested in additional shares of class A common stock. The direct stock purchase component allows stockholders and new investors, subject to our approval, to purchase shares of class A common stock directly from us. During the six months ended June 30, 2014, we issued one share of class A common stock under the dividend reinvestment component and zero shares under the direct stock purchase plan component. As of June 30, 2014, 9,999,999 shares of class A common stock, in the aggregate remain available for issuance under the dividend reinvestment and direct stock purchase plan.

#### **Earnings Per Share**

We calculate our basic and diluted earnings per share using the two-class method for all periods presented as the unvested shares of our restricted class A common stock qualify as participating securities, as defined by GAAP. These restricted shares have the same rights as our other shares of class A common stock, including participating in any gains and losses, and therefore have been included in our basic and diluted net income per share calculation.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table sets forth the calculation of basic and diluted earnings per share based on the weighted-average of our shares of class A common stock, restricted class A common stock, and deferred stock units outstanding (\$ in thousands, except per share data):

	<b>Three Months Ended</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income (loss) <sup>(1)</sup>	\$ 33,466	\$ 2,748	\$ 46,531	\$ (367)
Weighted-average shares outstanding, basic and diluted	47,977,813	12,401,274	43,000,242	7,734,774
Per share amount, basic and diluted	\$ 0.70	\$ 0.22	\$ 1.08	\$ (0.05)

(1) Represents net income (loss) attributable to Blackstone Mortgage Trust, Inc. Refer to Note 14 for the allocation of our results of operations to each of our operating segments.

**Other Balance Sheet Items***Accumulated Other Comprehensive Income*

As of June 30, 2014, total accumulated other comprehensive income was \$2.7 million, representing the currency translation adjustment on assets and liabilities denominated in a foreign currency. Of the total accumulated other comprehensive income, \$1.9 million represents the currency translation adjustment for the six months ended June 30, 2014. We did not have any accumulated other comprehensive income or loss as of, or for the six months ended June 30, 2013.

*Non-controlling Interests*

The non-controlling interests included on our consolidated balance sheets represent the equity interests in CT Legacy Partners that are not owned by us. A portion of CT Legacy Partners' consolidated equity and results of operations are allocated to these non-controlling interests based on their pro rata ownership of CT Legacy Partners. The following table details the components of non-controlling interests in CT Legacy Partners (\$ in thousands):

**June 30, 2014**

Restricted cash	\$	11,392
Accrued interest receivable, prepaid expenses, and other assets		62,015
Accounts payable, accrued expenses, and other liabilities		(271)
CT Legacy Partners equity	\$	73,136
Equity interests owned by Blackstone Mortgage Trust, Inc.		(30,419)
Non-controlling interests in CT Legacy Partners	\$	42,717

## 9. OTHER EXPENSES

Our other expenses consist of the management fees we pay to our Manager and our general and administrative expenses.

### Management Fees

Pursuant to our management agreement, our Manager earns a base management fee in an amount generally equal to 1.50% per annum multiplied by our outstanding Equity balance, as defined in the management agreement. In addition, our Manager is entitled to an incentive fee in an amount equal to the product of (i) 20% and (ii) the excess of (a) our Core Earnings (as defined in the management agreement) for the previous 12-month period over (b) an amount equal to 7.00% per annum multiplied by our outstanding Equity, provided that our Core Earnings over the prior three-year period (or the period since the date of the first offering of our class A common stock following December 19, 2012, whichever is shorter) is greater than zero. Core Earnings is generally equal to our net income (loss) prepared in accordance with GAAP, excluding (i) certain non-cash items (ii) the net income (loss) related to our legacy portfolio.

During the six months ended June 30, 2014 and 2013, we incurred \$7.8 million and \$1.0 million of management fees payable to our Manager, respectively. During the three months ended June 30, 2014 and 2013, we incurred \$4.4 million and \$920,000 of management fees payable to our Manager, respectively. We did not incur any incentive fees payable to our Manager during the three or six months ended June 30, 2014 and 2013.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****General and Administrative Expenses**

General and administrative expenses consisted of the following (\$ in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Professional services	\$ 758	\$ 846	\$ 1,283	\$ 1,267
Operating and other costs	474	577	1,043	975
Management incentive awards plan - CTOPI <sup>(1)</sup>	11,190		11,190	
	12,422	1,423	13,516	2,242
<u>Non-cash compensation expenses</u>				
Management incentive awards plan - CT Legacy Partners <sup>(2)</sup>	416	548	552	1,511
Director stock-based compensation	94	37	188	75
Restricted class A common stock earned	2,289		4,029	
	2,799	585	4,769	1,586
Expenses of consolidated securitization vehicles	135	499	269	654
	\$ 15,356	\$ 2,507	\$ 18,554	\$ 4,482

(1) Represents the portion of CTOPI promote revenue paid under compensation awards. See Note 5 for further discussion.

(2) Represents the accrual of amounts payable under the CT Legacy Partners management incentive awards during the period. See below for discussion of the CT Legacy Partners management incentive awards plan.

**CT Legacy Partners Management Incentive Awards Plan**

In conjunction with our March 2011 Restructuring, we created an employee pool for up to 6.75% of the distributions paid to the common equity holders of CT Legacy Partners (subject to certain caps and priority distributions). As of June 30, 2014, incentive awards for 94% of the pool have been granted, and the remainder was unallocated. If any awards remain unallocated at the time distributions are paid, any amounts otherwise payable to the unallocated awards will be distributed pro rata to the plan participants then employed by an affiliate of our Manager.

Approximately 53% of these grants have the following vesting schedule: (i) 25% on the date of grant; (ii) 25% in March 2013; (iii) 25% in March 2014; and (iv) the remainder is contingent on continued employment with an affiliate of our Manager and our receipt of distributions from CT Legacy Partners. Of the remaining 47% of these grants, 29% are fully vested as a result of an acceleration event, and 18% vest only upon our receipt of distributions from CT Legacy Partners.

We accrue a liability for the amounts due under these grants based on the value of CT Legacy Partners and the periodic vesting of the awards granted. Accrued payables for these awards were \$3.4 million and \$2.8 million as of June 30, 2014 and December 31, 2013, respectively.

## **10. INCOME TAXES**

We elected to be taxed as a REIT, effective January 1, 2003, under the Internal Revenue Code for U.S. federal income tax purposes. We generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws.

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state, and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years. As of June 30, 2014 and December 31, 2013, we were in compliance with all REIT requirements.

During the six months ended June 30, 2014, we recorded a current income tax provision of \$530,000 comprised of (i) \$342,000 related to activities of our taxable REIT subsidiaries, (ii) a \$124,000 provision reflecting our estimated risk of loss related to an uncertain tax position taken during the period, and (iii) \$64,000 related to other items. During the six months ended June 30, 2013, we recorded a current income tax provision of \$593,000 comprised of (i) \$554,000 related to activities of our taxable REIT subsidiaries and (ii) \$39,000 related to other items. We did not have any deferred tax assets or liabilities as of June 30, 2014 or December 31, 2013.

As a result of our issuance of 25,875,000 shares of class A common stock in May 2013, the availability of our net operating losses, or NOLs, and net capital losses, or NCLs, is generally limited to \$2.0 million per annum by change of control provisions promulgated by the Internal Revenue Service with respect to the ownership of Blackstone Mortgage Trust. As of December 31, 2013, we had NOLs of \$161.5 million and NCLs of \$39.2 million available to be carried forward and utilized in current or future periods. If we are unable to utilize our NOLs, they will expire in 2029. If we are unable to utilize our NCLs, \$7.0 million will expire in 2014, \$31.4 million will expire in 2015, and \$782,000 will expire in 2016 or later.

As of June 30, 2014, tax years 2010 through 2013 remain subject to examination by taxing authorities.

**11. STOCK-BASED INCENTIVE PLANS**

We do not have any employees as we are externally managed by our Manager. However, as of June 30, 2014, our Manager, certain individuals employed by an affiliate of our Manager, and certain members of our board of directors are compensated, in part, through the issuance of stock-based instruments. In addition, certain of our former employees continue to participate in the CTOPI incentive management fee grants and the CT Legacy Partners management incentive awards plan.

We had stock-based incentive awards outstanding under five benefit plans as of June 30, 2014: (i) our amended and restated 1997 non-employee director stock plan, or 1997 Plan; (ii) our 2007 long-term incentive plan, or 2007 Plan; (iii) our 2011 long-term incentive plan, or 2011 Plan; (iv) our 2013 stock incentive plan, or 2013 Plan; and (v) our 2013 manager incentive plan, or 2013 Manager Plan. We refer to our 1997 Plan, our 2007 Plan, and our 2011 Plan collectively as our Expired Plans and we refer to our 2013 Plan and 2013 Manager Plan collectively as our Current Plans.



Our Expired Plans have expired and no new awards may be issued under them. Under our Current Plans, a maximum of 2,160,106 shares of our class A common stock may be issued to our Manager, our directors and officers, and certain employees of affiliates of our Manager. As of June 30, 2014, there were 1,440,228 shares available under the Current Plans.

