

BLACKSTONE MORTGAGE TRUST, INC.

Form 10-Q

April 25, 2017

[Table of Contents](#)

**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 MARCH 31, 2017**

**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**

**94-6181186**

(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)**

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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

The number of the Registrant's outstanding shares of class A common stock, par value \$0.01 per share, as of April 18, 2017 was 94,827,579.



**Table of Contents**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

ITEM 1.	<u>FINANCIAL STATEMENTS</u>	2
	Consolidated Financial Statements (Unaudited):	
	<u>Consolidated Balance Sheets as of March 31, 2017 and December 31, 2016</u>	2
	<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2017 and 2016</u>	3
	<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2017 and 2016</u>	4
	<u>Consolidated Statements of Changes in Equity for the Three Months Ended March 31, 2017 and 2016</u>	5
	<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016</u>	6
	<u>Notes to Consolidated Financial Statements</u>	8
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	34
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	51
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	53
<b>PART II. <u>OTHER INFORMATION</u></b>		
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	54
ITEM 1A.	<u>RISK FACTORS</u>	54
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	54
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	54
ITEM 4.	<u>MINE SAFETY DISCLOSURES</u>	54
ITEM 5.	<u>OTHER INFORMATION</u>	54
ITEM 6.	<u>EXHIBITS</u>	55
	<u>SIGNATURES</u>	57

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

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 64,275	\$ 75,567
Loans receivable, net	8,721,768	8,692,978
Other assets	168,616	44,070
<b>Total Assets</b>	<b>\$ 8,954,659</b>	<b>\$ 8,812,615</b>
<b>Liabilities and Equity</b>		
Secured debt agreements, net	\$ 5,760,191	\$ 5,716,354
Loan participations sold, net	354,131	348,077
Convertible notes, net	167,475	166,762
Other liabilities	176,880	87,819
<b>Total Liabilities</b>	<b>6,458,677</b>	<b>6,319,012</b>
Commitments and contingencies		
<b>Equity</b>		
Class A common stock, \$0.01 par value, 200,000,000 shares authorized, 94,818,348 and 94,540,263 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	948	945
Additional paid-in capital	3,096,006	3,089,997
Accumulated other comprehensive loss	(52,357)	(56,202)
Accumulated deficit	(548,615)	(541,137)
<b>Total Equity</b>	<b>2,495,982</b>	<b>2,493,603</b>
<b>Total Liabilities and Equity</b>	<b>\$ 8,954,659</b>	<b>\$ 8,812,615</b>

*See accompanying notes to consolidated financial statements.*



Table of Contents**Blackstone Mortgage Trust, Inc.****Consolidated Statements of Operations (Unaudited)**

(in thousands, except share and per share data)

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Income from loans and other investments</b>		
Interest and related income	\$ 118,517	\$ 123,025
Less: Interest and related expenses	46,674	45,381
<b>Income from loans and other investments, net</b>	<b>71,843</b>	<b>77,644</b>
<b>Other expenses</b>		
Management and incentive fees	12,921	13,613
General and administrative expenses	7,428	6,795
<b>Total other expenses</b>	<b>20,349</b>	<b>20,408</b>
Gain on investments at fair value		66
Income from equity investment in unconsolidated subsidiary		138
<b>Income before income taxes</b>	<b>51,494</b>	<b>57,440</b>
<b>Income tax provision</b>	<b>89</b>	<b>241</b>
<b>Net income</b>	<b>51,405</b>	<b>57,199</b>
<b>Net income attributable to non-controlling interests</b>		<b>(152)</b>
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	<b>\$ 51,405</b>	<b>\$ 57,047</b>
<b>Net income per share of common stock basic and diluted</b>	<b>\$ 0.54</b>	<b>\$ 0.61</b>
<b>Weighted-average shares of common stock outstanding, basic and diluted</b>	<b>94,993,386</b>	<b>94,067,769</b>
<b>Dividends declared per share of common stock</b>	<b>\$ 0.62</b>	<b>\$ 0.62</b>

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

**Consolidated Statements of Comprehensive Income (Unaudited)**

**(in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income	\$ 51,405	\$ 57,199
Other comprehensive income		
Unrealized gain on foreign currency remeasurement	7,770	5,979
Realized and unrealized loss on derivative financial instruments	(3,925)	(6,666)
Other comprehensive income (loss)	3,845	(687)
Comprehensive income	55,250	56,512
Comprehensive income attributable to non-controlling interests		(152)
Comprehensive income attributable to Blackstone Mortgage Trust, Inc.	\$ 55,250	\$ 56,360

*See accompanying notes to consolidated financial statements.*



Table of Contents**Blackstone Mortgage Trust, Inc.****Consolidated Statements of Changes in Equity (Unaudited)**

(in thousands)

<b>Blackstone Mortgage Trust, Inc.</b>							
<b>Accumulated Other</b>							
	<b>Class A</b>	<b>Additional</b>	<b>Comprehensive</b>	<b>Accumulated</b>	<b>Stockholder</b>	<b>Non-controlling</b>	<b>Total</b>
	<b>Common</b>	<b>Paid-In</b>	<b>(Loss)</b>	<b>Deficit</b>	<b>Equity</b>	<b>Interests</b>	<b>Equity</b>
	<b>Stock</b>	<b>Capital</b>	<b>Gain</b>				
<b>Balance at</b>							
<b>December 31, 2015</b>	\$ 937	\$ 3,070,200	\$ (32,758)	\$ (545,791)	\$ 2,492,588	\$ 13,143	\$ 2,505,731
Shares of class A common stock issued, net	2				2		2
Restricted class A common stock earned		4,593			4,593		4,593
Dividends reinvested		88		(82)	6		6
Deferred directors compensation		94			94		94
Other comprehensive loss			(687)		(687)		(687)
Net income				57,047	57,047	152	57,199
Dividends declared on common stock				(58,226)	(58,226)		(58,226)
Distributions to non-controlling interests						(6,879)	(6,879)
<b>Balance at March 31, 2016</b>	\$ 939	\$ 3,074,975	\$ (33,445)	\$ (547,052)	\$ 2,495,417	\$ 6,416	\$ 2,501,833
<b>Balance at</b>							
<b>December 31, 2016</b>	\$ 945	\$ 3,089,997	\$ (56,202)	\$ (541,137)	\$ 2,493,603	\$	\$ 2,493,603
Shares of class A common stock issued, net	3				3		3
Restricted class A common stock earned		5,810			5,810		5,810
Dividends reinvested		105		(96)	9		9
Deferred directors compensation		94			94		94
Other comprehensive income			3,845		3,845		3,845
Net income				51,405	51,405		51,405

Dividends declared on common stock				(58,787)	(58,787)		(58,787)
------------------------------------	--	--	--	----------	----------	--	----------

<b>Balance at March 31, 2017</b>	\$ 948	\$ 3,096,006	\$ (52,357)	\$ (548,615)	\$ 2,495,982	\$	\$ 2,495,982
----------------------------------	--------	--------------	-------------	--------------	--------------	----	--------------

*See accompanying notes to consolidated financial statements.*

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 51,405	\$ 57,199
Adjustments to reconcile net income to net cash provided by operating activities		
Non-cash compensation expense	5,907	4,852
Amortization of deferred fees on loans	(8,808)	(8,954)
Amortization of deferred financing costs and premiums/ discount on debt obligations	4,535	4,053
Income from equity investment in unconsolidated subsidiary		(138)
Distributions of income from unconsolidated subsidiary		6,837
Gain on investments at fair value		(66)
Changes in assets and liabilities, net		
Other assets	1,699	4,254
Other liabilities	2,636	(2,256)
Net cash provided by operating activities	57,374	65,781
<b>Cash flows from investing activities</b>		
Origination and fundings of loans receivable	(702,353)	(586,066)
Principal collections and sales proceeds from loans receivable and other assets	567,321	420,513
Origination and exit fees received on loans receivable	12,429	10,424
Receipts under derivative financial instruments	1,903	
Payments under derivative financial instruments	(3,752)	
Change in restricted cash		9,122
Net cash used in investing activities	(124,452)	(146,007)

continued

*See accompanying notes to consolidated financial statements.*

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from financing activities</b>		
Borrowings under secured debt agreements	\$ 789,865	\$ 629,897
Repayments under secured debt agreements	(672,161)	(466,536)
Repayment of loan participations		(9,600)
Payment of deferred financing costs	(3,895)	(5,260)
Receipts under derivative financial instruments		11,478
Payments under derivative financial instruments		(3,260)
Distributions to non-controlling interests		(6,879)
Net proceeds from issuance of class A common stock	8	6
Dividends paid on class A common stock	(58,615)	(58,097)
Net cash provided by financing activities	55,202	91,749
<b>Net (decrease) increase in cash and cash equivalents</b>	(11,876)	11,523
Cash and cash equivalents at beginning of period	75,567	96,450
Effects of currency translation on cash and cash equivalents	584	2,649
Cash and cash equivalents at end of period	\$ 64,275	\$ 110,622
<b>Supplemental disclosure of cash flows information</b>		
Payments of interest	\$ (39,287)	\$ (38,121)
Payments of income taxes	\$ (50)	\$ (151)
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Dividends declared, not paid	\$ (58,787)	\$ (58,226)
Participations sold, net	\$	\$ (9,600)
Loan principal payments held by servicer, net	\$ 42,715	\$ 75,378

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

**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 and its subsidiaries unless the context specifically requires otherwise.

Blackstone Mortgage Trust is a real estate finance company that originates and purchases senior loans collateralized by properties in North America 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 an exclusion from registration under the Investment Company Act of 1940, as amended. We are organized as a holding company and conduct our business primarily through our various subsidiaries.

**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 thereto, 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 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission, or the SEC.

**Basis of Presentation**

The accompanying consolidated financial statements 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.

**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.

As of both March 31, 2017 and December 31, 2016, we did not consolidate any VIEs.

### **Use of Estimates**

The preparation of consolidated 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 portfolio is recognized over the life of each investment using the effective interest method and is recorded on the accrual basis. Recognition of fees, premiums, and discounts associated with these investments is deferred until the loan is advanced and is then recorded over the term of the loan as an

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

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. In addition, for loans we originate, the related origination expenses are deferred and recognized as a component of interest income, however expenses related to loans we acquire are included in general and administrative expenses as incurred.

**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.

**Loans Receivable and Provision for Loan Losses**

We originate and purchase 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 to us pursuant 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, less costs to sell, 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 risk factors of each loan, and assigns a risk rating based on a variety of factors, including, without limitation, loan-to-value ratio, or LTV, debt yield, property type, geographic and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. Based on a 5-point scale, our loans are rated 1 through 5, from less risk to greater risk, which ratings are defined as follows:

**1 - Very Low Risk**

**2 - Low Risk**

**3 - Medium Risk**



**4 - High Risk/Potential for Loss:** A loan that has a risk of realizing a principal loss.

**5 - Impaired/Loss Likely:** A loan that has a very high risk of realizing a principal loss or has otherwise incurred a principal loss.

During the second quarter of 2015, we acquired a portfolio of loans from General Electric Capital Corporation and certain of its affiliates, or the GE portfolio, for a total purchase price of \$4.7 billion. We allocated the aggregate purchase price between each loan based on its fair value relative to the overall portfolio, which allocation resulted in purchase discounts or premiums determined on an asset-by-asset basis. Each loan accretes from its allocated purchase price to its expected collection value over the life of the loan, consistent with the other loans in our portfolio.

#### **Equity Investment in Unconsolidated Subsidiary**

Our carried interest in CT Opportunity Partners I, LP, or CTOPI, was accounted for using the equity method. CTOPI's assets and liabilities were not consolidated into our financial statements due to our determination that (i) it was not a VIE and (ii) the other investors in CTOPI had sufficient rights to preclude consolidation by us. As such, we reported our allocable percentage of the net assets of CTOPI on our consolidated balance sheets. The investment was fully realized as of December 31, 2016 and we no longer have any equity investments in unconsolidated subsidiaries in our consolidated financial statements.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**Derivative Financial Instruments**

We classify all derivative financial instruments as either other assets or other liabilities on our consolidated balance sheets at fair value.

On the date we enter into a derivative contract, we designate each contract as (i) a hedge of a net investment in a foreign operation, or net investment hedge, (ii) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability, or cash flow hedge, (iii) a hedge of a recognized asset or liability, or fair value hedge, or (iv) a derivative instrument not to be designated as a hedging derivative, or non-designated hedge. For all derivatives other than those designated as non-designated hedges, we formally document our hedge relationships and designation at the contract's inception. This documentation includes the identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and our evaluation of the effectiveness of its hedged transaction.

On a quarterly basis, we also formally assess whether the derivative we designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in the value or cash flows of the hedged items. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. Changes in the fair value of the effective portion of our hedges are reflected in accumulated other comprehensive income (loss) on our consolidated financial statements. Changes in the fair value of the ineffective portion of our hedges are included in net income. Amounts are reclassified out of accumulated other comprehensive income (loss) and into net income when the hedged item is sold, substantially liquidated, or de-designated. To the extent a derivative does not qualify for hedge accounting and is deemed a non-designated hedge, the changes in its value are included in net income.

**Secured Debt Agreements**

Where applicable, we record investments financed with repurchase agreements 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 agreements are reported separately on our consolidated statements of operations.

**Senior Loan Participations**

In certain instances, we finance our loans through the non-recourse syndication of a senior loan interest to a third-party. Depending on the particular structure of the syndication, the senior loan interest may remain on our GAAP balance sheet or, in other cases, the sale will be recognized and the senior loan interest will no longer be included in our consolidated financial statements. When these sales are not recognized under GAAP we reflect the transaction by recording a loan participations sold liability on our consolidated balance sheet, however this gross presentation does not impact stockholders' equity or net income. When the sales are recognized, our balance sheet only includes our remaining subordinate loan and not the non-consolidated senior interest we sold.

## Convertible Notes

The Debt with Conversion and Other Options Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 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 estimated 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 (through 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.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**Deferred Financing Costs**

The deferred financing costs that are included as a reduction in the net book value of the related liability 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.

**Fair Value of Financial Instruments**

The Fair Value Measurements and Disclosures Topic, or ASC 820, 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.

ASC 820 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 estimated value of each asset reported 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 reported 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 14. 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 the 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.

We are also required by GAAP to disclose fair value information about financial instruments, that 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 are 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 and cash equivalents approximates fair value.

Loans receivable, net: The fair values of these loans were estimated by our Manager based on a discounted cash flow methodology, taking into consideration various factors including capitalization rates, discount 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.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

Derivative financial instruments: The fair value of our foreign currency and interest rate contracts was estimated using advice from a third-party derivative specialist, based on contractual cash flows and observable inputs comprising foreign currency rates and credit spreads.

Secured debt agreements, net: The fair value of these instruments was estimated based on the rate at which a similar credit facility would currently be priced.

Loan participations sold, net: The fair value of these instruments was estimated based on the value of the related loan receivable asset.

Convertible notes, net: The convertible notes are actively traded and their fair values were obtained using quoted market prices.

**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 12 for additional information.

**Stock-Based Compensation**

Our stock-based compensation consists of awards issued to our Manager and certain individuals employed by an affiliate of our Manager that vest over the life of the awards, as well as deferred stock units issued to certain members of our Board of Directors. 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 13 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, including restricted class A common stock and deferred stock units, divided by the weighted-average number of shares of our class A common stock, including 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, including restricted class A common stock and deferred stock units, divided by the weighted-average number of shares of our class A common stock, including restricted class A common stock and deferred stock units. Refer to Note 10 for additional discussion of earnings per share.

### **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 average exchange rate over the applicable period. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated subsidiaries are recorded in other comprehensive income.

### **Underwriting Commissions and Offering Costs**

Underwriting commissions and offering costs incurred in connection with common stock offerings are reflected as a reduction of additional paid-in capital. Costs incurred that are not directly associated with the completion of a common stock offering are expensed when incurred.



**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**Recent Accounting Pronouncements**

In November 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash, or ASU 2016-18. ASU 2016-18 is intended to clarify how entities present restricted cash in the statement of cash flows. The guidance requires entities to show the changes in the total of cash and cash equivalents and restricted cash in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. When cash and cash equivalents and restricted cash are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and is to be applied retrospectively. Upon the adoption of the new guidance, we will change the presentation of restricted cash in our statement of cash flows to conform to the new requirements.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments Credit Losses Measurement of Credit Losses on Financial Instruments (Topic 326), or ASU 2016-13. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace the incurred loss model under existing guidance with an expected loss model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. While we are currently evaluating the impact ASU 2016-13 will have on our consolidated financial statements, we expect that the adoption will result in an increased amount of provisions for potential loan losses as well as the recognition of such provisions earlier in the lending cycle. We currently do not have any provision for loan losses on 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 2014-09 is effective for the first interim or annual period beginning after December 15, 2017, and is to be applied retrospectively. We do not anticipate that the adoption of ASU 2014-09 will have a material impact on our consolidated financial statements.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****3. LOANS RECEIVABLE, NET**

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

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Number of loans	103	107
Principal balance	\$ 8,759,696	\$ 8,727,218
Net book value	\$ 8,721,768	\$ 8,692,978
Unfunded loan commitments <sup>(1)</sup>	\$ 1,149,842	\$ 882,472
Weighted-average cash coupon <sup>(2)</sup>	5.15%	5.01%
Weighted-average all-in yield <sup>(2)</sup>	5.57%	5.36%
Weighted-average maximum maturity (years) <sup>(3)</sup>	3.3	3.2

- (1) Unfunded commitments will primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will be funded over the term of each loan, subject in certain cases to an expiration date.
- (2) As of March 31, 2017, our floating rate loans were indexed to various benchmark rates, with 84% of floating rate loans by principal balance indexed to USD LIBOR. In addition, \$217.8 million of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 1.22%, as of March 31, 2017. As of December 31, 2016, our floating rate loans were indexed to various benchmark rates, with 84% of floating rate loans indexed to USD LIBOR. In addition, \$216.3 million of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 1.27%, as of December 31, 2016. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, purchase discounts, and accrual of both extension and exit fees. Cash coupon and all-in yield assume applicable floating benchmark rates for weighted-average calculation.
- (3) Maximum maturity assumes all extension options are exercised by the borrower, however our loans may be repaid prior to such date. As of March 31, 2017, 59% of our loans by principal balance were subject to yield maintenance or other prepayment restrictions and 41% were open to repayment by the borrower without penalty. As of December 31, 2016, 64% of our loans were subject to yield maintenance or other prepayment

restrictions and 36% were open to repayment by the borrower without penalty.

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

	<b>Principal Balance</b>	<b>Deferred Fees / Other Items<sup>(1)</sup></b>	<b>Net Book Value</b>
December 31, 2016	\$ 8,727,218	\$ (34,240)	\$ 8,692,978
Loan fundings	702,353		702,353
Loan repayments	(695,758)		(695,758)
Unrealized gain (loss) on foreign currency translation	25,883	(67)	25,816
Deferred fees and other items <sup>(1)</sup>		(12,429)	(12,429)
Amortization of fees and other items <sup>(1)</sup>		8,808	8,808
March 31, 2017	\$ 8,759,696	\$ (37,928)	\$ 8,721,768

- (1) Other items primarily consist of purchase discounts or premiums, exit fees, and deferred origination expenses.

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

The tables below detail the property type and geographic distribution of the properties securing the loans in our portfolio (\$ in thousands):

<b>Property Type</b>	<b>March 31, 2017</b>			
	<b>Number of Loans</b>	<b>Net Book Value</b>	<b>Total Loan Exposure<sup>(1)</sup></b>	<b>Percentage of Portfolio</b>
Office	54	\$ 4,808,211	\$ 4,833,513	50%
Hotel	16	2,104,014	2,175,505	22
Retail	7	524,318	944,818	10
Multifamily	8	515,170	517,376	5
Manufactured housing	9	295,559	295,359	3
Condominium	1	49,276	226,478	2
Other	8	425,220	740,328	8
	103	\$ 8,721,768	\$ 9,733,377	100%

<b>Geographic Location</b>	<b>March 31, 2017</b>			
	<b>Number of Loans</b>	<b>Net Book Value</b>	<b>Total Loan Exposure<sup>(1)</sup></b>	<b>Percentage of Portfolio</b>
<b><u>United States</u></b>				
Northeast	24	\$ 2,493,379	\$ 2,510,088	26%
West	23	1,998,995	2,185,476	22
Southeast	20	1,453,309	1,877,334	19
Midwest	7	702,238	704,199	7
Southwest	7	318,348	317,136	3
Northwest	2	215,617	218,088	2
Subtotal	83	7,181,886	7,812,321	79
<b><u>International</u></b>				
United Kingdom	9	983,679	1,317,265	14
Canada	8	494,223	490,326	5
Germany	1	11,271	62,510	1
Netherlands	2	50,709	50,955	1
Subtotal	20	1,539,882	1,921,056	21
<b>Total</b>	<b>103</b>	<b>\$ 8,721,768</b>	<b>\$ 9,733,377</b>	<b>100%</b>

- (1) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. See Note 2 for further discussion. Total loan exposure encompasses the entire loan we originated and financed, including \$1.0 billion of such non-consolidated senior interests as of March 31, 2017.

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

<b>Property Type</b>	<b>December 31, 2016</b>			
	<b>Number of Loans</b>	<b>Net Book Value</b>	<b>Total Loan Exposure<sup>(1)</sup></b>	<b>Percentage of Portfolio</b>
Office	55	\$ 4,800,609	\$ 4,889,456	50%
Hotel	18	1,889,732	1,957,334	20
Retail	9	769,813	1,173,592	12
Multifamily	8	521,097	523,529	5
Manufactured housing	9	296,290	296,252	3
Condominium	2	66,070	258,360	3
Other	6	349,367	658,211	7
	107	\$ 8,692,978	\$ 9,756,734	100%

<b>Geographic Location</b>	<b>Number of Loans</b>			
	<b>Number of Loans</b>	<b>Net Book Value</b>	<b>Total Loan Exposure<sup>(1)</sup></b>	<b>Percentage of Portfolio</b>
<u>United States</u>				
Northeast	26	\$ 2,548,257	\$ 2,562,149	26%
Southeast	21	1,492,530	1,899,748	19
West	22	1,628,811	1,828,667	19
Midwest	7	695,713	698,093	7
Southwest	8	380,639	379,766	4
Northwest	3	227,747	293,564	3
Subtotal	87	6,973,697	7,661,987	78
<u>International</u>				
United Kingdom	9	977,136	1,305,816	13
Canada	8	487,835	483,923	5
Germany	1	204,241	254,644	3
Netherlands	2	50,069	50,364	1
Subtotal	20	1,719,281	2,094,747	22
Total	107	\$ 8,692,978	\$ 9,756,734	100%

- (1) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. See Note 2 for further discussion. Total loan exposure

encompasses the entire loan we originated and financed, including \$1.0 billion of such non-consolidated senior interests as of December 31, 2016.

### **Loan Risk Ratings**

As further 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 risk factors of each loan, and assigns a risk rating based on several factors. Factors considered in the assessment include, but are not limited to, risk of loss, current LTV, debt yield, collateral performance, structure, exit plan, and sponsorship. Loans are rated 1 (less risk) through 5 (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 (\$ in thousands):

<b>March 31, 2017</b>				<b>December 31, 2016</b>			
<b>Risk Rating</b>	<b>Number of Loans</b>	<b>Net Book Value</b>	<b>Total Loan Exposure</b>	<b>Risk Rating</b>	<b>Number of Loans</b>	<b>Net Book Value</b>	<b>Total Loan Exposure<sup>(1)</sup></b>
1	6	\$ 303,849	\$ 304,170	1	8	\$ 361,100	\$ 361,574
2	47	3,670,002	3,679,119	2	52	4,011,992	4,083,678
3	49	4,727,107	5,729,339	3	46	4,299,026	5,290,668
4	1	20,810	20,749	4	1	20,860	20,814
5				5			
	103	\$ 8,721,768	\$ 9,733,377		107	\$ 8,692,978	\$ 9,756,734

(1) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. See Note 2 for further discussion. Total loan exposure encompasses the entire loan we originated and financed, including \$1.0 billion of such non-consolidated senior interests as of both March 31, 2017 and December 31, 2016.

The weighted-average risk rating of our total loan exposure was 2.6 and 2.5 as of March 31, 2017 and December 31, 2016, respectively. The increase in weighted-average risk rating was primarily driven by repayments of loans with lower risk ratings, and not rating downgrades in the existing portfolio.

We did not have any impaired loans, nonaccrual loans, or loans in maturity default as of March 31, 2017 or December 31, 2016.

**4. EQUITY INVESTMENT IN UNCONSOLIDATED SUBSIDIARY**

Our equity investment in unconsolidated subsidiary consisted solely of our carried interest in CTOPI, a fund sponsored and managed by an affiliate of our Manager. The investment was fully realized as of December 31, 2016 and we no longer have any investments in unconsolidated subsidiaries on our consolidated financial statements.

Our carried interest in CTOPI entitled 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 recognized \$138,000 of promote income from CTOPI in respect of our carried interest and recorded such amounts as income in our consolidated statements of operations during the three months ended March 31, 2016.

**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. During the three months ended March 31, 2016, we recognized \$170,000 of expenses under the CTOPI incentive plan. Such amounts were recognized as a component of general and administrative expenses in our consolidated statements of operations.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****5. OTHER ASSETS AND LIABILITIES**

The following table details the components of our other assets (\$ in thousands):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Loan portfolio payments held by servicer <sup>(1)</sup>	\$ 135,516	\$ 6,294
Accrued interest receivable	30,962	32,871
Derivative assets	1,424	4,086
Prepaid expenses	700	803
Prepaid taxes	14	16
<b>Total</b>	<b>\$ 168,616</b>	<b>\$ 44,070</b>

- (1) Represents loan principal and interest payments held by our third-party loan servicer as of the balance sheet date which were remitted to us during the subsequent remittance cycle.

The following table details the components of our other liabilities (\$ in thousands):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Secured debt repayments pending servicer remittance <sup>(1)</sup>	\$ 91,763	\$ 5,372
Accrued dividends payable	58,787	58,615
Accrued management and incentive fees payable	12,921	12,798
Accrued interest payable	11,673	9,049
Accounts payable and other liabilities	1,736	1,985
<b>Total</b>	<b>\$ 176,880</b>	<b>\$ 87,819</b>

- (1) Represents pending transfers from our third-party loan servicer that were remitted to our banking counterparties during the subsequent remittance cycle.

**6. SECURED DEBT AGREEMENTS, NET**

Our secured debt agreements include credit facilities, the GE portfolio acquisition facility, asset-specific financings, and a revolving credit agreement. The following table details our secured debt agreements (\$ in thousands):

	<b>Secured Debt Agreements Borrowings Outstanding</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Credit facilities	\$ 3,958,064	\$ 3,572,837
GE portfolio acquisition facility	1,250,524	1,479,582
Asset-specific financings	567,577	679,207
Revolving credit agreement		
<b>Total secured debt agreements</b>	<b>\$ 5,776,165</b>	<b>\$ 5,731,626</b>
Deferred financing costs <sup>(1)</sup>	(15,974)	(15,272)
<b>Net book value of secured debt</b>	<b>\$ 5,760,191</b>	<b>\$ 5,716,354</b>

- (1) Costs incurred in connection with our secured debt agreements are recorded on our consolidated balance sheet when incurred and recognized as a component of interest expense over the life of each related agreement.