During 2013, we issued 700,000 shares of restricted class A common stock under our Current Plans. These shares generally vest in quarterly installments over a three-year period, pursuant to the terms of the respective award agreements and the terms of the Current Plans. The 544,133 shares of restricted class A common stock outstanding as of June 30, 2014 will vest as follows: 116,642 shares will vest in 2014; 233,284 shares will vest in 2015; and 194,207 shares will vest in 2016.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table details the movement in our outstanding shares of restricted class A common stock and the weighted-average grant date fair value per share:

	<b>Restricted Class A Common Stock</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Balance as of December 31, 2013	700,000	\$ 25.69
Vested	(155,867)	25.51
Balance as of June 30, 2014	544,133	\$ 25.74

**12. FAIR VALUES****Assets Recorded at Fair Value**

The following table summarizes our assets measured at fair value on a recurring basis (\$ in thousands):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value<sup>(1)</sup></b>
<u>June 30, 2014</u>				
Other assets, at fair value <sup>(2)</sup>	\$	\$ 1,737	\$ 59,964	\$ 61,701
<u>December 31, 2013</u>				
Other assets, at fair value <sup>(2)</sup>	\$	\$ 1,944	\$ 54,461	\$ 56,405

(1) CT CDO I had one impaired loan with a principal balance of \$10.5 million measured on a non-recurring basis that had a 100% loan loss reserve as of December 31, 2013.

(2) Other assets include loans, securities, equity investments, and other receivables carried at fair value.

The following table reconciles the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs (\$ in thousands):

2014	Six Months Ended June 30, 2013
------	-----------------------------------

	<b>Other Assets</b>	<b>Loans Held-for-Sale, net</b>	<b>Other Assets</b>	<b>Investment in CT Legacy Assets</b>
Balance, beginning	\$ 54,461	\$	\$	\$ 132,000
Consolidation of CT Legacy Partners			166,094	(132,000)
Transfer from loans receivable, at fair value		2,000		
Proceeds from investments	(326)		(37,279)	
Deferred interest			195	
<u>Adjustments to fair value included in earnings</u>				
Gain on investments at fair value	5,829		4,000	
Valuation allowance on loans held-for-sale		1,800		
Balance, ending	\$ 59,964	\$ 3,800	\$ 133,010	\$

Our other assets include loans, securities, equity investments, and other receivables that are carried at fair value.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following describes the key assumptions used in arriving at the fair value of each of these assets as of June 30, 2014 and December 31, 2013.

Loans: The following table lists the range of key assumptions for each type of loans receivable as of June 30, 2014 (\$ in millions):

Collateral Type	Assumption Ranges for Significant Unobservable Inputs (Level 3) <sup>(1)</sup>		Book Value	Book Value
	Discount Rate	Recovery Percentage <sup>(2)</sup>		Sensitivity to a 100 bp Discount Rate Increase
Hotel	7%	100%	\$ 15.0	(0.4%)
Office	8% - 15%	100%	23.4	(0.3%)
			\$ 38.4	

(1) Excludes loans for which there is no expectation of future cash flows.

(2) Represents the proportion of the principal expected to be collected relative to the loan balances as of June 30, 2014.

The following table lists the range of key assumptions for each type of loans receivable as of December 31, 2013 (\$ in millions):

Collateral Type	Assumption Ranges for Significant Unobservable Inputs (Level 3) <sup>(1)</sup>		Book Value	Book Value
	Discount Rate	Recovery Percentage <sup>(2)</sup>		Sensitivity to a 100 bp Discount Rate Increase
Hotel	7%	100%	\$ 15.0	(1.4%)
Office	6% - 15%	100%	25.7	(0.3%)
			\$ 40.7	

- (1) Excludes loans for which there is no expectation of future cash flows.
- (2) Represents the proportion of the principal expected to be collected relative to the loan balances as of December 31, 2013.

Securities: As of June 30, 2014, all securities were valued by obtaining assessments from third-party dealers.

Equity investments and other receivables: Equity investments and other receivables are generally valued by discounting expected cash flows and assumptions regarding the collection of principal on the underlying loans and investments.

There were no liabilities recorded at fair value as of June 30, 2014 or December 31, 2013. Refer to Note 2 for further discussion regarding fair value measurement.

### **Fair Value of Financial Instruments**

As discussed in Note 2, GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate that value.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table details the carrying amount, face amount, and fair value of the financial instruments described in Note 2 (\$ in thousands):

	June 30, 2014			December 31, 2013		
	Carrying Amount	Face Amount	Fair Value	Carrying Amount	Face Amount	Fair Value
<b>Financial assets</b>						
Cash and cash equivalents	\$ 120,456	\$ 120,456	\$ 120,456	\$ 52,342	\$ 52,342	\$ 52,342
Restricted cash	11,392	11,392	11,392	10,096	10,096	10,096
Loans receivable, net	3,488,179	3,514,032	3,514,032	2,047,223	2,076,411	2,058,699
<b>Financial liabilities</b>						
Repurchase obligations	1,779,650	1,779,650	1,779,650	1,109,353	1,109,353	1,109,353
Convertible notes, net	160,671	172,500	186,300	159,524	172,500	181,772
Participations sold	461,078	461,078	462,603	90,000	90,000	90,304

Estimates of fair value for cash, cash equivalents and convertible notes are measured using observable, quoted market prices, or Level 1 inputs. All other fair value significant estimates are measured using unobservable inputs, or Level 3 inputs. See Note 2 for further discussion regarding fair value measurement of certain of our assets and liabilities.

**13. TRANSACTIONS WITH RELATED PARTIES**

As of June 30, 2014, our consolidated balance sheet included \$4.4 million of accrued management fees and \$25,000 of expense reimbursements payable to our Manager. During the six months ended June 30, 2014, we paid \$5.9 million of management fees to our Manager and reimbursed our Manager for \$90,000 of expenses incurred on our behalf. In addition, as of June 30, 2014, our consolidated balance sheet included \$191,000 of preferred distributions payable by CT Legacy Partners to an affiliate of our Manager. During the six months ended June 30, 2014, CT Legacy Partners made aggregate preferred distributions of \$1.2 million to such affiliate.

On October 3, 2013, we issued 339,431 shares of restricted class A common stock with a grant date fair value of \$8.5 million to our Manager under the 2013 Manager Plan. The shares of restricted class A common stock vest ratably in quarterly installments over three years from the date of issuance. We recorded a non-cash expense related to these shares of \$1.7 million during the six months ended June 30, 2014. Refer to Note 11 for further discussion of our restricted class A common stock.

During the six months ended June 30, 2014, CT CDO I, which is consolidated by us, paid \$139,000 of special servicing fees to an affiliate of our Manager.

There may be conflicts between us and our Manager with respect to certain of the investments in the CT Legacy Partners and CTOPI portfolios where an affiliate of our Manager holds a related investment that is senior, junior, or *pari passu* to the investments held by these portfolios. In addition, the Management Agreement with our Manager excludes from the management fee calculation our interests in CT Legacy Partners, CTOPI, and CT CDO I, which may result in further conflicts between our economic interests and those of our Manager. Refer to Note 9 for further discussion of the Management Agreement with our Manager.

On June 20, 2014, CT CDO I, CT Legacy Partners, CTOPI, and other affiliates of our Manager entered into a deed-in-lieu of foreclosure transaction which resulted in a restructuring of the interests held by each entity with respect to certain loans in our CT Legacy Portfolio segment with an aggregate principal balance of \$35.0 million and an aggregate book value of \$27.0 million.

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements (continued)**

**(Unaudited)**

**14. SEGMENT REPORTING**

We operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes our activities specifically related to CT Legacy Partners, CT CDO I, and our equity investment in CTOPI. Our Manager makes operating decisions and assesses the performance of each of our business segments based on financial and operating data and metrics generated from our internal information systems.

There were no transactions between our operating segments during the six months ended June 30, 2014 and 2013. For the three and six months ended June 30, 2014, 6% and 9% of our revenues were generated from international sources, respectively. Substantially all of our revenues for the three and six months ended June 30, 2013 were generated from domestic sources.



Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table presents our consolidated statement of operations for each segment for the three months ended June 30, 2014 and 2013 (\$ in thousands):

	<b>Three Months Ended June 30, 2014</b>		
	<b>Loan Origination</b>	<b>CT Legacy Portfolio</b>	<b>Total</b>
<b>Income from loans and other investments</b>			
Interest and related income	\$ 41,372	\$ 1,094	\$ 42,466
Less: Interest and related expenses	15,503	217	15,720
<b>Income from loans and other investments, net</b>	<b>25,869</b>	<b>877</b>	<b>26,746</b>
<b>Other expenses</b>			
Management fees	4,410		4,410
General and administrative expenses	3,501	11,855	15,356
<b>Total other expenses</b>	<b>7,911</b>	<b>11,855</b>	<b>19,766</b>
Gain on investments at fair value		7,163	7,163
Income from equity investments in unconsolidated subsidiaries		24,294	24,294
Income before income taxes	17,958	20,479	38,437
Income tax benefit		(2)	(2)
<b>Net income</b>	<b>17,958</b>	<b>20,481</b>	<b>38,439</b>
<b>Net income attributable to non-controlling interests</b>		<b>(4,973)</b>	<b>(4,973)</b>
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	<b>\$ 17,958</b>	<b>\$ 15,508</b>	<b>\$ 33,466</b>

	<b>Three Months Ended June 30, 2013</b>		
	<b>Loan Origination</b>	<b>CT Legacy Portfolio</b>	<b>Total</b>
<b>Income from loans and other investments</b>			
Interest and related income	\$ 1,908	\$ 4,109	\$ 6,017
Less: Interest and related expenses	168	1,138	1,306

<b>Income from loans and other investments, net</b>	1,740	2,971	4,711
<b>Other expenses</b>			
Management fees	920		920
General and administrative expenses	1,233	1,274	2,507
<b>Total other expenses</b>	2,153	1,274	3,427
Valuation allowance on loans held-for-sale		2,000	2,000
Gain on investments at fair value		4,000	4,000
Gain on extinguishment of debt		38	38
(Loss) income before income taxes	(413)	7,735	7,322
Income tax provision	2	552	554
<b>Net (loss) income</b>	(415)	7,183	6,768
<b>Net income attributable to non-controlling interests</b>		(4,020)	(4,020)
<b>Net (loss) income attributable to Blackstone Mortgage Trust, Inc.</b>	\$ (415)	\$ 3,163	\$ 2,748