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

During the three months ended March 31, 2017, we increased the maximum facility size of two of our credit facilities, providing an additional £250.0 million and 250.0 million of credit capacity, respectively, and we converted one of our asset-specific financings to a \$500.0 million credit facility. The following tables detail our credit facilities (\$ in thousands):

<b>Lender</b>	<b>March 31, 2017</b>				
	<b>Maximum Facility Size<sup>(1)</sup></b>	<b>Collateral Assets<sup>(2)</sup></b>	<b>Credit Borrowings</b>		
			<b>Potential<sup>(3)</sup></b>	<b>Outstanding</b>	<b>Available<sup>(3)</sup></b>
Wells Fargo	\$ 2,000,000	\$ 1,895,248	\$ 1,468,184	\$ 1,238,872	\$ 229,312
MetLife	1,000,000	1,104,478	866,114	866,114	
Bank of America	750,000	813,305	641,066	641,066	
Citibank <sup>(4)</sup>	766,300	509,582	393,933	295,777	98,156
Deutsche Bank	500,000	374,119	278,851	278,851	
Morgan Stanley <sup>(5)</sup>	627,500	329,767	260,623	220,969	39,654
Société Générale <sup>(6)</sup>	426,080	281,623	220,915	214,678	6,237
JP Morgan <sup>(7)</sup>	500,000	359,098	277,914	201,737	76,177
	\$ 6,569,880	\$ 5,667,220	\$ 4,407,600	\$ 3,958,064	\$ 449,536

<b>Lender</b>	<b>December 31, 2016</b>				
	<b>Maximum Facility Size<sup>(1)</sup></b>	<b>Collateral Assets<sup>(2)</sup></b>	<b>Credit Borrowings</b>		
			<b>Potential<sup>(3)</sup></b>	<b>Outstanding</b>	<b>Available<sup>(3)</sup></b>
Wells Fargo	\$ 2,000,000	\$ 1,718,874	\$ 1,339,942	\$ 1,107,733	\$ 232,209
MetLife	1,000,000	1,106,017	862,454	862,454	
Bank of America	750,000	794,881	617,694	617,694	
JP Morgan <sup>(7)</sup>	500,000	550,560	420,414	316,219	104,195
Morgan Stanley <sup>(5)</sup>	308,500	344,056	272,221	231,930	40,291
Citibank <sup>(4)</sup>	500,000	508,989	394,677	229,629	165,048
Société Générale <sup>(6)</sup>	420,680	274,351	207,178	207,178	
	\$ 5,479,180	\$ 5,297,728	\$ 4,114,580	\$ 3,572,837	\$ 541,743

- (1) Maximum facility size represents the largest amount of borrowings available under a given facility once sufficient collateral assets have been approved by the lender and pledged by us.
- (2) Represents the principal balance of the collateral assets.
- (3) Potential borrowings represents 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 credit facility.
- (4) As of March 31, 2017, the Citibank maximum facility size was composed of a general \$500.0 million facility size denominated in U.S. Dollars plus a general 250.0 million (\$266.3 million) facility size that contemplated British Pound Sterling and Euro borrowings. As of December 31, 2016, the maximum facility size was composed of a general \$500.0 million facility.
- (5) As of March 31, 2017, the Morgan Stanley maximum facility size was composed of a £500.0 million facility size that was translated to \$627.5 million. As of December 31, 2016, the maximum facility size was composed of a £250.0 million facility size that was translated to \$308.5 million. Borrowings denominated in British Pound Sterling and Euro are contemplated under this facility.
- (6) As of March 31, 2017 and December 31, 2016, the Société Générale maximum facility size was composed of a 400.0 million facility size that was translated to \$426.1 million and \$420.7 million, respectively. Borrowings denominated in U.S. Dollars, British Pound Sterling, and Euro are contemplated under this facility.
- (7) As of March 31, 2017 and December 31, 2016, the JP Morgan maximum facility size was composed of a general \$500.0 million facility size, under which U.S. Dollars and British Pound Sterling borrowings are contemplated.

The weighted-average outstanding balance of our credit facilities was \$3.5 billion for the three months ended March 31, 2017. As of March 31, 2017, we had aggregate borrowings of \$4.0 billion outstanding under our credit facilities, with a weighted-average cash

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

coupon of LIBOR plus 1.90% per annum, a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.11% per annum, and a weighted-average advance rate of 78.9%. As of March 31, 2017, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.5 years.

The weighted-average outstanding balance of our credit facilities was \$2.9 billion for the three months ended December 31, 2016. As of December 31, 2016, we had aggregated borrowings of \$3.6 billion outstanding under our credit facilities, with a weighted-average cash coupon of LIBOR plus 1.82% per annum, a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.02% per annum, and a weighted-average advance rate of 79.1%. As of December 31, 2016, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.5 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.

The following tables outline the key terms of our credit facilities as of March 31, 2017:

<b>Lender</b>	<b>Currency</b>	<b>Guarantee<sup>(1)</sup></b>	<b>Margin Call<sup>(2)</sup></b>	<b>Term/Maturity</b>
Wells Fargo	\$	25%	Collateral marks only	Term matched <sup>(3)</sup>
MetLife	\$	50%	Collateral marks only	April 22, 2022 <sup>(4)</sup>
Bank of America	\$	50%	Collateral marks only	May 21, 2021 <sup>(5)</sup>
Citibank	\$ / £/	25%	Collateral marks only	Term matched <sup>(3)</sup>
Deutsche Bank	\$	25%	Collateral marks only	Term matched <sup>(3)</sup>
Morgan Stanley	£ /	25%	Collateral marks only	March 1, 2020
Société Générale	\$ /£/	25%	Collateral marks only	Term matched <sup>(3)</sup>
JP Morgan	\$ / £	50%	Collateral marks only	January 7, 2019

- (1) Other than amounts guaranteed based on specific collateral asset types, borrowings under our credit facilities are non-recourse to us.
- (2) Margin call provisions under our credit facilities do not permit valuation adjustments based on capital markets events, and are limited to collateral-specific credit marks.
- (3) These credit facilities have various availability periods during which new advances can be made and which are generally subject to each lender's discretion. Maturity dates for advances outstanding are tied to the term of each respective collateral asset.
- (4)

Includes five one-year extension options which may be exercised at our sole discretion.

- (5) Includes two one-year extension options which may be exercised at our sole discretion.

Currency	Outstanding Borrowings	Potential Borrowings <sup>(1)</sup>	Index	Rate <sup>(2)</sup>	Advance Rate <sup>(3)</sup>
\$	\$3,639,921	\$4,030,008	1-month USD LIBOR	L+1.88%	78.9%
		38,269	3-month EURIBOR	n/a	77.8%
£	£ 253,500	£ 269,273	3-month GBP LIBOR	L+2.15%	79.0%
	\$3,958,064	\$4,407,600		L+1.90%	78.9%

- (1) Potential borrowings represents 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 credit facility.
- (2) Represents weighted-average cash coupon based on borrowings outstanding.
- (3) Represents weighted-average advance rate based on the outstanding principal balance of the collateral assets pledged.

### GE Portfolio Acquisition Facility

During the second quarter of 2015, concurrently with our acquisition of the GE portfolio, we entered into an agreement with Wells Fargo to provide us with secured financing for the acquired portfolio. As of March 31, 2017, this facility provided for \$1.4 billion of financing, of which \$1.3 billion was outstanding and an additional \$171.7 million was available to finance future loan fundings in the GE portfolio. The GE portfolio acquisition facility is non-revolving and consists of a single master repurchase agreement providing for asset-specific borrowings for each collateral asset.

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

The asset-specific borrowings under the GE portfolio acquisition facility were advanced at a weighted-average rate of 80% of our purchase price of the collateral assets and are repaid pro rata from collateral asset repayment proceeds. The asset-specific borrowings are currency matched to the collateral assets and accrue interest at a rate equal to the sum of (i) the applicable base rate plus (ii) a margin of 1.75%, which will increase to 1.80% and 1.85% in year four and year five, respectively. As of March 31, 2017, those borrowings were denominated in U.S. Dollars, Canadian Dollars, and British Pounds Sterling. The asset-specific borrowings are term matched to the underlying collateral assets with an outside maturity date of May 20, 2020, which may be extended pursuant to two one-year extension options. We guarantee obligations under the GE portfolio acquisition facility in an amount equal to the greater of (i) 25% of outstanding asset-specific borrowings, and (ii) \$250.0 million. We had outstanding asset-specific borrowings of \$1.3 billion and \$1.5 billion under the GE portfolio acquisition facility as of March 31, 2017 and December 31, 2016, respectively.

**Asset-Specific Financings**

The following tables detail statistics for our asset-specific financings (\$ in thousands):

March 31, 2017							
Lender	Count	Principal Balance	Book Value	Wtd. Avg. Yield/Cost <sup>(1)</sup>	Guarantee <sup>(2)</sup>	Wtd. Avg. Term <sup>(3)</sup>	
JP Morgan <sup>(4)</sup>							
Collateral assets	1	\$ 286,887	\$ 285,955	L+3.88%	n/a	Jan. 2020	
Financing provided	1	233,679	233,413	L+1.89%	\$ 116,839	Jan. 2020	
Citibank <sup>(4)</sup>							
Collateral assets	2	204,617	204,548	L+4.40%	n/a	Nov. 2020	
Financing provided	2	161,163	161,123	L+2.42%	40,291	Nov. 2020	
Bank of the Ozarks							
Collateral assets	2	169,986	167,510	L+6.51%	n/a	June 2020	
Financing provided	2	128,969	128,045	L+3.83%		June 2020	
Wells Fargo							
Collateral assets	1	62,523	62,302	L+6.05%	n/a	Dec. 2019	
Financing provided	1	43,766	43,609	L+3.14%	8,753	Dec. 2019	
Total							
Collateral assets	6	\$ 724,013	\$ 720,315	L+4.83%	n/a		
Financing provided	6	\$ 567,577	\$ 566,190	L+2.58%	\$ 165,883		

(1)



These floating rate loans and related liabilities are indexed to the various benchmark rates relevant in each arrangement in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate. In addition to cash coupon, yield/cost includes the amortization of deferred origination fees / financing costs.

- (2) Other than amounts guaranteed on an asset-by-asset basis, borrowings under our asset-specific financings are non-recourse to us.
- (3) The weighted-average term is determined based on the maximum maturity of the corresponding loans, assuming all extension options are exercised by the borrower. Each of our asset-specific financings are term-matched to the corresponding collateral loans.
- (4) Borrowings under these asset specific financings are cross collateralized with the related credit facility with the same lender.

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

December 31, 2016						
Lender	Count	Principal Balance	Book Value	Wtd. Avg. Yield/Cost <sup>(1)</sup>	Guarantee <sup>(2)</sup>	Wtd. Avg. Term <sup>(3)</sup>
<u>JP Morgan<sup>(4)</sup></u>						
Collateral assets	1	\$ 284,012	\$ 282,818	L+3.88%	n/a	Jan. 2020
Financing provided	1	233,679	233,626	L+1.89%	\$ 116,839	Jan. 2020
<u>Citibank<sup>(4)</sup></u>						
Collateral assets	2	203,656	203,555	L+4.40%	n/a	Nov. 2020
Financing provided	2	158,652	158,609	L+2.42%	39,663	Nov. 2020
<u>Deutsche Bank</u>						
Collateral assets	1	183,300	180,866	L+5.18%	n/a	Aug. 2021
Financing provided	1	135,075	133,621	L+3.03%	66,410	Aug. 2021
<u>Bank of the Ozarks</u>						
Collateral assets	2	143,164	140,524	L+6.42%	n/a	Apr. 2020
Financing provided	2	108,435	107,323	L+3.68%		Apr. 2020
<u>Wells Fargo</u>						
Collateral assets	1	61,951	61,654	L+6.05%	n/a	Dec. 2019
Financing provided	1	43,366	43,154	L+2.97%	8,673	Dec. 2019
<u>Total</u>						
Collateral assets	7	\$ 876,083	\$ 869,417	L+4.84%	n/a	
Financing provided	7	\$ 679,207	\$ 676,333	L+2.60%	\$ 231,585	

- (1) These floating rate loans and related liabilities are indexed to the various benchmark rates relevant in each arrangement in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate. In addition to cash coupon, yield/cost includes the amortization of deferred origination fees / financing costs.
- (2) Other than amounts guaranteed on an asset-by-asset basis, borrowings under our asset-specific financings are non-recourse to us.
- (3) The weighted-average term is determined based on the maximum maturity of the corresponding loans, assuming all extension options are exercised by the borrower. Each of our asset-specific financings are term-matched to the corresponding collateral loans.
- (4) Borrowings under these asset specific financings are cross collateralized with the related credit facility with the same lender.

The weighted-average outstanding balance of our asset-specific financings was \$696.4 million for the three months ended March 31, 2017 and \$606.9 million for the three months ended December 31, 2016.

### **Revolving Credit Agreement**

During the second quarter of 2016, we entered into a \$125.0 million full recourse secured revolving credit agreement with Barclays that is designed to finance first mortgage originations for up to six months as a bridge to term financing or syndication. Advances under the agreement are subject to availability under a specified borrowing base and accrue interest at a per annum pricing rate equal to the sum of (i) an applicable base rate or Eurodollar rate and (ii) an applicable margin, in each case, dependent on the applicable type of loan collateral. The initial maturity date of the facility is April 4, 2018 and is subject to two one-year extension options, exercisable at our option.

During the three months ended March 31, 2017, we had no borrowings under the revolving credit agreement and we recorded interest expense of \$240,000, including \$126,000 of amortization of deferred fees and expenses.

During the three months ended December 31, 2016, the weighted-average outstanding borrowings under the revolving credit agreement were \$35.3 million and we recorded interest expense of \$506,000, including \$128,000 of amortization of deferred fees and expenses. As of December 31, 2016 we had no outstanding borrowings under the agreement.

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

Each of the guarantees related to our secured debt agreements contain the following uniform financial covenants: (i) our ratio of earnings before interest, taxes, depreciation, and amortization, or EBITDA, to fixed charges, as defined in the agreements, shall be not less than 1.4 to 1.0; (ii) our tangible net worth, as defined in the agreements, shall not be less than \$1.9 billion as of each measurement date plus 75% of the net cash proceeds of future equity issuances subsequent to March 31, 2017; (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 March 31, 2017 and December 31, 2016, we were in compliance with these covenants.

**7. LOAN PARTICIPATIONS SOLD, NET**

The financing of a loan by the non-recourse sale of a senior interest in the loan through a participation agreement generally does not qualify as a sale under GAAP. Therefore, in the instance of such sales, we present the whole loan as an asset and the loan participation sold as a liability on our consolidated balance sheet until the loan is repaid. The obligation to pay principal and interest on these liabilities is generally based on the performance of the related loan obligation. The gross presentation of loan participations sold does not impact stockholders' equity or net income.

The following tables detail statistics for our loan participations sold (\$ in thousands):

March 31, 2017						
Loan Participations Sold	Count	Principal Balance	Book Value	Wtd. Avg. Yield/Cost	Guarantee <sup>(2)</sup>	Wtd. Avg. Term
Total loan	1	\$ 426,700	\$ 423,575	L+4.48%	n/a	Dec. 2019
Senior participation <sup>(3)(4)</sup>	1	355,583	354,131	L+2.72%	\$ 30,120	Dec. 2019

  

December 31, 2016						
Loan Participations Sold	Count	Principal Balance	Book Value	Wtd. Avg. Yield/Cost	Guarantee <sup>(2)</sup>	Wtd. Avg. Term
Total loan	1	\$ 419,560	\$ 416,233	L+4.48%	n/a	Dec. 2019
Senior participation <sup>(3)(4)</sup>	1	349,633	348,077	L+2.72%	\$ 29,616	Dec. 2019

- (1) Our floating rate loans and related liabilities were indexed to the various benchmark rates relevant in each arrangement in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate. In addition to cash coupon, yield/cost includes the amortization of deferred fees / financing costs.

- (2) Other than one instance where we entered into a related guarantee agreement for £24.0 million (\$30.1 million and \$29.6 million as of March 31, 2017 and December 31, 2016, respectively), our loan participations sold are non-recourse to us.
- (3) During the three months ended March 31, 2017 and December 31, 2016, we recorded \$2.6 million and \$2.9 million, respectively, of interest expense related to our loan participations sold, of which \$2.5 million and \$2.8 million was paid in cash.
- (4) The difference between principal balance and book value of loan participations sold is due to deferred financing costs of \$1.5 million and \$1.6 million as of March 31, 2017 and December 31, 2016, respectively.