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table presents our consolidated statement of operations for each segment for the six months ended June 30, 2014 and 2013 (\$ in thousands):

	<b>Six Months Ended June 30, 2014</b>		
	<b>Loan</b>	<b>CT Legacy</b>	<b>Total</b>
	<b>Origination</b>	<b>Portfolio</b>	
<b>Income from loans and other investments</b>			
Interest and related income	\$ 73,408	\$ 2,714	\$ 76,122
Less: Interest and related expenses	27,130	664	27,794
<b>Income from loans and other investments, net</b>	46,278	2,050	48,328
<b>Other expenses</b>			
Management fees	7,807		7,807
General and administrative expenses	6,346	12,208	18,554
<b>Total other expenses</b>	14,153	12,208	26,361
Gain on investments at fair value		5,824	5,824
Income from equity investments in unconsolidated subsidiaries		24,294	24,294
Income before income taxes	32,125	19,960	52,085
Income tax provision	131	399	530
<b>Net income</b>	31,994	19,561	51,555
<b>Net income attributable to non-controlling interests</b>		(5,024)	(5,024)
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	\$ 31,994	\$ 14,537	\$ 46,531

	<b>Six Months Ended June 30, 2013</b>		
	<b>Loan</b>	<b>CT Legacy</b>	<b>Total</b>
	<b>Origination</b>	<b>Portfolio</b>	
<b>Income from loans and other investments</b>			
Interest and related income	\$ 1,908	\$ 5,565	\$ 7,473
Less: Interest and related expenses	168	1,915	2,083
<b>Income from loans and other investments, net</b>	1,740	3,650	5,390
<b>Other expenses</b>			

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Management fees	983		983
General and administrative expenses	1,900	2,582	4,482
<b>Total other expenses</b>	<b>2,883</b>	<b>2,582</b>	<b>5,465</b>
Valuation allowance on loans held-for-sale		1,800	1,800
Gain on investments at fair value		4,000	4,000
Gain on extinguishment of debt		38	38
(Loss) income before income taxes	(1,143)	6,906	5,763
Income tax provision	40	553	593
<b>Net (loss) income</b>	<b>(1,183)</b>	<b>6,353</b>	<b>5,170</b>
<b>Net income attributable to non-controlling interests</b>		<b>(5,537)</b>	<b>(5,537)</b>
<b>Net (loss) income attributable to Blackstone Mortgage Trust, Inc.</b>	<b>\$ (1,183)</b>	<b>\$ 816</b>	<b>\$ (367)</b>

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table presents our consolidated balance sheet for each segment as of June 30, 2014 and December 31, 2013 (\$ in thousands):

	<b>June 30, 2014</b>		
	<b>Loan</b>	<b>CT</b>	
	<b>Origination</b>	<b>Legacy</b>	<b>Total</b>
		<b>Portfolio</b>	
<b>Assets</b>			
Cash and cash equivalents	\$ 120,456	\$	\$ 120,456
Restricted cash		11,392	11,392
Loans receivable, net	3,488,179		3,488,179
Equity investments in unconsolidated subsidiaries		14,038	14,038
Accrued interest receivable, prepaid expenses, and other assets	29,803	90,901	120,704
<b>Total assets</b>	<b>\$ 3,638,438</b>	<b>\$ 116,331</b>	<b>\$ 3,754,769</b>
<b>Liabilities and Equity</b>			
Accounts payable, accrued expenses, and other liabilities	\$ 34,036	\$ 37,309	\$ 71,345
Repurchase obligations	1,779,650		1,779,650
Convertible notes, net	160,671		160,671
Participations sold	461,078		461,078
<b>Total liabilities</b>	<b>2,435,435</b>	<b>37,309</b>	<b>2,472,744</b>
<b>Equity</b>			
Total Blackstone Mortgage Trust, Inc. stockholders' equity	1,203,003	36,305	1,239,308
Non-controlling interests		42,717	42,717
<b>Total equity</b>	<b>1,203,003</b>	<b>79,022</b>	<b>1,282,025</b>
<b>Total liabilities and equity</b>	<b>\$ 3,638,438</b>	<b>\$ 116,331</b>	<b>\$ 3,754,769</b>

	<b>December 31, 2013</b>		
	<b>Loan</b>	<b>CT</b>	
	<b>Origination</b>	<b>Legacy</b>	<b>Total</b>
		<b>Portfolio</b>	
<b>Assets</b>			
Cash and cash equivalents	\$ 52,342	\$	\$ 52,342
Restricted cash		10,096	10,096

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Loans receivable, net	2,000,223	47,000	2,047,223
Equity investments in unconsolidated subsidiaries		22,480	22,480
Accrued interest receivable, prepaid expenses, and other assets	21,020	59,619	80,639
<b>Total assets</b>	<b>\$ 2,073,585</b>	<b>\$ 139,195</b>	<b>\$ 2,212,780</b>
<b>Liabilities and Equity</b>			
Accounts payable, accrued expenses, and other liabilities	\$ 21,104	\$ 76,049	\$ 97,153
Repurchase obligations	1,109,353		1,109,353
Convertible notes, net	159,524		159,524
Participations sold	90,000		90,000
<b>Total liabilities</b>	<b>1,379,981</b>	<b>76,049</b>	<b>1,456,030</b>
<b>Equity</b>			
Total Blackstone Mortgage Trust, Inc. stockholders' equity	693,604	24,305	717,909
Non-controlling interests		38,841	38,841
<b>Total equity</b>	<b>693,604</b>	<b>63,146</b>	<b>756,750</b>
<b>Total liabilities and equity</b>	<b>\$ 2,073,585</b>	<b>\$ 139,195</b>	<b>\$ 2,212,780</b>

## 15. SUBSEQUENT EVENTS

On July 24, 2014, CT Legacy Partners made a \$20.0 million distribution to its Class A-1, Class A-2, and Class B common shareholders, including \$8.3 million to us. We paid \$1.4 million of this distribution under the CT Legacy Partner's management incentive awards plan.

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

*References herein to Blackstone Mortgage Trust, Company, we, us, or our refer to Blackstone Mortgage Trust, Inc. and its subsidiaries unless the context specifically requires otherwise.*

*The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto appearing elsewhere in this quarterly report on Form 10-Q. In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those in this discussion as a result of various factors, including but not limited to those discussed in Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2013 and elsewhere in this quarterly report on Form 10-Q.*

#### **Introduction**

Blackstone Mortgage Trust is a real estate finance company that primarily originates and purchases senior loans collateralized by properties in the United States and Europe. We are externally managed by BXMT Advisors L.L.C., or our Manager, a subsidiary of The Blackstone Group L.P., or Blackstone, and are a real estate investment trust, or REIT, traded on the NYSE under the symbol BXMT.

We conduct our operations as a REIT for U.S. federal income tax purposes. We generally will not be subject to U.S. federal income taxes on our taxable income to the extent that we annually distribute all of our net taxable income to stockholders and maintain our qualification as a REIT. We also operate our business in a manner that permits us to maintain our exemption from registration under the Investment Company Act of 1940, as amended, or the Investment Company Act. We are organized as a holding company and conduct our business primarily through our various subsidiaries.

We operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes the activities specifically related to our legacy investments which preceded the re-launch of our originations business in May 2013.

#### **I. Key Financial Measures and Indicators**

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends declared, Core Earnings, and book value per share. For the three months ended June 30, 2014 we recorded earnings per share of \$0.70, declared a dividend of \$0.48 per share, and reported \$0.43 per share of Core Earnings. In addition, our book value per share as of June 30, 2014 was \$25.51. As further described below, Core Earnings is a measure that is not prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. We use Core Earnings to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current loan origination portfolio and operations.

#### **Earnings Per Share**

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The following table sets forth the calculation of basic and diluted net income per share based on the weighted-average of our shares of class A common stock, restricted class A common stock, and deferred stock units outstanding (\$ in thousands, except per share data):

	<b>Three Months Ended</b>	
	<b>June 30, 2014</b>	<b>March 31, 2014</b>
Net income <sup>(1)</sup>	\$ 33,466	\$ 13,065
Weighted-average shares outstanding, basic and diluted	47,977,813	37,967,365
Net income per share, basic and diluted	\$ 0.70	\$ 0.34

(1) Represents net income attributable to Blackstone Mortgage Trust, Inc.



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The \$0.36 per share increase in net income during the three months ended June 30, 2014 was due to (i) continued growth in our Loan Origination segment, (ii) promote revenue from our carried interest in CTOPI, and (iii) net gains on investments carried at fair value in the CT Legacy Portfolio. This was in part offset by an increase in the total number of shares outstanding as a result of our class A common stock offering in April 2014. The following table allocates our net income per share between our two reportable segments (\$ in thousands, except per share data):

	<b>Three Months Ended June 30, 2014</b>		
	<b>Loan Origination</b>	<b>CT Legacy Portfolio</b>	<b>Total</b>
Net income <sup>(1)</sup>	\$ 17,958	\$ 15,508	\$ 33,466
Weighted-average shares outstanding, basic and diluted	47,977,813	47,977,813	47,977,813
Net income per share, basic and diluted	\$ 0.38	\$ 0.32	\$ 0.70

(1) Represents net income attributable to Blackstone Mortgage Trust, Inc.

The following table compares our operating results for the three months ended June 30, 2014 and March 31, 2014 (\$ in thousands, except per share data):

	<b>Q2 2014</b>	<b>Q1 2014</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Income from loans and other investments</b>				
Interest and related income	\$ 42,466	\$ 33,656	\$ 8,810	26.2%
Less: Interest and related expenses	15,720	12,074	3,646	30.2%
<b>Income from loans and other investments, net</b>	26,746	21,582	5,164	23.9%
Other operating expenses	19,766	6,596	13,170	199.7%
Other income (loss)	31,457	(1,339)	32,796	N/M
<b>Income before income taxes</b>	38,437	13,647	24,790	181.7%
<b>Income tax (benefit) provision</b>	(2)	531	(533)	N/M
<b>Net income</b>	38,439	13,116	25,323	193.1%
<b>Net income attributable to non-controlling interests</b>	(4,973)	(51)	(4,922)	N/M
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	\$ 33,466	\$ 13,065	\$ 20,401	156.2%
<b>Dividends per share</b>	\$ 0.48	\$ 0.48	\$ 0.00	0.0%

*Income from loans and other investments, net*

Income from loans and other investments increased \$5.2 million, or 23.9%, on a net basis during the three months ended June 30, 2014 compared to the three months ended March 31, 2014. The increase was primarily due to (i) earning a full quarter of interest on the loans originated during the three months ended March 31, 2014, and (ii) additional interest earned on the \$1.0 billion of loans funded during the three months ended June 30, 2014. This was partially offset by additional interest expense incurred on our repurchase agreements and senior loan participations sold.

*Other operating expenses*

Other operating expenses are comprised of management fees paid to our Manager and general and administrative expenses. Other operating expenses increased by \$13.2 million during the three months ended June 30, 2014 compared to the three months ended March 31, 2014 due to (i) \$11.5 million of expenses related to the CT Legacy Portfolio segment incentive plans, primarily as a result of payments triggered by CTOPI promote distributions received, (ii) \$1.0 million of additional management fees payable to our Manager, and (iii) a \$548,000 increase in non-cash restricted stock amortization related to the accelerated vesting of certain awards under the plan.

*Other income (loss)*

During the three months ended June 30, 2014, we recognized (i) \$24.3 million of promote revenue from our carried interest in CTOPI, and (ii) \$7.2 million of net gains on investments carried at fair value in the CT Legacy Portfolio.

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During the three months ended March 31, 2014, we recognized \$1.3 million of net losses on investments carried at fair value in the CT Legacy Portfolio.

**Dividends Per Share**

On June 13, 2014, we declared a dividend of \$0.48 per share, or \$23.3 million, which was paid on July 15, 2014 to common stockholders of record as of June 30, 2014. On March 14, 2014, we declared a dividend of \$0.48 per share, or \$18.9 million, which was paid on April 15, 2014 to class A common stockholders of record as of March 31, 2014.

As a REIT, we generally must distribute substantially all of our net taxable income to stockholders in the form of dividends to comply with the REIT provisions of the Internal Revenue Code. Our taxable income does not necessarily equal our net income as calculated in accordance with GAAP, or our Core Earnings as described below.

**Core Earnings**

Core Earnings is a non-GAAP measure, which we define as GAAP net income (loss), including realized losses not otherwise included in GAAP net income (loss), and excluding (i) net income (loss) attributable to our CT Legacy Portfolio segment, (ii) non-cash equity compensation expense, (iii) incentive management fees, (iv) depreciation and amortization, (v) unrealized gains (losses), and (vi) certain non-cash items. Core Earnings may also be adjusted from time to time to exclude one-time events pursuant to changes in GAAP and certain other non-cash charges as determined by our Manager, subject to approval by a majority of our independent directors.

We believe that Core Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with GAAP. This adjusted measure helps us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan origination portfolio and operations. We also use Core Earnings to calculate the incentive and base management fees due to our Manager under our management agreement and, as such, we believe that the disclosure of Core Earnings is useful to our investors.

Core Earnings does not represent net income or cash generated from operating activities and should not be considered as an alternative to GAAP net income, or an indication of our cash flow from GAAP operating activities, a measure of our liquidity, or an indication of funds available for our cash needs. In addition, our methodology for calculating Core Earnings may differ from the methodologies employed by other companies to calculate the same or similar supplemental performance measures, and accordingly, our reported Core Earnings may not be comparable to the Core Earnings reported by other companies.

The following table provides a reconciliation of Core Earnings to GAAP net income (\$ in thousands, except per share data):

	<b>Three Months Ended</b>	
	<b>June 30, 2014</b>	<b>March 31, 2014</b>
Net income <sup>(1)</sup>	\$ 33,466	\$ 13,065
CT Legacy Portfolio segment net (income) loss	(15,508)	970
Amortization of discount on convertible notes	397	391
Unrealized (gain) loss on foreign currency remeasurement	(235)	32

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Non-cash compensation expense	2,382	1,834
Core earnings	\$ 20,502	\$ 16,292
Weighted-average shares outstanding, basic and diluted	47,977,813	37,967,365
Core earnings per share, basic and diluted	\$ 0.43	\$ 0.43

(1) Represents net income attributable to Blackstone Mortgage Trust, Inc.

**Table of Contents****Book Value Per Share**

The following table calculates our book value per share (\$ in thousands, except per share data):

	<b>June 30, 2014</b>	<b>March 31, 2014</b>
Stockholders equity	\$ 1,239,308	\$ 970,083
Shares		
Class A common stock	47,935,370	38,655,080
Restricted class A common stock	544,133	621,571
Stock units	108,391	106,188
	48,587,894	39,382,839
<b>Book value per share</b>	<b>\$ 25.51</b>	<b>\$ 24.63</b>

On a consolidated basis, our book value per share as of June 30, 2014 increased by \$0.88 from March 31, 2014. The increase was due to the issuance of 9,200,000 shares of class A common stock in a public offering at a price to the underwriters of \$27.72 per share, partially offset by the excess of dividends declared over GAAP net income during the quarter. The following table allocates book value per share between our two reportable segments (\$ in thousands, except per share data):

	<b>June 30, 2014</b>		
	<b>Loan Origination</b>	<b>CT Legacy Portfolio</b>	<b>Total</b>
Stockholders equity	\$ 1,203,003	\$ 36,305	\$ 1,239,308
Shares			
Class A common stock	47,935,370	47,935,370	47,935,370
Restricted class A common stock	544,133	544,133	544,133
Stock units	108,391	108,391	108,391
	48,587,894	48,587,894	48,587,894
<b>Book value per share</b>	<b>\$ 24.76</b>	<b>\$ 0.75</b>	<b>\$ 25.51</b>

**II. Loan Origination Portfolio**

The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business generally. During the quarter ended June 30, 2014, our Loan Origination segment originated \$1.1 billion of new loan commitments, funded \$1.0 billion under new and existing loans, and generated interest income of \$41.4 million. These loan originations were primarily financed by \$541.9 million of proceeds from loans sales and principal collections, \$254.8 million of net proceeds from the sale of our class A common stock, and \$246.3 million of additional net borrowings

under our repurchase facilities. We incurred interest expense of \$15.5 million during the quarter, which resulted in \$25.9 million of net interest income during the quarter.

### Portfolio Overview

The following table details our loan originations activity during the quarter ended June 30, 2014 (\$ in thousands):

	<b>Loans Originated</b>	<b>Loan Commitments<sup>(2)</sup></b>	<b>Loan Fundings<sup>(3)</sup></b>
Senior loans <sup>(1)</sup>	11	\$ 1,097,542	\$ 1,000,694
Subordinate loans			48
<b>Total</b>	<b>11</b>	<b>\$ 1,097,542</b>	<b>\$ 1,000,742</b>

(1) Includes senior mortgages and similar credit quality loans, including related contiguous subordinate loans, note financings of senior mortgage loans, and pari passu participations in senior mortgage loans.

(2) Includes new originations and additional commitments made under existing loan agreements.

(3) Includes additional fundings of \$36.9 million under existing loan commitments.

As of June 30, 2014, the majority of loans in the Loan Origination segment were senior mortgage loans or investments that are not structured as mortgages, but have risk exposure substantially similar to senior mortgage loans.

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The following table details overall statistics for our loans receivable portfolio within the Loan Origination segment (\$ in thousands):

	<b>June 30, 2014</b>
Number of loans	48
Principal balance	\$ 3,514,032
Net book value	\$ 3,488,179
Weighted-average cash coupon <sup>(1)</sup>	L+4.46%
Weighted-average all-in yield <sup>(1)</sup>	L+5.02%
Weighted-average maximum maturity (years) <sup>(2)</sup>	4.1

- (1) As of June 30, 2014, 83% of our loans are indexed to one-month LIBOR and 17% are indexed to three-month LIBOR. In addition, 18% of our loans currently earn interest based on LIBOR floors, with an average floor of 0.31%, as of June 30, 2014. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of exit fees.
- (2) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date. As of June 30, 2014, 89% of our loans are subject to yield maintenance, lock-out provisions, or other prepayment restrictions and 11% are open to repayment by the borrower.

The charts below detail the geographic distribution and types of properties securing these loans, as of June 30, 2014 (net book value, % of total):

Refer to section V of this Management's Discussion and Analysis of Financial Condition and Results of Operations for details of our loan portfolio, on a loan-by-loan basis.

*Asset Management and Performance*

We actively manage the investments in our Loan Origination portfolio and exercise the rights afforded to us as a lender, including collateral level budget approvals, lease approvals, loan covenant enforcement, escrow/reserve management/collection, collateral release approvals and other rights that we may negotiate.