## **8. 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.

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 Convertible Notes were not convertible as of March 31, 2017. The conversion rate was initially set to equal 34.8943 shares of class A common stock per \$1,000 principal amount of Convertible Notes, which was equivalent to an initial conversion price of

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

\$28.66 per share of class A common stock, subject to adjustment upon the occurrence of certain events. As a result of exceeding the cumulative dividend threshold as defined in the Convertible Notes Supplemental Indenture, the conversion rate was adjusted on September 28, 2016 to 35.7236 shares of Class A common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to a conversion price of \$27.99 per share of class A common stock. We may not redeem the Convertible Notes prior to maturity. The last reported sale price of our Class A common stock of \$30.96 on March 31, 2017 was greater than the per share conversion price of the Convertible Notes. We have the intent and ability to settle the Convertible Notes in cash and, as a result, the Convertible Notes did not have any impact on our diluted earnings per share.

Upon issuance of the Convertible Notes, we recorded a \$9.1 million discount based on the implied value of the conversion option and an assumed effective interest rate of 6.50%, as well as \$4.1 million of initial issuance costs. Including the amortization of this discount and the issuance costs, our total cost of the Convertible Notes is 7.16% per annum. During the three months ended March 31, 2017, we incurred total interest on our Convertible Notes of \$3.0 million, of which \$2.3 million related to cash coupon and \$713,000 related to the amortization of discount and certain issuance costs. During the three months ended March 31, 2016, we incurred total interest on our Convertible Notes of \$3.0 million, of which \$2.3 million related to cash coupon and \$670,000 related to the amortization of discount and certain issuance costs.

As of March 31, 2017, the Convertible Notes were carried on our consolidated balance sheet at \$167.5 million, net of an unamortized discount of \$4.8 million and deferred financing costs of \$180,000. As of December 31, 2016, the Convertible Notes were carried on our consolidated balance sheet at \$166.8 million, net of an unamortized discount of \$5.5 million and deferred financing costs of \$206,000. Accrued interest payable for the Convertible Notes was \$3.0 million and \$755,000 as of March 31, 2017 and December 31, 2016, respectively. Refer to Note 2 for additional discussion of our accounting policies for the Convertible Notes.

**9. DERIVATIVE FINANCIAL INSTRUMENTS**

The sole objective of our use of derivative financial instruments is to minimize the risks and/or costs associated with our investments and/or financing transactions. These derivatives may or may not qualify as net investment, cash flow, or fair value hedges under the hedge accounting requirements of ASC 815 Derivatives and Hedging. Derivatives not designated as hedges are not speculative and are used to manage our exposure to interest rate movements and other identified risks. For more information on the accounting for designated and non-designated hedges, refer to Note 2.

The use of derivative financial instruments involves certain risks, including the risk that the counterparties to these contractual arrangements do not perform as agreed. To mitigate this risk, we only enter into derivative financial instruments with counterparties that have appropriate credit ratings and are major financial institutions with which we and our affiliates may also have other financial relationships. We do not anticipate that any of the counterparties will fail to meet their obligations.

**Net Investment Hedges of Foreign Currency Risk**

Certain of our international investments expose us to fluctuations in foreign interest rates and currency exchange rates. These fluctuations may impact the value of our cash receipts and payments in terms of our functional currency, the U.S. Dollar. We use foreign currency forward contracts to protect the value or fix the amount of certain investments or cash flows in terms of the U.S. Dollar.

The following table details our outstanding foreign exchange derivatives that were designated as net investment hedges of foreign currency risk (notional amount in thousands):

March 31, 2017			December 31, 2016		
Foreign Currency Derivatives	Number of Instruments	Notional Amount	Foreign Currency Derivatives	Number of Instruments	Notional Amount
Sell GBP Forward	1	£ 141,900	Sell GBP Forward	2	£ 141,900
Sell CAD Forward	1	C\$ 122,900	Sell CAD Forward	2	C\$ 122,900
			Sell EUR Forward	1	44,900

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****Cash Flow Hedges of Interest Rate Risk**

Certain of our financing transactions expose us to a fixed versus floating rate mismatch between our assets and liabilities. We use derivative financial instruments, which include interest rate caps and swaps, and may also include interest rate options, floors, and other interest rate derivative contracts, to hedge interest rate risk associated with our borrowings where there is potential for an index mismatch.

The following tables detail our outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (notional amount in thousands):

<b>March 31, 2017</b>					
<b>Interest Rate Derivatives</b>	<b>Number of Instruments</b>	<b>Notional Amount</b>	<b>Strike</b>	<b>Index</b>	<b>Wtd.-Avg. Maturity (Years)</b>
Interest Rate Swaps <sup>(1)</sup>	4	C\$ 108,271	1.0%	CDOR	2.2
Interest Rate Caps	19	\$ 633,903	2.0%	USD LIBOR	0.2
Interest Rate Caps	6	C\$ 304,931	2.0%	CDOR	0.2
Interest Rate Caps	1	£ 15,142	2.0%	GBP LIBOR	0.1

<b>December 31, 2016</b>					
<b>Interest Rate Derivatives</b>	<b>Number of Instruments</b>	<b>Notional Amount</b>	<b>Strike</b>	<b>Index</b>	<b>Wtd.-Avg. Maturity (Years)</b>
Interest Rate Swaps <sup>(1)</sup>	4	C\$ 108,271	1.0%	CDOR	2.4
Interest Rate Caps	21	\$ 802,256	2.0%	USD LIBOR	0.4
Interest Rate Caps	5	C\$ 400,035	2.0%	CDOR	0.4
Interest Rate Caps	1	£ 15,142	2.0%	GBP LIBOR	0.3

- (1) Two of our interest rate swaps totaling C\$91.0 million (\$68.3 million and \$67.7 million as of March 31, 2017 and December 31, 2016, respectively) do not become effective until June 1, 2017.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our floating rate debt. During the twelve months following March 31, 2017, we estimate that an additional \$470,000 will be reclassified from accumulated other comprehensive income as an increase to interest expense. Additionally, during the three months ended March 31, 2017 and 2016, we did not record any hedge ineffectiveness in our consolidated statements of operations.

**Non-designated Hedges**



During the three months ended March 31, 2017 and 2016, we recorded gains of \$90,000 and losses of \$976,000, respectively, related to non-designated hedges that were reported as a component of interest expense in our consolidated financial statements.

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

The following tables summarize our non-designated hedges (notional amount in thousands):

<b>March 31, 2017</b>		
<b>Non-designated Hedges</b>	<b>Number of Instruments</b>	<b>Notional Amount</b>
Interest Rate Caps	2	\$ 72,960
Interest Rate Caps	1	C\$ 18,327
Buy GBP / Sell EUR Forward	1	12,857

<b>December 31, 2016</b>		
<b>Non-designated Hedges</b>	<b>Number of Instruments</b>	<b>Notional Amount</b>
Interest Rate Caps	3	\$ 256,875
Interest Rate Caps	2	C\$ 37,221
Buy GBP / Sell EUR Forward	1	12,857

**Valuation of Derivative Instruments**

The following table summarizes the fair value of our derivative financial instruments (\$ in thousands):

	<b>Fair Value of Derivatives in an Asset Position<sup>(1)</sup> as of</b>		<b>Fair Value of Derivatives in a Liability Position<sup>(2)</sup> as of</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange contracts	\$ 1,174	\$ 3,268	\$	\$ 210
Interest rate derivatives	236	331		
Total derivatives designated as hedging instruments	\$ 1,410	\$ 3,599	\$	\$ 210
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange contracts	\$ 14	\$ 487	\$	\$
Interest rate derivatives				
	\$ 14	\$ 487	\$	\$

Total derivatives not designated as  
hedging instruments

<b>Total Derivatives</b>	\$ 1,424	\$ 4,086	\$	\$ 210
--------------------------	----------	----------	----	--------

- (1) Included in other assets in our consolidated balance sheets.
- (2) Included in other liabilities in our consolidated balance sheets.

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

The following table presents the effect of our derivative financial instruments on our consolidated statements of operations (\$ in thousands):

<b>Derivatives in Hedging Relationships</b>	<b>Amount of Loss Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31,</b>		<b>Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)</b>	<b>Amount of Loss Reclassified from Accumulated OCI into Reclassified Income (Effective Portion) Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>		<b>2017</b>	<b>2016</b>
<b>Net Investment</b>					
Foreign exchange contracts <sup>(1)</sup>	\$ (4,294)	\$ (6,470)	Interest Expense	\$	\$
<b>Cash Flow Hedges</b>					
Interest rate derivatives	(105)	(196)	Interest Expense	(474)	(27)
<b>Total</b>	<b>\$ (4,399)</b>	<b>\$ (6,666)</b>		<b>\$ (474)</b>	<b>\$ (27)</b>

- (1) During the three months ended March 31, 2017 and 2016, we paid net cash settlements of \$1.8 million and received \$8.2 million on our foreign currency forward contracts, respectively. Those amounts are included as a component of accumulated other comprehensive loss on our consolidated balance sheets.

**Credit-Risk Related Contingent Features**

We have entered into agreements with certain of our derivative counterparties that contain provisions where if we were to default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, we may also be declared in default on our derivative obligations. In addition, certain of our agreements with our derivative counterparties require that we post collateral to secure net liability positions. As of March 31, 2017, we were in a net asset position with each such derivative counterparty.

**10. EQUITY****Stock and Stock Equivalents**

*Authorized Capital*

As of March 31, 2017, we had the authority to issue up to 300,000,000 shares of stock, consisting of 200,000,000 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. We did not have any shares of preferred stock issued and outstanding as of March 31, 2017.

*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.

We also issue restricted class A common stock under our stock-based incentive plans. Refer to Note 13 for additional discussion of these long-term incentive plans. 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.

**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, including restricted class A common stock and deferred stock units:

<b>Common Stock Outstanding<sup>(1)</sup></b>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Beginning balance	94,709,290	93,843,847
Issuance of class A common stock <sup>(2)</sup>	270	285
Issuance of restricted class A common stock, net	277,815	209,798
Issuance of deferred stock units	6,415	7,322
Ending balance	94,993,790	94,061,252

(1) Includes deferred stock units held by members of our board of directors of 175,442 and 148,843 as of March 31, 2017 and 2016, respectively.

(2) Consists of 270 and 285 shares under our dividend reinvestment program during the three months ended March 31, 2017 and 2016, respectively.

*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 three months ended March 31, 2017 and 2016, we issued 270 shares and 285 shares, respectively, of class A common stock under the dividend reinvestment component of the plan. As of March 31, 2017, a total of 9,998,057 shares of class A common stock remained available for issuance under the dividend reinvestment and direct stock purchase plan.

*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. On July 29, 2016, in connection with filing a new universal shelf registration statement on Form S-3, we entered into amendments to each of the ATM Agreements. Sales of class A common stock made pursuant to the ATM Agreements 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, our capital needs, and our determination of the appropriate sources of

funding to meet such needs. We did not sell any shares of our class A common stock under the ATM Agreements during the three months ended March 31, 2017 and 2016. As of March 31, 2017, sales of our class A common stock with an aggregate sales price of \$188.6 million remained available for issuance under the ATM Agreements.

### **Dividends**

We generally intend to distribute substantially all of our taxable income, which does not necessarily equal net income as calculated in accordance with GAAP, to our stockholders each year 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.

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

On March 15, 2017, we declared a dividend of \$0.62 per share, or \$58.8 million, that was paid on April 17, 2017, to stockholders of record as of March 31, 2017. The following table details our dividend activity (\$ in thousands, except per share data):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Dividends declared per share of common stock	\$ 0.62	\$ 0.62
Total dividends declared	\$ 58,787	\$ 58,226

**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 dividends, and therefore have been included in our basic and diluted net income per share calculation. Our Convertible Notes are excluded from dilutive earnings per share as we have the intent and ability to settle these instruments in cash.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net income <sup>(1)</sup>	\$ 51,405	\$ 57,047
Weighted-average shares outstanding, basic and diluted	94,993,386	94,067,769
Per share amount, basic and diluted	\$ 0.54	\$ 0.61

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

**Other Balance Sheet Items***Accumulated Other Comprehensive Loss*



As of March 31, 2017, total accumulated other comprehensive loss was \$52.4 million, primarily representing (i) \$99.7 million of cumulative unrealized currency translation adjustments on assets and liabilities denominated in foreign currencies and (ii) an offsetting \$47.3 million of net realized and unrealized gains related to changes in the fair value of derivative instruments. As of December 31, 2016, total accumulated other comprehensive loss was \$56.2 million, primarily representing (i) \$107.5 million of cumulative unrealized currency translation adjustments on assets and liabilities denominated in foreign currencies and (ii) an offsetting \$51.3 million of net realized and unrealized gains related to changes in the fair value of derivative instruments.

## **11. OTHER EXPENSES**

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

### **Management and Incentive Fees**

Pursuant to a management agreement between our Manager and us, or our Management Agreement, our Manager earns a base management fee in an amount 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 our 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 is greater than zero. Core Earnings, as defined in our Management Agreement, 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 and (iii) incentive management fees.

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

During the three months ended March 31, 2017 and 2016, we incurred \$9.6 million and \$9.5 million, respectively, of management fees payable to our Manager. In addition, during the three months ended March 31, 2017 and 2016, we incurred \$3.3 million and \$4.2 million, respectively, of incentive fees payable to our Manager.

As of March 31, 2017 and December 31, 2016 we had accrued management and incentive fees payable to our Manager of \$12.9 million and \$12.8 million, respectively.

**General and Administrative Expenses**

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

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Professional services	\$ 1,017	\$ 890
Operating and other costs	445	869
<b>Subtotal</b>	<b>1,462</b>	<b>1,759</b>
<u>Non-cash and CT Legacy Portfolio compensation expenses</u>		
Management incentive awards plan - CTOPI <sup>(1)</sup>		170
Management incentive awards plan - CT Legacy Partners <sup>(2)</sup>		129
Restricted class A common stock earned	5,813	4,593
Director stock-based compensation	94	94
<b>Subtotal</b>	<b>5,907</b>	<b>4,986</b>
Total BXMT expenses	7,369	6,745
Other expenses	59	50
<b>Total general and administrative expenses</b>	<b>\$ 7,428</b>	<b>\$ 6,795</b>

(1) Represents the portion of CTOPI promote revenue recorded under compensation awards. See Note 4 for further discussion.