As discussed in Note 2 to our consolidated financial statements, our Manager performs a quarterly review of our loan portfolio, assesses the performance of each loan, and assigns it a risk rating between 1 (less risk) to 8 (greater risk). Loans that pose a higher risk of non-performance and/or loss are placed on our watch list. Watch list loans are those with an internal risk rating of 4 or higher.

As of June 30, 2014, all of the investments in the Loan Origination segment are performing as expected and the weighted-average risk rating of our loan portfolio was 2.8. As of December 31, 2013, the weighted-average risk rating of our loan portfolio was 2.8.





**Table of Contents****Repurchase Facilities and Loan Participations**

During the three months ended June 30, 2014, we entered into one revolving repurchase facility and one asset-specific repurchase agreement, providing an aggregate of \$694.4 million of credit capacity.

The following table details our repurchase borrowings outstanding (\$ in thousands):

Lender	Maximum Facility Size <sup>(1)</sup>	Collateral Assets <sup>(2)</sup>	June 30, 2014			Dec. 31, 2013
			Potential	Repurchase Borrowings <sup>(3)</sup> Outstanding	Available	Borrowings Outstanding
<b>Revolving Repurchase Facilities</b>						
Bank of America	\$ 500,000	\$ 517,280	\$ 406,653	\$ 387,653	\$ 19,000	\$ 271,320
Citibank	500,000	611,459	461,556	351,245	110,311	334,692
JP Morgan <sup>(4)</sup>	510,697	467,722	354,776	293,600	61,176	257,610
Wells Fargo	500,000	301,083	231,600	190,125	41,475	
Morgan Stanley <sup>(5)</sup>	425,875	169,804	135,765	135,765		
MetLife	500,000	214,524	165,369	165,369		
Subtotal	2,936,572	2,281,872	1,755,719	1,523,757	231,962	863,622
<b>Asset-Specific Repurchase Agreements</b>						
Wells Fargo <sup>(6)</sup>	148,110	155,184	120,485	120,485		245,731
Goldman Sachs	194,400	169,260	135,408	135,408		
<b>Total</b>	<b>\$ 3,279,082</b>	<b>\$ 2,606,316</b>	<b>\$ 2,011,612</b>	<b>\$ 1,779,650</b>	<b>\$ 231,962</b>	<b>\$ 1,109,353</b>

- (1) Maximum facility size represents the total amount of borrowings provided for in each repurchase agreement, however these borrowings are only available to us once sufficient collateral assets have been pledged under each facility.
- (2) Represents the principal balance of the collateral assets.
- (3) Potential borrowings represent the total amount we could draw under each facility based on collateral already approved and pledged. When undrawn, these amounts are immediately available to us at our sole discretion under the terms of each revolving credit facility.
- (4) The JP Morgan maximum facility size is composed of a \$250.0 million facility and a £153.0 million (\$260.7 million) facility.
- (5) The Morgan Stanley maximum facility size represents a £250.0 million (\$425.9 million) facility.
- (6) Represents an aggregate of two asset-specific repurchase agreements with Wells Fargo.

As of June 30, 2014, we had aggregate borrowings of \$1.5 billion outstanding under our revolving repurchase facilities, with a weighted-average cash coupon of LIBOR plus 1.95% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.19% per annum. As of June 30, 2014, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 2.3 years. As of June 30, 2014, we also had three asset-specific repurchase agreements outstanding with

an aggregate book balance of \$255.9 million, a cash coupon of 2.60%, and an all-in cost of 2.96%, as well as three loan participations sold outstanding with an aggregate book balance of \$461.1 million, a cash coupon of LIBOR plus 2.99%, and an all-in cost of LIBOR plus 3.21%. Refer to Notes 6 and 7 to our consolidated financial statements for additional terms and details of our repurchase facilities and participations sold, including certain financial covenants.

### **Floating Rate Portfolio**

Our Loan Origination portfolio as of June 30, 2014 was comprised of floating rate loans financed by floating rate secured debt, which results in a return on equity that is correlated to LIBOR. Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income. For instance, all other things being equal, as of June 30, 2014, a 100 basis point increase in LIBOR would have increased our net income by \$11.8 million per annum, or \$0.25 per share.

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The following table details our Loan Origination segment's sensitivity to interest rates (\$ in thousands):

	<b>June 30, 2014</b>
Floating rate loans <sup>(1)</sup>	\$ 3,514,032
Floating rate debt <sup>(1)(2)</sup>	(2,240,728)
Net floating rate exposure	\$ 1,273,304
Net income impact from 100 bps increase in LIBOR <sup>(3)</sup>	\$ 11,806
Per share amount, basic and diluted	\$ 0.25

(1) Our floating rate loans and debt are indexed to LIBOR as of June 30, 2014.

(2) Includes borrowings under repurchase facilities and loan participations sold.

(3) Annualized net income includes the impact of LIBOR floors for our loan receivable investments where such floors are paying relative to LIBOR of 0.16% as of June 30, 2014.

**Convertible Notes**

In November 2013, we issued \$172.5 million aggregate principal amount of 5.25% convertible senior notes due on December 1, 2018, or the Convertible Notes. The Convertible Notes issuance costs, including underwriter discounts, are amortized through interest expense over the life of the Convertible Notes using the effective interest method. Including this amortization, our all-in cash cost of the Convertible Notes is 5.87%.

Refer to Notes 2 and 6 to our consolidated financial statements for additional discussion of our Convertible Notes.

**III. CT Legacy Portfolio**

Our CT Legacy Portfolio consists of: (i) our interests in CT Legacy Partners; (ii) our carried interest in CTOPI, a private investment fund that was previously under our management and is now managed by an affiliate of our Manager; and (iii) our subordinate interests in CT CDO I, a consolidated securitization vehicle.

During the three months ended June 30, 2014, our CT Legacy Portfolio segment recorded net income of \$15.5 million driven primarily by promote revenue from our carried interest in CTOPI and net unrealized gains on investments carried at fair value in CT Legacy Partners.

**CT Legacy Partners***Portfolio Overview*

Our investment in CT Legacy Partners represents our 52% equity interest in a vehicle we formed to own and finance certain assets that we retained in connection with a comprehensive debt restructuring in 2011. As of June 30, 2014, the

CT Legacy Partners portfolio consisted of cash, loans, securities, and other assets.

The following table details the components of our gross investment in CT Legacy Partners included in our consolidated balance sheet, as well as our net investment in CT Legacy Partners after future payments under the management incentive awards plan as of June 30, 2014 (\$ in thousands):

	<b>June 30, 2014</b>
Restricted cash	\$ 11,392
Accrued interest receivable, prepaid expenses, and other assets	62,015
Accounts payable, accrued expenses and other liabilities	(271)
Non-controlling interests	(42,717)
	\$ 30,419
Management incentive awards plan, fully vested <sup>(1)</sup>	(4,295)
<b>Net investment in CT Legacy Partners</b>	<b>\$ 26,124</b>

- (1) Assumes full payment of the management incentive awards plan, as described below, based on the hypothetical GAAP liquidation value of CT Legacy Partners as of June 30, 2014. We periodically accrue a payable for the management incentive awards plan based on the vesting schedule for the awards and continued employment with an affiliate of our Manager of the award recipients. As of June 30, 2014, our balance sheet includes \$3.4 million in accounts payable and accrued expenses for the management incentive awards plan. Refer to Note 9 to our consolidated financial statements for further details.

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### *CT Legacy Partners Background*

CT Legacy Partners is a subsidiary that holds certain of our legacy assets and is beneficially owned 52% by us and 48% by other third-party investors. In addition to its common equity, CT Legacy Partners has also issued class B common shares, a subordinate class of equity which entitles its holders to receive approximately 25% of the dividends that would otherwise be payable to us on our equity interest in CT Legacy Partners. Further, CT Legacy Partners has issued class A preferred shares which entitle their holder, an affiliate of our Manager, to cumulative preferred distributions in an amount generally equal to the greater of (i) 2.5% of certain of CT Legacy Partners' assets, and (ii) \$1.0 million per annum.

### **Carried Interest in CTOPI**

CTOPI is a private equity real estate fund that we sponsored and formed in 2007. The fund invested \$491.6 million in 39 transactions between 2007 and the end of its investment period in 2012. To date, \$452.3 million of these investments have been realized and \$39.3 million remain outstanding (carried at their estimated fair value of \$64.2 million or 1.6x cost) as of June 30, 2014. In 2012, we transferred our management of CTOPI and sold our 4.6% co-investment to Blackstone. However, we retained our carried interest in CTOPI following the sale.

Our carried interest in CTOPI entitles us to earn promote revenue in an amount equal to 17.7% of the fund's profits, after a 9% preferred return and 100% return of capital to the CTOPI partners. We own a net 55% of the carried interest of CTOPI's general partner; the remaining 45% is payable under previously issued incentive awards.

During the three months ended June 30, 2014, CTOPI returned all capital to its limited partners and made a \$14.1 million promote distribution to us. In addition, the return of investor capital by CTOPI eliminated the remaining contingencies related to our recognition of \$10.2 million of prior tax advance distributions, resulting in total promote revenue recognized of \$24.3 million.

As of June 30, 2014, we had been allocated \$7.7 million of promote revenue from CTOPI based on a hypothetical liquidation of the fund at its net asset value, and after payment of the related incentive awards. We have elected to defer the recognition of income on our carried interest in CTOPI until cash is collected or appropriate contingencies have been eliminated. As a result, our net investment in the CTOPI carried interest had a book value of zero as of June 30, 2014.

Refer to Note 5 of our consolidated financial statements for additional discussion of the CTOPI incentive management fee awards to our former employees.

### **CT CDO I**

As of June 30, 2014, our consolidated balance sheet included an aggregate \$28.9 million of assets and \$19.6 million of liabilities related to CT CDO I, a highly-levered securitization vehicle that we formed in 2004.

Specifically, we own the subordinate debt and equity positions of CT CDO I. As a result of consolidation, our subordinate debt and equity ownership interests in CT CDO I are not included on our balance sheet, which instead reflects both the assets held and debt issued by CT CDO I to third parties. Similarly, our operating results and cash flows include the gross amounts related to the assets and liabilities of CT CDO I, as opposed to our net economic interests in this entity.

Our economic interest in the loans receivable assets held by CT CDO I, which is consolidated on our balance sheet, is restricted by the structural provisions of CT CDO I, and our recovery of these assets will be limited by its distribution provisions. The liabilities of CT CDO I, which are also consolidated on our balance sheet, are non-recourse to us, and can only be satisfied by proceeds from its collateral asset pool. We are not obligated to provide, nor have we provided, any financial support to CT CDO I.

**Table of Contents****IV. Our Results of Operations and Liquidity****Results of Operations**

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the three months ended June 30, 2014 and 2013 (\$ in thousands, except per share data):

	2014	2013	\$	%
<b>Income from loans and other investments</b>				
Interest and related income	\$ 42,466	\$ 6,017	\$ 36,449	605.8%
Less: Interest and related expenses	15,720	1,306	14,414	N/M
Income from loans and other investments, net	26,746	4,711	22,035	467.7%
<b>Other expenses</b>				
Management fees	4,410	920	3,490	379.3%
General and administrative expenses	15,356	2,507	12,849	512.5%
Total other expenses	19,766	3,427	16,339	476.8%
Income from equity investments in unconsolidated subsidiaries	24,294		24,294	100.0%
Impairments, provisions, and valuation adjustments	7,163	6,038	1,125	18.6%
<b>Income before provision for taxes</b>	38,437	7,322	31,115	425.0%
<b>Income tax (benefit) provision</b>	(2)	554	(556)	N/M
<b>Net income</b>	\$ 38,439	\$ 6,768	\$ 31,671	468.0%
<b>Net income attributable to non-controlling interests</b>	(4,973)	(4,020)	(953)	23.7%
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	\$ 33,466	\$ 2,748	\$ 30,718	N/M
Net income per share - basic and diluted	\$ 0.70	\$ 0.22	\$ 0.48	218.2%
Dividends per share	\$ 0.48	\$	\$ 0.48	100.0%
<i>Income from loans and other investments, net</i>				

Income from loans and other investments, net was \$26.7 million for the three months ended June 30, 2014, representing an increase of \$22.0 million compared to the three months ended June 30, 2013. This increase is a result of the re-launch of our originations business in May 2013.

*Other expenses*

Other expenses include management fees paid to our Manager and general and administrative expenses. Other expenses increased by \$16.3 million during the three months ended June 30, 2014 compared to the three months ended June 30, 2013 primarily due to (i) an increase of \$11.1 million of compensation expenses associated with our CT Legacy Portfolio segment incentive plans, primarily as a result of payments triggered by CTOPI promote distributions received, (ii) an increase of \$3.5 million of management fees payable to our Manager, primarily driven

by an increase to our outstanding Equity balance, as defined in the management agreement, as a result of additional net proceeds received from the sale of shares of our class A common stock, and (iii) \$2.3 million of non-cash restricted stock amortization related to shares awarded under our long-term incentive plans, which awards were issued during the three months ended December 31, 2013. This was offset by a \$499,000 reduction of professional fees, operating costs, and other expenses which were incurred as a result of the re-launch of our business in May 2013.

*Income from equity investments in unconsolidated subsidiaries*

During the three months ended June 30, 2014, we recognized \$24.3 million of promote revenue from CTOPI. No such income was recognized during the three months ended June 30, 2013.

*Impairments, provisions, and valuation adjustments*

During the three months ended June 30, 2014, we recognized \$7.2 million of net unrealized gains on investments carried at fair value by CT Legacy Partners. During the three months ended June 30, 2013, we recognized (i) \$4.0 million of net unrealized gains on investments held by CT Legacy Partners and (ii) a \$2.0 million positive valuation adjustment on CT CDO I's loan classified as held-for-sale.



**Table of Contents***Dividends per share*

During the three months ended June 30, 2014, we declared a dividend of \$0.48 per share, or \$23.3 million, which was paid on July 15, 2014 to common stockholders of record as of June 30, 2014. We did not declare any dividends during the three months ended June 30, 2013.

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the six months ended June 30, 2014 and 2013 (\$ in thousands, except per share data):

	2014	2013	\$	%
<b>Income from loans and other investments</b>				
Interest and related income	\$ 76,122	\$ 7,473	\$ 68,649	918.6%
Less: Interest and related expenses	27,794	2,083	25,711	N/M
Income from loans and other investments, net	48,328	5,390	42,938	796.6%
<b>Other expenses</b>				
Management fees	7,807	983	6,824	694.2%
General and administrative expenses	18,554	4,482	14,072	314.0%
Total other expenses	26,361	5,465	20,896	382.4%
Income from equity investments in unconsolidated subsidiaries	24,294		24,294	100.0%
Impairments, provisions, and valuation adjustments	5,824	5,838	(14)	(0.2)%
<b>Income before provision for taxes</b>	52,085	5,763	46,322	803.8%
<b>Income tax provision</b>	530	593	(63)	(10.6)%
<b>Net income</b>	\$ 51,555	\$ 5,170	\$ 46,385	897.2%
<b>Net income attributable to non-controlling interests</b>	(5,024)	(5,537)	513	(9.3)%
<b>Net income (loss) attributable to Blackstone Mortgage Trust, Inc.</b>	\$ 46,531	\$ (367)	\$ 46,898	N/M
Net income (loss) per share - basic and diluted	\$ 1.08	\$ (0.05)	\$ 1.13	N/M
Dividends per share	\$ 0.96	\$	\$ 0.96	100.0%

*Income from loans and other investments, net*

Income from loans and other investments, net was \$48.3 million for the six months ended June 30, 2014, representing an increase of \$42.9 million compared to the six months ended June 30, 2013. This increase is a result of the re-launch of our originations business in May 2013.

*Other expenses*

Other expenses includes management fees paid to our Manager and general and administrative expenses. Other expenses increased by \$20.9 million during the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily due to (i) a \$10.2 million increase in compensation expenses associated with our CT Legacy Portfolio segment incentive plans, primarily as a result of payments triggered by CTOPI promote distributions received, (ii) an increase of \$6.8 million of management fees payable to our Manager, primarily driven by an increase

to our outstanding Equity balance, as defined in the management agreement, as a result of additional net proceeds received from the sale of shares of our class A common stock, and (iii) \$4.0 million of non-cash restricted stock amortization related to shares awarded under our long-term incentive plans, which awards were issued during the three months ended December 31, 2013. This was offset by a \$190,000 reduction of professional fees, operating costs, and other expenses which were incurred in the prior year as a result of the re-launch of our business in May 2013.

*Income from equity investments in unconsolidated subsidiaries*

During the six months ended June 30, 2014, we recognized \$24.3 million of promote revenue from CTOPI. No such income was recognized during the six months ended June 30, 2013.

*Impairments, provisions, and valuation adjustments*

During the six months ended June 30, 2014, we recognized \$5.8 million of net unrealized gains on investments owned by CT Legacy Partners. During the six months ended June 30, 2013, we recognized (i) \$4.0 million of net unrealized gains on investments held by CT Legacy Partners and (ii) a \$1.8 million positive valuation adjustment on CT CDO I s loan classified as held-for-sale.

**Table of Contents***Dividends per share*

During the six months ended June 30, 2014, we declared dividends of \$0.96 per share, or \$42.1 million. We did not declare any dividends during the six months ended June 30, 2013.

**Liquidity and Capital Resources***Capitalization*

On January 14, 2014, we issued 9,775,000 shares of class A common stock in a public offering at a price to the underwriters of \$26.25 per share. We generated net proceeds from the issuance of \$256.1 million after underwriting discounts and other offering expenses. On April 7, 2014, we issued 9,200,000 shares of class A common stock in a public offering at a price to the underwriters of \$27.72 per share. We generated net proceeds from the issuance of \$254.8 million after underwriting discounts and other offering expenses.

During the six months ended 2014, we entered into three revolving repurchase facilities and one asset-specific repurchase agreement, providing an additional \$1.6 billion of credit capacity. As of June 30, 2014, we had aggregate borrowings of \$1.5 billion outstanding under our revolving repurchase facilities with a weighted-average cash coupon of LIBOR plus 1.95% per annum, a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.19% per annum, and a weighted-average initial maturity, excluding extension options and term-out provisions, of 2.3 years. We also had three asset-specific repurchase agreements outstanding with an aggregate book balance of \$255.9 million, a cash coupon of 2.60%, and an all-in cost of 2.96%, as well as three loan participations sold outstanding with an aggregate book balance of \$461.1 million, a cash coupon of LIBOR plus 2.99%, and an all-in cost of LIBOR plus 3.21%.

As of June 30, 2014, we also had \$172.5 million aggregate principal amount of convertible notes outstanding with a net book value of \$160.7 million, which carry a cash coupon of LIBOR plus 5.25% and an all-in cost of 5.87%. These notes mature in December 2018.