(2) Represents the amounts recorded 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 our subsidiary, CT Legacy Partners (subject to certain caps and priority distributions). During the three months ended March 31, 2016 we recognized \$129,000 of expenses under the CT Legacy Partners incentive plan. Our investment in CT Legacy Partners was substantially realized as of December 31, 2016.

## **12. 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 March 31, 2017 and December 31, 2016, we were in compliance with all REIT requirements.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

During the three months ended March 31, 2017 and 2016, we recorded a current income tax provision of \$89,000 and \$241,000, respectively, primarily related to activities of our taxable REIT subsidiaries and various state and local taxes. We did not have any deferred tax assets or liabilities as of March 31, 2017 or December 31, 2016.

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, 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, 2016, we had estimated NOLs of \$159.0 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.

As of March 31, 2017, tax years 2013 through 2016 remain subject to examination by taxing authorities.

**13. STOCK-BASED INCENTIVE PLANS**

We do not have any employees as we are externally managed by our Manager. However, as of March 31, 2017, our Manager, certain individuals employed by an affiliate of our Manager, and certain members of our board of directors were compensated, in part, through the issuance of stock-based instruments.

We had stock-based incentive awards outstanding under seven benefit plans as of March 31, 2017: (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; (v) our 2013 manager incentive plan, or 2013 Manager Plan; (vi) our 2016 stock incentive plan, or 2016 Plan; and (vii) our 2016 manager incentive plan, or 2016 Manager Plan. We refer to our 1997 Plan, our 2007 Plan, our 2011 Plan, our 2013 Plan, and our 2013 Manager Plan, collectively, as our Expired Plans and we refer to our 2016 Plan and 2016 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 2,400,000 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 March 31, 2017, there were 1,471,955 shares available under the Current Plans.

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</b>
--	---

			<b>Share</b>
Balance as of December 31, 2016	1,309,995	\$	28.68
Granted	280,938		30.54
Vested	(111,699)		27.77
Forfeited	(3,123)		27.37
Balance as of March 31, 2017	1,476,111	\$	29.11

These shares generally vest in installments over a three-year period, pursuant to the terms of the respective award agreements and the terms of the Current Plans. The 1,476,111 shares of restricted class A common stock outstanding as of March 31, 2017 will vest as follows: 636,317 shares will vest in 2017; 537,562 shares will vest in 2018; and 302,232 shares will vest in 2019. As of March 31, 2017, total unrecognized compensation cost relating to nonvested share-based compensation arrangements was \$45.7 million based on the March 31, 2017 closing price of our class A common stock of \$30.96. This cost is expected to be recognized over a weighted average period of 1.2 years from March 31, 2017.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****14. FAIR VALUES****Assets and Liabilities Measured at Fair Value**

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

	<b>March 31, 2017</b>				<b>December 31, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b><u>Assets</u></b>								
Derivatives	\$	\$ 1,424	\$	\$ 1,424	\$	\$ 4,086	\$	\$ 4,086
<b><u>Liabilities</u></b>								
Derivatives	\$	\$	\$	\$	\$	\$ 210	\$	\$ 210

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):

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016<sup>(1)</sup></b>
January 1,	\$	\$ 12,561
Proceeds from investment realizations		(2,406)
<b><u>Adjustments to fair value included in earnings</u></b>		
Gain on investments at fair value		66
March 31,	\$	\$ 10,221

- (1) All assets measured at fair value on a recurring basis using Level 3 inputs were included as a component of other assets in the consolidated Balance Sheets.

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

	March 31, 2017			December 31, 2016		
	Carrying Amount	Face Amount	Fair Value	Carrying Amount	Face Amount	Fair Value
<b>Financial assets</b>						
Cash and cash equivalents	\$ 64,275	\$ 64,275	\$ 64,275	\$ 75,567	\$ 75,567	\$ 75,567
Loans receivable, net	8,721,768	8,759,696	8,765,688	8,692,978	8,727,218	8,733,784
<b>Financial liabilities</b>						
Secured debt agreements, net	5,760,191	5,776,165	5,776,165	5,716,354	5,731,626	5,731,626
Loan participations sold, net	354,131	355,583	355,583	348,077	349,633	349,633
Convertible notes, net	167,475	172,500	194,870	166,762	172,500	191,763

Estimates of fair value for cash and 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.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**15. TRANSACTIONS WITH RELATED PARTIES**

We are managed by our Manager pursuant to the Management Agreement, the current term of which expires on December 19, 2017, and will be automatically renewed for a one-year term each anniversary thereafter unless earlier terminated.

As of March 31, 2017 and December 31, 2016, our consolidated balance sheet included \$12.9 million and \$12.8 million of accrued management and incentive fees payable to our Manager, respectively. During the three months ended March 31, 2017, we paid \$12.8 million, of management and incentive fees to our Manager, compared to \$14.4 million during the same period of 2016. In addition, during the three months ended March 31, 2017, we reimbursed our Manager for \$93,000 of expenses incurred on our behalf compared to \$320,000 during the same period of 2016. During the three months ended March 31, 2016, CT Legacy Partners made aggregate preferred distributions of \$224,000 to an affiliate of our Manager.

As of March 31, 2017, our Manager held 719,903 shares of unvested restricted class A common stock, which had an aggregate grant date fair value of \$20.9 million. The shares vest in installments over three years from the date of issuance. During the three months ended March 31, 2017 and 2016, we recorded non-cash expense related to shares held by our Manager of \$2.9 million and \$2.1 million, respectively. We did not issue any shares of restricted class A common stock to our Manager during the three months ended March 31, 2017 or 2016, respectively. Refer to Note 13 for further details.

During the three months ended March 31, 2017, we originated two loans whereby each respective borrower engaged an affiliate of our Manager to act as title insurance agent in connection with each transaction. We did not incur any expenses or receive any revenues as a result of this transaction. We did not have any similar transactions during the three months ended March 31, 2016.

During the three months ended March 31, 2017 and 2016, we incurred \$88,000 and \$90,000, respectively, of expenses for various administrative and capital market data services to third-party service providers that are affiliates of our Manager.

**16. COMMITMENTS AND CONTINGENCIES**

**Unfunded Commitments Under Loans Receivable**

As of March 31, 2017, we had unfunded commitments of \$1.1 billion related to 58 loans receivable, which amounts will generally be funded to finance lease-related or capital expenditures by our borrowers. These future commitments will expire variously over the next four years.

**Litigation**



From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of March 31, 2017, we were not involved in any material legal proceedings.

### **Board of Directors Compensation**

As of March 31, 2017, of the eight members of our board of directors, our five independent directors are entitled to annual compensation of \$125,000 each. The other three board members, including our chairman and our chief executive officer, serve as directors without compensation for such service. As of March 31, 2017, the annual compensation for our directors was paid 40% in cash and 60% in the form of deferred stock units. In addition, the member of our board of directors that serves as the chairperson of the audit committee of our board of directors receives additional annual cash compensation of \$12,000. Compensation to the board of directors is payable in four equal quarterly installments.

In April 2017, our board of directors approved changes to the compensation of our five independent directors which will be effective as of the beginning of the third quarter of 2017. The other three board members, including our chairman and our chief executive officer, will continue to serve as directors without compensation for such service. These changes will increase the annual compensation of our directors from \$125,000 to \$175,000 and will be paid \$75,000 in cash and \$100,000 in the form of deferred stock units. In addition, the chair of our audit committee will receive an increase in the additional annual cash compensation from \$12,000 to \$20,000, the other members of our audit committee will receive additional annual cash compensation of \$10,000, and the chairs of each of our compensation and corporate governance committees will receive additional annual cash compensation of \$10,000.

## **Table of Contents**

### **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, 2016 and elsewhere in this quarterly report on Form 10-Q.*

#### **Introduction**

Blackstone Mortgage Trust is a real estate finance company that originates and purchases senior loans collateralized by properties in North America 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 an exclusion from registration under the Investment Company Act of 1940, as amended. We are organized as a holding company and conduct our business primarily through our various subsidiaries.

#### **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 March 31, 2017 we recorded earnings per share of \$0.54, declared a dividend of \$0.62 per share, and reported \$0.61 per share of Core Earnings. In addition, our book value per share as of March 31, 2017 was \$26.28. 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 we believe are not necessarily indicative of our current loan activity and operations.

#### **Earnings Per Share and Dividends Declared**

The following table sets forth the calculation of basic and diluted net income per share and dividends per share (\$ in thousands, except per share data):

	<b>Three Months Ended</b>
	<b>March 31, 2017      December 31, 2016</b>

Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

Net income <sup>(1)</sup>	\$ 51,405	\$ 53,375
Weighted-average shares outstanding, basic and diluted	94,993,386	94,455,518
Net income per share, basic and diluted	\$ 0.54	\$ 0.57
Dividends per share	\$ 0.62	\$ 0.62

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

## **Core Earnings**

Core Earnings is a non-GAAP measure, which we define as GAAP net income (loss), including realized gains and losses not otherwise included in GAAP net income (loss), and excluding (i) net income (loss) attributable to our CT Legacy Portfolio, (ii) non-cash equity compensation expense, (iii) depreciation and amortization, (iv) unrealized gains (losses), and (v) 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.

**Table of Contents**

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 portfolio and operations. Although, according to the management agreement between our Manager and us, or our Management Agreement, we calculate the incentive and base management fees due to our Manager using Core Earnings before incentive fees expense, we report Core Earnings after incentive fee expense, as we believe this is a more meaningful presentation of the economic performance of our class A common stock.

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 GAAP cash flows from operations, 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>March 31, 2017</b>	<b>December 31, 2016</b>
Net income <sup>(1)</sup>	\$ 51,405	\$ 53,375
CT Legacy Portfolio net income		(502)
Non-cash compensation expense	5,907	4,955
GE purchase discount accretion adjustment <sup>(2)</sup>	(216)	(320)
Other items	1,024	742
Core Earnings	\$ 58,120	\$ 58,250
Weighted-average shares outstanding, basic and diluted	94,993,386	94,455,518
Core Earnings per share, basic and diluted	\$ 0.61	\$ 0.62

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

(2) Adjustment in respect of the deferral in Core Earnings of the accretion of a total \$9.1 million of purchase discount attributable to a certain pool of GE portfolio loans pending the repayment of those loans.

**Book Value Per Share**

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

**March 31, 2017      December 31, 2016**

Edgar Filing: BLACKSTONE MORTGAGE TRUST, INC. - Form 10-Q

Stockholders' equity	\$	2,495,982	\$	2,493,603
Shares				
Class A common stock		94,818,348		94,540,263
Deferred stock units		175,442		169,027
Total outstanding		94,993,790		94,709,290
Book value per share	\$	26.28	\$	26.33

## II. Loan Portfolio

During the quarter ended March 31, 2017, we originated \$997.7 million of loans. Loan fundings during the quarter totaled \$725.2 million, including \$22.9 million of non-consolidated senior interests. Loan repayments during the quarter totaled \$780.8 million, including \$85.1 million of non-consolidated senior interests. We generated interest income of \$118.5 million and incurred interest expense of \$46.7 million during the quarter, which resulted in \$71.8 million of net interest income during the three months ended March 31, 2017.

**Table of Contents****Portfolio Overview**

The following table details our loan origination activity (\$ in thousands):

	Three Months Ended March 31, 2017	Three Months Ended December 31, 2016
Loan originations <sup>(1)</sup>	\$ 997,710	\$ 825,792
Loan fundings <sup>(2)</sup>	\$ 725,230	\$ 888,058
Loan repayments <sup>(3)</sup>	(780,813)	(476,113)
Total net (repayments) fundings	\$ (55,583)	\$ 411,945

(1) Includes new loan originations and additional commitments made under existing loans.

(2) Loan fundings during the three months ended March 31, 2017 and December 31, 2016 include \$22.9 million and \$36.8 million, respectively, of additional fundings under related non-consolidated senior interests.

(3) Loan repayments during the three months ended March 31, 2017 and December 31, 2016 include \$85.1 million and \$44.2 million, respectively, of additional repayments under related non-consolidated senior interests.

The following table details overall statistics for our loan portfolio as of March 31, 2017 (\$ in thousands):

	Balance Sheet Portfolio	Total Loan Portfolio	Total Loan Exposure <sup>(1)</sup> Floating Rate Loans	Fixed Rate Loans
Number of loans	103	103	88	15
Principal balance	\$ 8,759,696	\$ 9,733,377	\$ 8,847,683	\$ 885,694
Net book value	\$ 8,721,768	\$ 9,691,875	\$ 8,806,849	\$ 885,026
Unfunded loan commitments <sup>(2)</sup>	\$ 1,149,842	\$ 1,223,322	\$ 1,223,322	\$
Weighted-average cash coupon <sup>(3)</sup>	5.15%	4.97%	L + 4.06%	4.82%
Weighted-average all-in yield <sup>(3)</sup>	5.57%	5.43%	L + 4.48%	5.69%
Weighted-average maximum maturity (years) <sup>(4)</sup>	3.3	3.4	3.3	4.2
Loan to value (LTV) <sup>(5)</sup>	61.6%	60.9%	60.1%	69.2%

(1) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. Total loan exposure encompasses the entire loan we originated and financed, including \$1.0 billion of such non-consolidated senior interests that are not included in our balance sheet portfolio.

(2) Unfunded commitments will primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will be funded over the term of each loan, subject in certain cases to an expiration date.

- (3) As of March 31, 2017, our floating rate loans were indexed to various benchmark rates, with 85% of floating rate loans by principal balance indexed to USD LIBOR based on total loan exposure. In addition, \$217.8 million of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 1.22%, as of March 31, 2017. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, purchase discounts, and accrual of both extension and exit fees. Cash coupon and all-in yield for the total portfolio assume applicable floating benchmark rates for weighted-average calculation.
- (4) Maximum maturity assumes all extension options are exercised by the borrower, however our loans may be repaid prior to such date. As of March 31, 2017, based on total loan exposure, 62% of our loans were subject to yield maintenance or other prepayment restrictions and 38% were open to repayment by the borrower without penalty.
- (5) Based on LTV as of the dates loans were originated or acquired by us.



**Table of Contents**

The charts below detail the geographic distribution and types of properties securing these loans, as of March 31, 2017:

Refer to section VI of this Item 2 for details of our loan portfolio, on a loan-by-loan basis.

*Asset Management*

We actively manage the investments in our loan 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 and 5, from less risk to greater risk. The following table allocates the principal balance and total loan exposure balances based on our internal risk ratings (\$ in thousands):

<b>Risk Rating</b>	<b>Number of Loans</b>	<b>March 31, 2017</b>	
		<b>Net Book Value</b>	<b>Total Loan Exposure<sup>(1)</sup></b>
1	6	\$ 303,849	\$ 304,170
2	47	3,670,002	3,679,119
3	49	4,727,107	5,729,339
4	1	20,810	20,749
5			
	103	\$ 8,721,768	\$ 9,733,377

- (1) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. See Note 2 to our consolidated financial statements for further discussion. Total loan exposure encompasses the entire loan we originated and financed, including \$1.0 billion of such non-consolidated senior interests as of March 31, 2017.

The weighted-average risk rating of our total loan exposure was 2.6 and 2.5 as of March 31, 2017 and December 31, 2016, respectively. The increase in weighted-average risk rating was primarily driven by repayments of loans with lower risk ratings, and not rating downgrades in the existing portfolio.

**Portfolio Financing**

Our portfolio financing arrangements include credit facilities, the GE portfolio acquisition facility, asset-specific financings, a revolving credit agreement, loan participations sold, and non-consolidated senior interests.



**Table of Contents**

The following table details our portfolio financing (\$ in thousands):

	<b>Portfolio Financing</b>	
	<b>Outstanding Principal Balance</b>	
	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Credit facilities	\$ 3,958,064	\$ 3,572,837
GE portfolio acquisition facility	1,250,524	1,479,582
Asset-specific financings	567,577	679,207
Revolving credit agreement		
Loan participations sold	355,583	349,633
Non-consolidated senior interests	973,681	1,029,516
<b>Total portfolio financing</b>	<b>\$ 7,105,429</b>	<b>\$ 7,110,775</b>

**Credit Facilities**

The following table details our credit facilities (\$ in thousands):

<b>Lender</b>	<b>Maximum Facility Size<sup>(1)</sup></b>	<b>Collateral Assets<sup>(2)</sup></b>	<b>March 31, 2017</b>		
			<b>Potential<sup>(3)</sup></b>	<b>Credit Borrowings Outstanding</b>	<b>Available<sup>(3)</sup></b>
Wells Fargo	\$ 2,000,000	\$ 1,895,248	\$ 1,468,184	\$ 1,238,872	\$ 229,312
MetLife	1,000,000	1,104,478	866,114	866,114	
Bank of America	750,000	813,305	641,066	641,066	
Citibank <sup>(4)</sup>	766,300	509,582	393,933	295,777	98,156
Deutsche Bank	500,000	374,119	278,851	278,851	
Morgan Stanley <sup>(5)</sup>	627,500	329,767	260,623	220,969	39,654
Société Générale <sup>(6)</sup>	426,080	281,623	220,915	214,678	6,237
JP Morgan <sup>(7)</sup>	500,000	359,098	277,914	201,737	76,177
	<b>\$ 6,569,880</b>	<b>\$ 5,667,220</b>	<b>\$ 4,407,600</b>	<b>\$ 3,958,064</b>	<b>\$ 449,536</b>

- (1) Maximum facility size represents the largest amount of borrowings available under a given facility once sufficient collateral assets have been approved by the lender and pledged by us.
- (2) Represents the principal balance of the collateral assets.
- (3) Potential borrowings represents 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 credit facility.
- (4) As of March 31, 2017, the Citibank maximum facility size was composed of a general \$500.0 million facility size denominated in U.S. Dollars plus a general 250.0 million (\$266.3 million) facility size that contemplated British Pound Sterling

and Euro borrowings.

- (5) As of March 31, 2017, the Morgan Stanley maximum facility size was composed of a £500.0 million facility size that was translated to \$627.5 million. Borrowings denominated in British Pound Sterling and Euro are contemplated under this facility.
- (6) As of March 31, 2017, the Société Générale maximum facility size was composed of a 400.0 million facility size that was translated to \$426.1 million. Borrowings denominated in U.S. Dollars, British Pound Sterling, and Euro are contemplated under this facility.
- (7) As of March 31, 2017, the JP Morgan maximum facility size was composed of a general \$500.0 million facility size, under which U.S. Dollars and British Pound Sterling borrowings are contemplated.

The weighted-average outstanding balance of our credit facilities was \$3.5 billion for the three months ended March 31, 2017. As of March 31, 2017, we had aggregate borrowings of \$4.0 billion outstanding under our credit facilities, with a weighted-average cash coupon of LIBOR plus 1.90% per annum, a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.11% per annum, and a weighted-average advance rate of 78.9%. As of March 31, 2017, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.5 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.

**Table of Contents**

**GE Portfolio Acquisition Facility**

During the second quarter of 2015, concurrently with our acquisition of the GE portfolio, we entered into an agreement with Wells Fargo to provide us with secured financing for the acquired portfolio. As of March 31, 2017, this facility provided for \$1.4 billion of financing, of which \$1.3 billion was outstanding and an additional \$171.7 million was available to finance future loan fundings in the GE portfolio. The GE portfolio acquisition facility is non-revolving and consists of a single master repurchase agreement providing for asset-specific borrowings for each collateral asset.

The asset-specific borrowings under the GE portfolio acquisition facility were advanced at a weighted-average rate of 80% of our purchase price of the collateral assets and are repaid pro rata from collateral asset repayment proceeds. The asset-specific borrowings are currency matched to the collateral assets and accrue interest at a rate equal to the sum of (i) the applicable base rate plus (ii) a margin of 1.75%, which will increase to 1.80% and 1.85% in year four and year five, respectively. As of March 31, 2017, those borrowings were denominated in U.S. Dollars, Canadian Dollars, and British Pounds Sterling. The asset-specific borrowings are term matched to the underlying collateral assets with an outside maturity date of May 20, 2020, which may be extended pursuant to two one-year extension options. We guarantee obligations under the GE portfolio acquisition facility in an amount equal to the greater of (i) 25% of outstanding asset-specific borrowings, and (ii) \$250.0 million. We had outstanding asset-specific borrowings of \$1.3 billion and \$1.5 billion under the GE portfolio acquisition facility as of March 31, 2017 and December 31, 2016, respectively.

**Table of Contents****Asset-Specific Financings**

The following table details statistics for our asset-specific financings (\$ in thousands):

Lender	Count	Principal Balance	March 31, 2017				
			Book Value	Wtd. Avg. Yield/Cost <sup>(1)</sup>	Guarantee <sup>(2)</sup>	Wtd. Avg. Term <sup>(3)</sup>	
JP Morgan <sup>(4)</sup>							
Collateral assets	1	\$ 286,887	\$ 285,955	L+3.88%	n/a	Jan. 2020	
Financing provided	1	233,679	233,413	L+1.89%	\$ 116,839	Jan. 2020	
Citibank <sup>(4)</sup>							
Collateral assets	2	204,617	204,548	L+4.40%	n/a	Nov. 2020	
Financing provided	2	161,163	161,123	L+2.42%	40,291	Nov. 2020	
Bank of the Ozarks							
Collateral assets	2	169,986	167,510	L+6.51%	n/a	June 2020	
Financing provided	2	128,969	128,045	L+3.83%		June 2020	
Wells Fargo							
Collateral assets	1	62,523	62,302	L+6.05%	n/a	Dec. 2019	
Financing provided	1	43,766	43,609	L+3.14%	8,753	Dec. 2019	
Total							
Collateral assets	6	\$ 724,013	\$ 720,315	L+4.83%	n/a		
Financing provided	6	\$ 567,577	\$ 566,190	L+2.58%	\$ 165,883		

- (1) These floating rate loans and related liabilities are indexed to the various benchmark rates relevant in each arrangement in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate. In addition to cash coupon, yield/cost includes the amortization of deferred origination fees / financing costs.
- (2) Other than amounts guaranteed on an asset-by-asset basis, borrowings under our asset-specific financings are non-recourse to us.
- (3) The weighted-average term is determined based on the maximum maturity of the corresponding loans, assuming all extension options are exercised by the borrower. Each of our asset-specific financings are term-matched to the corresponding collateral loans.
- (4) Borrowings under these asset specific financings are cross collateralized with the related credit facility with the same lender.

Refer to Note 6 to our consolidated financial statements for additional terms and details of our secured debt agreements, including certain financial covenants.

**Revolving Credit Agreement**

During the second quarter of 2016, we entered into a \$125.0 million full recourse secured revolving credit agreement with Barclays that is designed to finance first mortgage originations for up to six months as a bridge to term financing or syndication. Advances under the agreement are subject to availability under a specified borrowing base and accrue

interest at a per annum pricing rate equal to the sum of (i) an applicable base rate or Eurodollar rate and (ii) an applicable margin, in each case, dependent on the applicable type of loan collateral. The initial maturity date of the facility is April 4, 2018 and is subject to two one-year extension options, exercisable at our option.

During the three months ended March 31, 2017, we had no borrowings under the revolving credit agreement and we recorded interest expense of \$240,000, including \$126,000 of amortization of deferred fees and expenses.

**Table of Contents****Loan Participations Sold**

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

Loan Participations Sold	Count	Principal Balance	March 31, 2017				Wtd. Avg. Term
			Book Value	Wtd. Avg. Yield/Cost <sup>(1)</sup>	Guarantee <sup>(2)</sup>		
Total loan	1	\$ 426,700	\$ 423,575	L+4.48%	n/a		Dec. 2019
Senior participation <sup>(3)(4)</sup>	1	355,583	354,131	L+2.72%	\$ 30,120		Dec. 2019

- (1) Our floating rate loans and related liabilities were indexed to the various benchmark rates relevant in each arrangement in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate. In addition to cash coupon, yield/cost includes the amortization of deferred fees / financing costs.
- (2) Other than one instance where we entered into a related guarantee agreement for £24.0 million (\$30.1 million as of March 31, 2017), our loan participations sold are non-recourse to us.
- (3) During the three months ended March 31, 2017, we recorded \$2.6 million of interest expense related to our loan participations sold, of which \$2.5 million was paid in cash.
- (4) The difference between principal balance and book value of loan participations sold is due to deferred financing costs of \$1.5 million as of March 31, 2017.

Refer to Note 7 to our consolidated financial statements for additional details of our loan participations sold.

**Non-Consolidated Senior Interests**

In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. These non-consolidated senior interests provide structural leverage for our net investments which are reflected in the form of mezzanine loans or other subordinate interests on our balance sheet and in our results of operations. The following table details the subordinate interests retained on our balance sheet and the related non-consolidated senior interests as of March 31, 2017 (\$ in thousands):

Non-Consolidated Senior Interests	Count	Principal Balance	March 31, 2017				Wtd. Avg. Term
			Book Value	Wtd. Avg. Yield/Cost <sup>(1)</sup>	Guarantee <sup>(2)</sup>		
Total loan	3	\$ 1,187,070	n/a	5.85%	n/a		May 2021
Senior participation	3	973,681	n/a	4.25%	n/a		May 2021

- (1) Our floating rate loans and related liabilities were indexed to the various benchmark rates relevant in each arrangement in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate. In addition to cash coupon, all-in yield/cost includes the amortization of deferred fees / financing costs.



### **Floating Rate Portfolio**

Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income. As of March 31, 2017, 91% of our loans by total loan exposure earned a floating rate of interest and were financed with liabilities that pay interest at floating rates, which resulted in an amount of net equity that is positively correlated to rising interest rates, subject to the impact of interest rate floors on certain of our floating rate loans. As of March 31, 2017, the remaining 9% of our loans by total loan exposure earned a fixed rate of interest, but are financed with liabilities that pay interest at floating rates, which resulted in a negative correlation to rising interest rates to the extent of our financing. In certain instances where we have financed fixed rate assets with floating rate liabilities, we have purchased interest rate swaps or caps to limit our exposure to increases in interest rates on such liabilities.

**Table of Contents**

Our liabilities are generally currency and index-matched to each collateral asset, resulting in a net exposure to movements in benchmark rates that varies by currency silo based on the relative proportion of floating rate assets and liabilities. The following table details our loan portfolio's net exposure to interest rates by currency as of March 31, 2017 (\$/£/ /C\$ in thousands):

	<b>USD</b>	<b>GBP</b>	<b>EUR</b>	<b>CAD</b>
Floating rate loans <sup>(1)</sup>	\$ 7,537,464	£ 730,547	47,836	C\$ 456,044
Floating rate debt <sup>(1)(2)(3)</sup>	(5,612,114)	(571,016)		(512,395)
Net floating rate exposure <sup>(4)</sup>	\$ 1,925,350	£ 159,531	47,836	C\$ (56,351)

- (1) Our floating rate loans and related liabilities are indexed to the various benchmark rates relevant in each case in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate.
- (2) Includes borrowings under secured debt agreements, loan participations sold, and non-consolidated senior interests.
- (3) Liabilities balance includes two interest rate swaps totaling C\$17.3 million (\$13.0 million as of March 31, 2017) that are used to hedge a portion of our fixed rate debt.
- (4) In addition, we have interest rate caps of \$706.9 million, £15.1 million, and C\$323.3 million to limit our exposure to increases in interest rates.

**Convertible Notes**

In November 2013, we issued \$172.5 million 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 cost of the Convertible Notes is 5.87%.

Refer to Notes 2 and 8 to our consolidated financial statements for additional discussion of our Convertible Notes.

Table of Contents**III. Our Results of Operations****Operating Results**

The following table sets forth information regarding our consolidated results of operations (\$ in thousands, except per share data):

	<b>Three Months Ended March 31,</b>		<b>2017 vs 2016</b>
	<b>2017</b>	<b>2016</b>	<b>\$</b>
<b>Income from loans and other investments</b>			
Interest and related income	\$ 118,517	\$ 123,025	\$ (4,508)
Less: Interest and related expenses	46,674	45,381	1,293
Income from loans and other investments, net	71,843	77,644	(5,801)
<b>Other expenses</b>			
Management and incentive fees	12,921	13,613	(692)
General and administrative expenses	7,428	6,795	633
Total other expenses	20,349	20,408	(59)
Gain on investments at fair value		66	(66)
Income from equity investment in unconsolidated subsidiary		138	(138)
<b>Income before income taxes</b>	<b>51,494</b>	<b>57,440</b>	<b>(5,946)</b>
<b>Income tax provision</b>	<b>89</b>	<b>241</b>	<b>(152)</b>
<b>Net income</b>	<b>51,405</b>	<b>57,199</b>	<b>(5,794)</b>
<b>Net income attributable to non-controlling interests</b>		(152)	152
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	<b>\$ 51,405</b>	<b>\$ 57,047</b>	<b>\$ (5,642)</b>
<b>Net income per share - basic and diluted</b>	<b>\$ 0.54</b>	<b>\$ 0.61</b>	<b>\$ (0.07)</b>
<b>Dividends declared per share</b>	<b>\$ 0.62</b>	<b>\$ 0.62</b>	<b>\$ 0.00</b>

*Income from loans and other investments, net*

Income from loans and other investments, net decreased \$5.8 million during the three months ended March 31, 2017 compared to the corresponding period in 2016. The decrease was primarily due to the decrease in the principal balance of our loan portfolio, which decreased by \$586.6 million as of March 31, 2017 compared with March 31, 2016.