*Sources of Liquidity*

Our primary sources of liquidity include cash and cash equivalents and available borrowings under our repurchase facilities, which are set forth in the following table (\$ in thousands):

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Cash and cash equivalents	\$ 120,456	\$ 52,342
Available borrowings under repurchase facilities	231,962	218,555
	<b>\$ 352,418</b>	<b>\$ 270,897</b>

See Note 6 to our consolidated financial statements for additional terms and details of our repurchase facilities.

In addition to our current sources of liquidity, we have access to liquidity through public offerings of debt and equity securities. To facilitate such offerings, in July 2013, we filed a shelf registration statement with the SEC that is effective for a term of three years and will expire in July 2016. The amount of securities to be issued pursuant to this

shelf registration statement was not specified when it was filed and there is no specific dollar limit on the amount of securities we may issue. In addition, we adopted a dividend reinvestment and direct stock purchase plan, under which we registered and reserved for issuance, in the aggregate, 10,000,000 shares of class A common stock, and entered into equity distribution agreements pursuant to which we may sell, from time to time, up to an aggregate sales price of \$200.0 million of our class A common stock.

*Liquidity Needs*

In addition to our ongoing loan origination activity, our primary liquidity needs include interest and principal payments under our \$2.4 billion of outstanding repurchase obligations, convertible notes, and participation agreements, our \$407.3 million of unfunded loan commitments, dividend distributions to our stockholders, and operating expenses.

We have no obligations to provide financial support to CT Legacy Partners, CTOPI, or CT CDO I, and all debt obligations of these entities, some of which are consolidated onto our financial statements, are non-recourse to us.

We are also required to pay our Manager a base management fee, an incentive fee, and reimbursements for certain expenses pursuant to our management agreement. Refer to Note 9 to our consolidated financial statements for additional terms and details of the fees payable under our management agreement.

As a REIT, we generally must distribute substantially all of our net taxable income to shareholders in the form of dividends to comply with the REIT provisions of the Internal Revenue Code. Our taxable income does not necessarily equal our net income as calculated in accordance with GAAP, or our Core Earnings as described above.

**Table of Contents***Cash Flows*

The following table provides a breakdown of the net change in our cash and cash equivalents (\$ in thousands):

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Cash flows from operating activities	\$ 34,009	\$ 4,383
Cash flows from investing activities	(1,448,638)	(663,250)
Cash flows from financing activities	1,482,743	703,191
Net increase in cash and cash equivalents	\$ 68,114	\$ 44,324

We experienced a net increase in cash of \$68.1 million for the six months ended June 30, 2014, compared to a net increase of

\$44.3 million for the six months ended June 30, 2013. The increase was primarily due to the receipt of cash interest on loans in our Loan Origination segment and other operating activities.

During the six months ended June 30, 2014, we (i) had net borrowings of \$667.6 million under our repurchase facilities, (ii) generated \$510.8 million of net proceeds from the sale of our class A common stock, and (iii) received \$271.9 million of loan principal repayments. We used the proceeds from our debt and equity financing activities to originate a net \$1.7 billion of new loans during the six months June 30, 2014.

Our consolidated statements of cash flows also include the cash inflows and outflows of consolidated securitization vehicles. While this does not impact our net cash flow, it does increase certain gross cash flow disclosures. As discussed above, other than to the extent we receive cash distributions from the entities in our CT Legacy Portfolio, we generally do not have access to their liquidity.

**Income Taxes**

We elected to be taxed as a REIT, effective January 1, 2003, under the Internal Revenue Code for U.S. federal income tax purposes. We generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws.

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years. As of June 30, 2014 and December 31, 2013, we were in compliance with all REIT requirements.

During the six months ended June 30, 2014, we recorded a current income tax provision of \$530,000 comprised of (i) \$342,000 related to activities of our taxable REIT subsidiaries, (ii) a \$124,000 provision reflecting our estimated risk of loss related to an uncertain tax position taken during the period, and (iii) \$64,000 related to other items. During the six months ended June 30, 2013, we recorded a current income tax provision of \$593,000 comprised of (i) \$554,000 related to activities of our taxable REIT subsidiaries and (ii) \$39,000 related to other items. We did not have any deferred tax assets or liabilities as of June 30, 2014 or December 31, 2013.

As a result of our issuance of 25,875,000 shares of class A common stock in May 2013, the availability of our net operating losses, or NOLs, and net capital losses, or NCLs, is generally limited to \$2.0 million per annum by change of control provisions promulgated by the Internal Revenue Service with respect to the ownership of Blackstone Mortgage Trust. As of December 31, 2013, we had NOLs of \$161.5 million and NCLs of \$39.2 million available to be carried forward and utilized in current or future periods. If we are unable to utilize our NOLs, they will expire in 2029. If we are unable to utilize our NCLs, \$7.0 million will expire in 2014, \$31.4 million will expire in 2015, and \$782,000 will expire in 2016 or later.

As of June 30, 2014, our tax years 2010 through 2013 remain subject to examination by taxing authorities.

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**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. There have been no material changes to our Critical Accounting Policies described in our annual report on Form 10-K filed with the Securities and Exchange Commission on February 18, 2014.

**Table of Contents****V. Loan Portfolio Details**

The following table provides details of the Loan Origination segment's portfolio, on a loan-by-loan basis, as of June 30, 2014 (\$ in millions):

Loan Type <sup>(1)</sup>	Principal Balance	Book Balance	Cash Coupon <sup>(2)</sup>	All-in Yield <sup>(2)</sup>	Maximum Maturity <sup>(3)</sup>	Geographic Location	Property Type	Origination LTV	Risk Rating as of	
									June 30, 2014	December 2013
Senior loan	\$ 338.0	\$ 335.7	L + 4.00%	L + 4.34%	5/22/2019	UK	Hotel	57%	3	N/A
Senior loan	181.0	179.5	L + 4.50%	L + 4.86%	11/9/2018	NY	Condo	68%	3	3
Sub. mortgage part.	173.8	169.0	L + 5.66%	L + 9.25%	4/9/2015	WA	Office	67%	3	3
Senior loan	140.0	139.0	L + 4.75%	L + 5.27%	1/9/2019	NY	Office	70%	3	3
Senior loan	125.0	124.4	L + 4.30%	L + 4.63%	12/1/2017	NY	Hotel	38%	3	N/A
Senior loan	114.6	113.2	L + 5.75%	L + 6.39%	6/20/2016	CA	Hotel	43%	3	N/A
Senior loan	105.9	105.6	L + 3.80%	L + 3.97%	6/15/2018	CA	Office	43%	1	2
Senior loan	101.0	99.6	L + 4.40%	L + 4.81%	3/9/2019	Diversified	Hotel	49%	3	N/A
Senior loan	95.7	95.2	L + 4.40%	L + 4.58%	3/9/2019	NY	Office	69%	3	N/A
Senior loan	95.2	94.7	L + 4.38%	L + 4.61%	11/9/2018	CA	Hotel	72%	2	2
Senior loan	91.0	89.6	L + 4.75%	L + 5.43%	1/7/2019	Diversified	Other	65%	3	N/A
Senior loan	89.5	89.4	L + 3.70%	L + 3.83%	9/30/2020	NY	Multifamily	62%	3	3
Senior loan	87.0	86.1	L + 4.30%	L + 4.83%	7/15/2019	NY	Multifamily	79%	3	N/A
Senior loan	85.5	85.1	L + 4.25%	L + 4.64%	8/10/2018	Diversified	Diversified	59%	3	3
Senior loan	83.3	83.8	L + 4.00%	L + 4.63%	3/4/2018	UK	Office	50%	3	N/A
Senior loan	80.0	79.2	L + 4.00%	L + 4.54%	6/9/2019	DC	Office	79%	3	N/A
Senior loan	79.7	79.5	L + 4.75%	L + 4.93%	12/28/2016	NY	Condo	68%	3	N/A
Senior loan	78.2	77.6	L + 5.00%	L + 5.38%	9/14/2018	Diversified	Other	64%	3	3
Senior loan	77.6	77.0	L + 3.85%	L + 4.15%	6/9/2019	FL	Office	74%	3	N/A
Senior loan	77.4	77.1	L + 3.85%	L + 4.03%	7/9/2018	GA	Multifamily	74%	3	3
Senior loan	73.5	73.4	L + 3.95%	L + 3.89%	6/9/2018	CA	Office	73%	1	2
Senior loan	68.0	67.9	L + 4.00%	L + 4.23%	6/10/2016	NY	Office	68%	3	3
Senior loan	60.5	60.0	L + 4.35%	L + 4.71%	1/9/2019	NY	Office	70%	3	N/A
Senior loan	59.0	58.6	L + 3.85%	L + 4.24%	10/10/2018	Diversified	Multifamily	76%	3	3
Senior loan	55.3	54.7	L + 4.50%	L + 4.92%	4/9/2019	NY	Multifamily	65%	3	N/A
Senior loan	52.3	51.5	L + 4.50%	L + 5.05%	6/15/2019	CA	Office	67%	3	N/A
Senior loan	50.0	49.6	L + 4.20%	L + 4.73%	4/9/2019	HI	Hotel	69%	3	N/A
Senior loan	49.2	48.8	L + 5.00%	L + 5.90%	8/9/2018	VA	Office	74%	3	3
Senior loan	48.5	48.9	L + 4.50%	L + 4.86%	6/5/2019	UK	Retail	80%	3	N/A
Senior loan	48.4	48.7	L + 5.00%	L + 5.68%	12/9/2016	IL	Hotel	53%	3	3