*Other expenses*

Other expenses are composed of management and incentive fees payable to our Manager and general and administrative expenses. Other expenses decreased by \$59,000 during the three months ended March 31, 2017

compared to the corresponding period in 2016 due to (i) a decrease of \$778,000 of incentive fees payable to our Manager, (ii) a decrease of \$311,000 of general operating expenses, and (iii) a decrease of \$279,000 of compensation expenses associated with our CT Legacy Portfolio incentive plans. These were partially offset by \$1.2 million of additional non-cash restricted stock amortization related to shares awarded under our long-term incentive plans.

*Gain on investments at fair value*

During three months ended March 31, 2016, we recognized \$66,000 of net gains on investments held by CT Legacy Partners. Our investment in CT Legacy Partners was substantially realized as of December 31, 2016.

*Income from equity investment in unconsolidated subsidiary*

During the three months ended March 31, 2016, we recognized \$138,000 of promote income from CTOPI. The investment in CTOPI was fully realized as of December 31, 2016.

**Table of Contents***Net income attributable to non-controlling interests*

During the three months ended March 31, 2016, we recognized \$152,000 of net income attributable to non-controlling interests. The non-controlling interests represent the portion of CT Legacy Partners net income that is not owned by us. Our investment in CT Legacy Partners was substantially realized as of December 31, 2016.

*Dividends per share*

During the three months ended March 31, 2017, we declared a dividend of \$0.62 per share, or \$58.8 million, which was paid on April 17, 2017 to common stockholders of record as of March 31, 2017. During the three months ended March 31, 2016, we declared a dividend of \$0.62 per share, or \$58.2 million.

**IV. Liquidity and Capital Resources****Capitalization**

We have capitalized our business to date through, among other things, the issuance and sale of shares of our class A common stock, borrowings under secured debt agreements, and the issuance and sale of Convertible Notes. As of March 31, 2017, we had 94,818,348 shares of our class A common stock outstanding representing \$2.5 billion of stockholders' equity, \$5.8 billion of outstanding borrowings under secured debt agreements, and \$172.5 million of Convertible Notes outstanding.

As of March 31, 2017, our secured debt agreements consisted of credit facilities with an outstanding balance of \$4.0 billion, the GE portfolio acquisition facility with an outstanding balance of \$1.3 billion, and \$567.6 million of asset-specific financings. We also finance our business through the sale of loan participations and non-consolidated senior interests. As of March 31, 2017 we had \$355.6 million of loan participations sold and \$1.0 billion of non-consolidated senior interests outstanding.

See Notes 6, 7, and 8 to our consolidated financial statements for additional details regarding our secured debt agreements, loan participations sold, and Convertible Notes.

**Debt-to-Equity Ratio and Total Leverage Ratio**

The following table presents our debt-to-equity ratio and total leverage ratio:

	March 31, 2017	December 31, 2016
Debt-to-equity ratio <sup>(1)</sup>	2.4x	2.3x
Total leverage ratio <sup>(2)</sup>	2.9x	2.9x

- (1) Represents (i) total outstanding secured debt agreements and convertible notes, less cash, to (ii) total stockholders' equity, in each case at period end.
- (2) Represents (i) total outstanding secured debt agreements, convertible notes, loan participations sold, and non-consolidated senior interests, less cash, to (ii) total stockholders' equity, in each case at period end.

**Sources of Liquidity**

Our primary sources of liquidity include cash and cash equivalents, available borrowings under our credit facilities and revolving credit agreement, and net receivables from servicers related to loan repayments which are set forth in the following table (\$ in thousands):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Cash and cash equivalents	\$ 64,275	\$ 75,567
Available borrowings under secured debt agreements	562,752	541,743
Loan principal payments held by servicer, net <sup>(1)</sup>	42,715	670
	<b>\$ 669,742</b>	<b>\$ 617,980</b>

- (1) Represents loan principal payments held by our third-party servicer as of the balance sheet date which were remitted to us during the subsequent remittance cycle, net of the related secured debt balance.

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 2016, we filed a shelf registration statement with the Securities and Exchange Commission, or the SEC, that is effective for a term of three years and expires in July 2019. 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. The securities covered by this registration statement include (i) class A common stock, (ii) preferred stock, (iii) debt securities, (iv) depositary shares representing preferred stock, (v) warrants, (vi) subscription rights, (vii) purchase contracts, and (viii) units consisting

**Table of Contents**

of one or more of such securities or any combination of these securities. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

We may also access liquidity through a dividend reinvestment plan and direct stock purchase plan, under which 9,998,057 shares of class A common stock were available for issuance as of March 31, 2017, and our at-the-market stock offering program, pursuant to which we may sell, from time to time, up to \$188.6 million of additional shares of our class A common stock as of March 31, 2017. Refer to Note 10 to our consolidated financial statements for additional details.

Our existing loan portfolio also provides us with liquidity as loans are repaid or sold, in whole or in part, and the proceeds from such repayments become available for us to reinvest.

**Liquidity Needs**

In addition to our ongoing loan origination activity, our primary liquidity needs include interest and principal payments under our \$5.8 billion of outstanding borrowings under secured debt agreements, our Convertible Notes, our unfunded loan commitments, dividend distributions to our stockholders, and operating expenses.

**Contractual Obligations and Commitments**

Our contractual obligations and commitments as of March 31, 2017 were as follows (\$ in thousands):

	Total Obligation	Payment Timing			
		Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Unfunded loan commitments <sup>(1)</sup>	\$ 1,149,842	\$ 247,100	\$ 588,947	\$ 313,795	\$
Principal payments under secured debt agreements <sup>(2)</sup>	5,776,165	2,318,131	3,114,583	343,451	
Principal payments on convertible notes	172,500		172,500		
Interest payments <sup>(2)(3)</sup>	271,708	157,621	111,254	2,833	
Total <sup>(4)</sup>	\$ 7,370,215	\$ 2,722,852	\$ 3,987,284	\$ 660,079	\$

- (1) The allocation of our unfunded loan commitments is based on the earlier of the commitment expiration date or the loan maturity date.
- (2) The allocation of our secured debt agreements for both principal and interest payments is based on the current maturity date of each individual borrowing under the respective agreement.
- (3) Represents interest payments on our secured debt agreements and convertible notes. Future interest payment obligations are estimated assuming the amounts outstanding and the interest rates in effect as of March 31, 2017 will remain constant into the future. This is only an estimate as actual amounts borrowed and rates will vary over time.
- (4) Total does not include \$355.6 million of loan participations sold and \$1.0 billion of non-consolidated senior interests as the satisfaction of these liabilities will not require cash

outlays from us.

We are also required to settle our foreign currency forward contracts and interest rate swaps with our derivative counterparties upon maturity which, depending on foreign exchange and interest rate movements, may result in cash received from or due to the respective counterparty. The table above does not include these amounts as they are not fixed and determinable. Refer to Note 9 to our consolidated financial statement for details regarding our derivative contracts.

We are required to pay our Manager a base management fee, an incentive fee, and reimbursements for certain expenses pursuant to our Management Agreement. The table above does not include the amounts payable to our Manager under our Management Agreement as they are not fixed and determinable. Refer to Note 11 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 of 1986, as amended, or 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>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Cash flows provided by operating activities	\$ 57,374	\$ 65,781
Cash flows used in investing activities	(124,452)	(146,007)
Cash flows provided by financing activities	55,202	91,749
Net (decrease) increase in cash and cash equivalents	\$ (11,876)	\$ 11,523

We experienced a net decrease in cash of \$11.9 million for the three months ended March 31, 2017, compared to a net increase of \$11.5 million for the three months ended March 31, 2016. During the three months ended March 31, 2017, we borrowed a net \$117.7 million under our secured debt agreements and received \$567.3 million of proceeds from loan principal collections. We used the proceeds from our debt and equity financing activities to fund \$702.4 million of new loans during the three months ended March 31, 2017.

Refer to Notes 6 and 7 to our consolidated financial statements for additional discussion of our secured debt obligations and participations sold. Refer to Note 3 to our consolidated financial statements for further discussion of our loan activity.

**V. Other Items****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 March 31, 2017 and December 31, 2016, we were in compliance with all REIT requirements.

Refer to Note 12 to our consolidated financial statements for additional discussion of our income taxes.

### **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 SEC on February 14, 2017.

Refer to Note 2 to our consolidated financial statements for the description of our significant accounting policies.

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

The following table provides details of our loan portfolio, on a loan-by-loan basis, as of March 31, 2017 (\$ in millions):

Origination							Maximum		
Loan Type <sup>(1)</sup>	Date <sup>(2)</sup>	Total Loan <sup>(3)</sup>	Principal Balance <sup>(3)</sup>	Net Book Value	Cash Coupon <sup>(4)</sup>	All-in Yield <sup>(4)</sup>	Maturity <sup>(5)</sup>	Location	
1 Senior loan <sup>(3)</sup>	5/15/2015	\$ 590.0	\$ 504.6	\$ 85.2	L + 4.25%	L + 4.76%	5/15/2020	Miami	
2 Senior loan <sup>(3)</sup>	8/6/2015	462.9	462.9	83.5	4.48%	5.81%	10/29/2022	Diversified - EU	
3 Senior loan	5/22/2014	426.7	426.7	423.6	L + 4.20%	L + 4.48%	12/31/2019	Diversified - UK	
4 Senior loan	5/1/2015	320.3	294.5	293.4	L + 3.45%	L + 3.83%	5/1/2020	New York	
5 Senior loan	1/7/2015	315.0	286.9	286.0	L + 3.50%	L + 3.88%	1/9/2020	New York	
6 Senior loan	6/4/2015	260.0	260.0	263.1	L + 4.34%	L + 4.20%	8/12/2020	Diversified - CA	
7 Senior loan	3/31/2017	258.4	241.5	238.9	L + 4.15%	L + 4.54%	4/9/2022	Maui	
8 Senior loan <sup>(3)</sup>	6/30/2015	222.7	219.6	43.5	L + 4.75%	L + 5.18%	7/9/2020	San Francisco	
9 Senior loan	6/23/2015	223.5	213.8	213.2	L + 3.65%	L + 4.00%	10/1/2020	Washington DC	
10 Senior loan	7/31/2014	215.0	198.3	198.3	L + 3.50%	L + 3.56%	8/9/2019	Chicago	
11 Senior loan	8/19/2016	200.0	187.5	186.9	L + 3.64%	L + 4.10%	9/9/2021	New York	
12 Senior loan	8/3/2016	275.9	185.6	183.4	L + 4.66%	L + 5.19%	8/9/2021	New York	
13 Senior loan	4/15/2016	200.0	183.1	182.0	L + 4.25%	L + 4.86%	5/9/2021	New York	
14 Senior loan	2/25/2014	181.0	181.0	180.5	L + 4.75%	L + 5.07%	3/9/2019	Diversified - US	
15 Senior loan	12/22/2016	204.5	171.2	169.4	L + 3.50%	L + 4.07%	1/9/2022	New York	
16 Senior loan	8/17/2016	187.0	169.4	167.9	L + 3.75%	L + 4.13%	9/9/2021	San Francisco	
17 Senior loan	6/3/2016	160.0	160.0	160.0	L + 4.42%	L + 4.42%	6/9/2021	Los Angeles	
18 Senior loan	3/8/2016	181.2	154.3	153.0	L + 3.55%	L + 3.90%	3/9/2021	Orange County	
19 Senior loan	2/17/2017	150.0	140.0	138.6	L + 4.65%	L + 5.04%	3/9/2022	Honolulu	
20 Senior loan	10/30/2013	140.0	140.0	139.7	L + 4.38%	L + 4.54%	9/9/2020	San Francisco	
21 Senior loan	10/5/2016	145.5	133.7	132.5	L + 4.35%	L + 4.84%	10/9/2021	Diversified - US	
22 Senior loan	1/30/2014	133.4	133.4	133.1	L + 4.30%	L + 5.32%	12/1/2017	New York	
23 Senior loan	12/9/2014	159.6	133.0	133.0	L + 3.80%	L + 3.80%	12/9/2019	Diversified - US	
24 Senior loan	10/26/2016	123.5	123.5	122.4	L + 4.20%	L + 4.56%	11/9/2021	Oakland	
25 Senior loan	3/4/2014	133.0	112.6	112.6	L + 4.00%	L + 5.90%	3/4/2018	London - UK	
26 Senior loan	2/20/2014	110.0	110.0	109.6	L + 3.95%	L + 4.16%	3/9/2021	Long Island	
27 Senior loan	9/30/2013	105.7	105.7	105.7	L + 3.94%	L + 3.93%	9/30/2020	New York	
28 Senior loan	6/23/2015	105.2	105.2	107.3	L + 3.30%	L + 3.91%	7/31/2017	Diversified - US	
29 Senior loan	10/17/2016	104.2	104.2	103.3	L + 3.95%	L + 4.31%	10/21/2021	Diversified - UK	
30 Senior loan	6/24/2015	107.3	102.8	102.4	L + 4.25%	L + 4.62%	7/9/2020	Honolulu	
continued									