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Loan Type <sup>(1)</sup>	Principal Balance	Book Balance	Cash Coupon <sup>(2)</sup>	All-in Yield <sup>(2)</sup>	Maximum Maturity <sup>(3)</sup>	Geographic Location	Property Type	Origination LTV	Risk Rating as of June 30, 2014	Risk Rating as of December 31, 2014
Senior loan	46.3	46.0	L + 4.25%	L + 4.64%	7/10/2018	CO	Hotel	69%	3	3
Senior loan	46.0	45.7	L + 4.25%	L + 4.78%	10/9/2018	CA	Hotel	51%	3	3
Senior loan	45.5	45.1	L + 3.85%	L + 4.26%	9/10/2018	Diversified	Multifamily	76%	3	3
Senior loan	44.3	43.8	L + 4.50%	L + 4.94%	1/9/2019	AZ	Office	68^%	3	3
Senior loan	43.5	43.2	L + 4.50%	L + 5.11%	7/16/2017	NY	Retail	69%	3	3
Senior loan	40.0	38.4	L + 4.00%	L + 6.14%	6/30/2018	CA	Office	71%	3	N
Senior loan	39.1	38.7	L + 4.30%	L + 4.70%	4/9/2019	CA	Office	69%	3	N
Senior loan	39.1	40.4	L + 4.63%	L + 5.43%	11/27/2018	UK	Office	71%	3	3
Senior loan	37.9	37.6	L + 4.00%	L + 4.46%	7/20/2019	NL	Office	69%	3	N
Senior loan	37.5	37.2	L + 3.85%	L + 4.04%	8/9/2018	IL	Office	68%	2	3
zzanine h <sup>(4)</sup>	33.6	33.8	L + 12.56%	L + 12.35%	12/13/2017	NY	Condo	78%	3	3
Senior loan	32.9	33.0	L + 3.95%	L + 4.20%	8/9/2017	CO	Hotel	64%	2	3
Senior loan	31.0	30.6	L + 4.10%	L + 4.64%	1/9/2019	CA	Office	43%	3	3
Senior loan	28.0	27.8	L + 4.35%	L + 4.71%	12/9/2018	CA	Hotel	55%	2	3
Senior loan	25.2	25.0	L + 5.00%	L + 5.29%	11/6/2016	NY	Condo	45%	3	3
Senior loan	27.1	27.1	L + 3.87%	L + 3.87%	7/9/2017	NY	Hotel	32%	2	3
Senior loan	26.9	26.6	L + 4.25%	L + 4.66%	4/9/2019	CA	Office	65%	3	N
Senior loan	26.0	25.8	L + 4.00%	L + 4.27%	3/9/2019	AZ	Other	69%	2	N
	\$ 3,514.0	\$ 3,488.2	L + 4.46%	L + 5.02%	4.1 years			63%	2.8	2

- (1) Includes senior mortgages and similar credit quality loans, including related contiguous subordinate loans, note financings of senior mortgage loans, and pari passu participations in senior mortgage loans.
- (2) As of June 30, 2014, 83% of our loans are indexed to one-month LIBOR and 17% are indexed to three-month LIBOR. In addition, 18% of our loans currently earn interest based on LIBOR floors, with an average floor of 0.31%, as of June 30, 2014. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of exit fees.
- (3) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date.
- (4) We originated the loan directly senior to this subordinate loan, but sold the senior loan to finance our overall investment.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Interest Rate Risk**

Our business is exposed to the risks related to interest rate fluctuations. We generally originate floating rate assets and finance those assets with index-matched floating rate liabilities. As a result, we significantly reduce our exposure to changes in portfolio value and cash flow variability related to changes in interest rates.

*Loan Origination Portfolio segment*

Our Loan Origination investments are exposed to the risks related to interest rate fluctuations discussed above. The table below details our interest rate exposure to this portfolio (\$ in thousands):

	<b>June 30, 2014</b>
Floating rate loans <sup>(1)</sup>	\$ 3,514,032
Floating rate debt <sup>(1)(2)</sup>	(2,240,728)
<b>Net floating rate exposure</b>	<b>\$ 1,273,304</b>
Net income impact from 100 bps increase in LIBOR <sup>(3)</sup>	\$ 11,806
<b>Per share amount, basic and diluted</b>	<b>\$ 0.25</b>

(1) Amounts represent aggregate principal balances.

(2) Includes borrowings under repurchase facilities and loan participations sold.

(3) Annualized net income includes the impact of LIBOR floors for our loan receivable investments where such floors are paying relative to LIBOR of 0.16% as of June 30, 2014.

*CT Legacy Portfolio segment*

Our investments in CT Legacy Partners and CT CDO I are also exposed to the risks related to interest rate fluctuations discussed above, however as liquidating portfolios these investments are more sensitive to credit risk than interest rate risk.

Although our carried interest investment in CTOPI generally relates to a portfolio of interest earning assets, our economic interest in this portfolio relates primarily to the realization of investments purchased at a discount by CTOPI. Accordingly, our investment in this portfolio is not exposed to a significant degree of interest rate risk. Refer to Note 5 to our consolidated financial statements for additional discussion of CTOPI.

*Risk of Non-Performance*

In addition to the risks related to fluctuations in asset values and cash flows associated with movements in interest rates, there is also the risk of non-performance on floating rate assets. In the case of a significant increase in interest rates, the additional debt service payments due from our borrowers may strain the operating cash flows of the collateral real estate assets and, potentially, contribute to non-performance or, in severe cases, default.

### **Credit Risks**

Our loans and investments are also subject to credit risk. The performance and value of our loans and investments depend upon the owners' ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, our Manager's asset management team reviews our investment portfolios and in certain instances is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary.

In addition, we are exposed to the risks generally associated with the commercial real estate market, including variances in occupancy rates, capitalization rates, absorption rates, and other macroeconomic factors beyond our control. We seek to manage these risks through our underwriting and asset management processes.

### **Capital Market Risks**

We are exposed to risks related to the equity capital markets, and our related ability to raise capital through the issuance of our class A common stock or other equity instruments. We are also exposed to risks related to the debt capital markets, and our related ability to finance our business through borrowings under credit facilities or other debt instruments. As a REIT, we are required to distribute a significant portion of our taxable income annually, which constrains our ability to accumulate operating cash flow and therefore requires us to utilize debt or equity capital to finance our business. We seek to mitigate these risks by monitoring the debt and equity capital markets to inform our decisions on the amount, timing, and terms of capital we raise.

**Table of Contents****Counterparty Risk**

The nature of our business requires us to hold our cash and cash equivalents and obtain financing from various financial institutions. This exposes us to the risk that these financial institutions may not fulfill their obligations to us under these various contractual arrangements. We mitigate this exposure by depositing our cash and cash equivalents and entering into financing agreements with high credit-quality institutions.

The nature of our loans and investments also exposes us to the risk that our counterparties do not make required interest and principal payments on scheduled due dates. We seek to manage this risk through a comprehensive credit analysis prior to making an investment and actively monitoring the asset portfolios that serve as our collateral.

**Currency Risk**

Our loans and investments that are denominated in a foreign currency are also subject to risks related to fluctuations in currency rates. We mitigate this exposure by matching the currency of our foreign currency assets to the currency of the borrowings that finance those assets. As a result, we substantially reduce our exposure to changes in portfolio value related to changes in foreign currency rates.

The following table outlines our assets and liabilities that are denominated in a foreign currency (£/ in thousands):

	<b>June 30, 2014</b>	
Foreign currency assets	£ 302,518	28,098
Foreign currency liabilities	(238,621)	(22,419)
<b>Net exposure to exchange rate fluctuations</b>	<b>£ 63,897</b>	<b>5,679</b>

We estimate that a 10% decline in the rate of exchange between the British pound sterling and the U.S. dollar and the Euro and the U.S. dollar would result in a decline of \$10.9 million and \$775,000, respectively, in our net assets denominated in foreign currencies, as of June 30, 2014.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this quarterly report on Form 10-Q was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by Securities and Exchange Commission rules and forms and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Controls over Financial Reporting**

There have been no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this quarterly report on Form 10-Q 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**

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of June 30, 2014, we were not involved in any material legal proceedings.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA, which added Section 13(r) of the Exchange Act, we hereby incorporate by reference herein Exhibit 99.1 of this report, which includes disclosures publicly filed and/or provided to Blackstone by Travelport Limited, which may be considered an affiliate of Blackstone and therefore our affiliate.

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**ITEM 6. EXHIBITS**

- 10.1 Master Repurchase Agreement, dated as of April 25, 2014, between 643 Single Family Finco 2014, LLC and  
Goldman Sachs Bank USA
- 10.2 Guaranty, dated as of April 25, 2014, made by Blackstone Mortgage Trust, Inc, in favor of Goldman Sachs Bank  
USA
- 10.3 Master Repurchase Agreement, dated as of June 27, 2014, between Parlex 7 Finco, LLC and Metropolitan Life Insurance Company
- 10.4 Guaranty, dated as of June 27, 2014, made by Blackstone Mortgage Trust, Inc, in favor of Metropolitan Life  
Insurance Company
- 31.1 Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- + 32.1 Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- + 32.2 Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of  
the Sarbanes-Oxley Act of 2002
- 99.1 Section 13(r) Disclosure
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

+ This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act ) or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended (the Securities Act ), or the Exchange Act.



The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BLACKSTONE MORTGAGE TRUST, INC.

July 29, 2014  
Date

/s/ Stephen D. Plavin  
Stephen D. Plavin  
Chief Executive Officer  
(Principal Executive Officer)

July 29, 2014  
Date

/s/ Paul D. Quinlan  
Paul D. Quinlan  
Chief Financial Officer  
(Principal Financial Officer)

July 29, 2014  
Date

/s/ Anthony F. Marone, Jr.  
Anthony F. Marone, Jr.  
Principal Accounting Officer