continued

**Table of Contents**

Origination								Maximum	
Loan Type <sup>(1)</sup>	Date <sup>(2)</sup>	Total Loan <sup>(3)</sup>	Principal Balance <sup>(3)</sup>	Net Book Value	Cash Coupon <sup>(4)</sup>	All-in Yield <sup>(4)</sup>	Maturity <sup>(5)</sup>		
31 Senior loan	7/28/2016	116.5	101.8	100.9	L + 3.60%	L + 4.02%	8/9/2021	Atlanta	I
32 Senior loan	3/12/2015	101.2	101.1	100.8	L + 3.25%	L + 3.61%	3/11/2020	Orange Count	
33 Senior loan	4/27/2016	100.8	100.8	100.3	L + 4.35%	L + 5.02%	5/9/2021	Chicago	
34 Senior loan	2/18/2016	100.4	100.4	99.8	L + 3.75%	L + 4.41%	4/20/2019	London - UK	
35 Senior loan	6/24/2015	100.0	100.0	99.8	L + 3.50%	L + 3.86%	12/1/2019	Virginia	
36 Senior loan	1/22/2016	128.5	96.9	96.1	L + 4.25%	L + 4.76%	2/9/2021	Los Angeles	
37 Senior loan	2/12/2016	225.0	91.2	88.9	L + 5.75%	L + 7.07%	2/11/2021	Seattle	
38 Senior loan	5/16/2014	100.0	88.2	87.6	L + 3.85%	L + 4.21%	4/9/2022	Miami	
39 Senior loan	3/10/2016	99.2	88.0	87.3	L + 4.10%	L + 4.52%	4/9/2021	Chicago	
40 Senior loan	6/23/2015	87.5	87.5	87.5	L + 3.41%	L + 3.83%	7/31/2019	Virginia	
41 Senior loan	2/18/2015	89.9	84.5	84.5	L + 3.75%	L + 3.75%	3/9/2020	Diversified - C	
42 Senior loan	5/22/2014	98.7	83.1	82.8	L + 3.75%	L + 4.07%	6/15/2021	Orange Count	
43 Senior loan	7/11/2014	82.2	82.2	82.1	L + 3.65%	L + 4.03%	8/9/2019	Chicago	
44 Senior loan	10/28/2014	85.0	82.1	81.9	L + 3.75%	L + 4.12%	11/9/2019	New York	
45 Senior loan	6/23/2015	81.4	81.4	81.8	L + 3.65%	L + 3.81%	11/30/2018	Diversified - I	
46 Senior loan	7/23/2014	80.0	78.8	78.6	L + 5.00%	L + 5.87%	8/9/2019	Atlanta	
47 Senior loan	5/1/2015	83.5	78.4	78.0	L + 3.95%	L + 4.20%	5/9/2020	Maryland	
48 Senior loan	1/31/2017	134.8	78.3	77.0	L + 5.00%	L + 5.47%	2/9/2022	Boston	
49 Senior loan	2/12/2016	100.0	77.0	76.7	L + 4.15%	L + 4.68%	3/9/2021	Long Island	
50 Senior loan	6/23/2015	76.2	76.0	76.1	5.10% <sup>(6)</sup>	5.39% <sup>(6)</sup>	8/31/2020	Diversified - I	
51 Senior loan	6/4/2015	78.1	74.8	75.6	5.05% <sup>(6)</sup>	5.18% <sup>(6)</sup>	3/28/2019	Diversified - C	
52 Senior loan	3/31/2017	91.2	66.7	65.8	L + 4.30%	L + 4.83%	4/9/2022	New York	
53 Senior loan	11/30/2016	79.0	63.9	63.2	L + 3.95%	L + 4.39%	12/9/2021	Chicago	
54 Senior loan	10/6/2014	67.0	62.8	62.6	L + 4.35%	L + 4.78%	10/9/2019	Long Island	
55 Senior loan	11/17/2014	69.6	62.5	62.3	L + 5.50%	L + 6.05%	12/9/2019	Diversified - C	
56 Senior loan	3/11/2014	65.0	62.1	62.0	L + 4.50%	L + 5.00%	4/9/2019	New York	
57 Senior loan	6/29/2016	75.4	62.0	61.4	L + 3.65%	L + 4.08%	7/9/2021	Fort Lauderda	
58 Senior loan	1/13/2014	60.0	60.0	59.1	L + 3.45%	L + 4.89%	6/9/2020	New York	
59 Senior loan	2/27/2015	73.7	58.2	58.0	L + 3.55%	L + 4.00%	2/26/2020	Chicago	
60 Senior loan	9/1/2016	57.9	57.9	57.5	L + 4.35%	L + 4.99%	9/1/2021	Atlanta	

continued

**Table of Contents**

Origination					Maximum				
Loan Type <sup>(1)</sup>	Date <sup>(2)</sup>	Total Loan <sup>(3)</sup>	Principal Balance <sup>(3)</sup>	Net Book Value	Cash Coupon <sup>(4)</sup>	All-in Yield <sup>(4)</sup>	Maturity <sup>(5)</sup>	Location	
61 Senior loan	6/4/2015	53.4	53.4	53.3	L + 3.25%	L + 3.42%	7/6/2017	Norwich - UK	
62 Senior loan	5/20/2015	52.9	52.9	53.1	L + 3.50%	L + 3.75%	12/31/2018	Chicago	
63 Senior loan	9/26/2014	51.0	51.0	51.0	L + 4.00%	L + 4.00%	10/9/2019	Dallas	
64 Senior loan	9/9/2014	56.0	50.4	50.3	L + 4.00%	L + 4.31%	9/9/2019	Ft. Lauderdale	
65 Senior loan	11/23/2016	55.4	50.0	49.5	L + 3.50%	L + 3.80%	12/9/2022	New York	
66 Senior loan	4/1/2014	50.0	50.0	50.0	L + 4.20%	L + 4.73%	4/9/2019	Honolulu	
67 Senior loan	5/20/2015	58.0	49.1	49.0	5.23% <sup>(6)</sup>	5.51% <sup>(6)</sup>	6/30/2019	Charlotte	
68 Senior loan	12/27/2016	57.2	48.5	47.9	L + 4.65%	L + 5.08%	1/9/2022	New York	
69 Senior loan	9/22/2016	46.0	45.5	45.2	L + 4.25%	L + 4.90%	10/9/2019	New York	
70 Senior loan	11/28/2013	59.0	45.3	45.2	L + 4.38%	L + 5.43%	1/20/2019	London - UK	
71 Senior loan	11/19/2015	50.0	44.6	44.5	L + 4.00%	L + 4.32%	10/9/2018	New York	
72 Senior loan	3/26/2014	43.3	42.9	42.8	L + 4.30%	L + 4.70%	4/9/2019	East Bay	
73 Senior loan	2/9/2017	43.6	41.6	41.1	L + 4.50%	L + 4.98%	2/9/2022	London	
74 Senior loan	6/11/2015	40.0	40.0	40.2	5.13% <sup>(6)</sup>	5.36% <sup>(6)</sup>	9/30/2020	Diversified - US	
75 Senior loan	6/26/2015	42.1	38.2	38.1	L + 3.75%	L + 4.36%	7/9/2020	San Diego	
76 Senior loan	8/25/2015	43.8	37.3	37.2	L + 4.50%	L + 5.13%	9/9/2018	Los Angeles	
77 Senior loan	5/20/2015	38.2	35.6	35.6	4.67% <sup>(6)</sup>	5.23% <sup>(6)</sup>	1/31/2019	Los Angeles	
78 Senior loan	6/11/2015	35.4	35.4	35.5	4.90% <sup>(6)</sup>	5.12% <sup>(6)</sup>	7/31/2019	Tampa	
79 Senior loan	6/12/2014	35.0	35.0	35.0	L + 4.00%	L + 4.61%	6/30/2018	Los Angeles	
80 Senior loan	6/11/2015	34.3	34.3	34.4	5.34%	5.58%	5/31/2020	Diversified - US	
81 Senior loan	10/22/2015	32.6	32.6	32.5	L + 4.50%	L + 5.03%	10/22/2018	London - UK	
82 Senior loan	5/20/2015	36.5	32.0	32.0	L + 3.60%	L + 3.77%	7/11/2019	Los Angeles	
83 Senior loan	12/30/2013	30.9	30.5	30.4	L + 4.50%	L + 4.75%	1/9/2019	Phoenix	
84 Senior loan	4/4/2014	30.7	30.0	30.0	L + 4.25%	L + 4.57%	4/9/2019	San Francisco	
85 Senior loan	4/17/2015	28.8	28.8	28.6	L + 4.50%	L + 4.95%	4/20/2020	Hague - NL	
86 Senior loan	5/28/2015	31.7	27.2	27.3	L + 4.35%	L + 5.20%	12/31/2017	San Jose	
87 Senior loan	6/4/2015	26.1	26.1	26.0	5.97%	6.88%	7/1/2017	Edmonton - CAN	
88 Senior loan	2/28/2014	26.0	26.0	25.9	L + 4.00%	L + 4.26%	3/9/2019	Phoenix	
89 Senior loan	6/11/2015	26.0	26.0	25.9	5.24% <sup>(6)</sup>	5.73% <sup>(6)</sup>	11/30/2020	West Palm Beach	
90 Senior loan	6/11/2015	24.5	24.5	24.4	5.35% <sup>(6)</sup>	5.85% <sup>(6)</sup>	11/30/2020	Ft. Lauderdale	
continued									

continued

**Table of Contents**

Origination								Maximum
Loan Type <sup>(1)</sup>	Date <sup>(2)</sup>	Total Loan <sup>(3)</sup>	Principal Balance <sup>(3)</sup>	Net Book Value	Cash Coupon <sup>(4)</sup>	All-in Yield <sup>(4)</sup>	Maturity <sup>(5)</sup>	
91 Senior loan	6/18/2014	22.2	22.2	22.1	L + 4.00%	L + 4.43%	7/20/2019	Diversified -
92 Senior loan	5/28/2015	48.9	21.9	21.8	L + 4.00%	L + 5.63%	6/30/2018	Los Angeles
93 Senior loan	5/20/2015	21.0	21.0	21.1	L + 4.25%	L + 4.71%	9/30/2018	Phoenix
94 Senior loan	1/26/2017	288.0	21.0	17.6	L + 5.50%	L + 6.06%	2/9/2022	Boston
95 Senior loan	5/28/2015	20.7	20.7	20.8	L + 3.95%	L + 4.51%	3/31/2019	Pittsburgh
96 Senior loan	6/4/2015	20.1	20.1	19.9	4.50%	4.92%	12/23/2021	Montreal - C
97 Senior loan	6/11/2015	18.1	18.1	18.0	4.95% <sup>(6)</sup>	5.51% <sup>(6)</sup>	11/30/2020	Ft. Lauderdale
98 Senior loan	6/4/2015	17.2	17.2	17.2	4.63%	5.02%	3/1/2019	Ontario - CA
99 Senior loan	6/4/2015	16.1	16.1	16.2	5.17%	5.52%	9/4/2020	Diversified -
100 Senior loan	5/28/2015	15.6	15.6	15.6	L + 3.70%	L + 4.62%	8/31/2019	Albuquerque
101 Senior loan	6/11/2015	15.0	15.0	14.9	5.33% <sup>(6)</sup>	5.86% <sup>(6)</sup>	9/30/2020	Tampa
102 Senior loan	6/4/2015	13.4	13.4	13.9	L + 4.50%	L + 4.77%	12/1/2017	Toronto - CA
103 Senior loan	5/28/2015	12.8	12.8	12.8	L + 4.75%	L + 5.53%	8/31/2017	Diversified -
		\$ 10,956.7	\$ 9,733.4	\$ 8,721.8	4.97%	5.43%	3.4 yrs	

- (1) Senior loans include senior mortgages and similar credit quality loans, including related contiguous subordinate loans and pari passu participations in senior mortgage loans.
- (2) Date loan was originated or acquired by us, and the LTV as of such date. Dates are not updated for subsequent loan modifications or upsizes.
- (3) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. As of March 31, 2017, three loans in our portfolio have been financed with an aggregate \$1.0 billion of non-consolidated senior interest, which are included in the table above.
- (4) As of March 31, 2017, our floating rate loans were indexed to various benchmark rates, with 85% of floating rate loans by principal balance indexed to USD LIBOR. In addition, \$217.8 million of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 1.22%, as of March 31, 2017. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees.
- (5) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date.
- (6) Loan consists of one or more floating and fixed rate tranches. Coupon and all-in yield assume applicable floating benchmark rates for weighted-average calculation.

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

Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income. As of March 31, 2017, 91% of our loans by total loan exposure earned a floating rate of interest and were financed with liabilities that pay interest at floating rates, which resulted in an amount of net equity that is positively correlated to rising interest rates, subject to the impact of interest rate floors on certain of our floating rate loans. As of March 31, 2017, the remaining 9% of our loans by total loan exposure earned a fixed rate of interest, but are financed with liabilities that pay interest at floating rates, which resulted in a negative correlation to rising interest rates to the extent of our financing. In certain instances where we have financed fixed rate assets with floating rate liabilities, we have purchased interest rate swaps or caps to limit our exposure to increases in interest rates on such liabilities.

The following table projects the impact on our interest income and expense for the twelve-month period following March 31, 2017, assuming an immediate increase or decrease of both 25 and 50 basis points in the applicable interest rate benchmark by currency (\$ in thousands):

Currency	Assets (Liabilities) Subject to Interest Rate Sensitivity <sup>(1)</sup>		25 Basis Point Increase	25 Basis Point Decrease	50 Basis Point Increase	50 Basis Point Decrease
USD <sup>(2)</sup>	\$ 7,537,464	Interest income	\$ 18,581	\$ (18,545)	\$ 37,161	\$ (36,930)
	(5,612,114)	Interest expense	(14,030)	14,030	(28,061)	28,061
	\$ 1,925,350	Total	\$ 4,551	\$ (4,515)	\$ 9,100	\$ (8,869)
GBP <sup>(2)</sup>	\$ 916,836	Interest income	\$ 2,109	\$ (2,011)	\$ 4,401	\$ (3,635)
	(716,625)	Interest expense	(1,792)	1,792	(3,583)	3,583
	\$ 200,211	Total	\$ 317	\$ (219)	\$ 818	\$ (52)
EUR	\$ 50,955	Interest income	\$	\$	\$ 87	\$
		Interest expense				
	\$ 50,955	Total	\$	\$	\$ 87	\$
CAD <sup>(3)</sup>	\$ 342,427	Interest income	\$ 856	\$ (856)	\$ 1,712	\$ (1,489)
	(384,739)	Interest expense	(962)	962	(1,924)	1,924
	\$ (42,312)	Total	\$ (106)	\$ 106	\$ (212)	\$ 435
		Total	\$ 4,762	\$ (4,628)	\$ 9,793	\$ (8,486)

- (1) Our floating rate loans and related liabilities are indexed to the various benchmark rates relevant in each case in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate.
- (2) Includes borrowings under secured debt agreements, loan participations sold, and non-consolidated senior interests.
- (3) Liabilities balance includes two interest rate swaps totaling C\$17.3 million (\$13.0 million as of March 31, 2017) that are used to hedge a portion of our fixed rate debt.

*Loan Portfolio Value*

As of March 31, 2017, 9% of our loans by total loan exposure earned a fixed rate of interest and as such, the values of such loans are sensitive to changes in interest rates. We generally hold all of our loans to maturity and so do not expect to realize gains or losses on our fixed rate loan portfolio as a result of movements in market interest rates.



## **Table of Contents**

### *Risk of Non-Performance*

In addition to the risks related to fluctuations in cash flows and asset values 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. This risk is partially mitigated by various facts we consider during our underwriting process, which in certain cases include a requirement for our borrower to purchase an interest rate cap contract.

### **Credit Risks**

Our loans and investments are also subject to credit risk. The performance and value of our loans and investments depend upon the sponsors' 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.

### **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 active monitoring of 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. In certain circumstances, we may also enter into foreign currency

derivative contracts to further mitigate this exposure.

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

	<b>March 31, 2017</b>		
Foreign currency assets <sup>(1)</sup>	£ 1,106,301	79,535	C\$ 662,718
Foreign currency liabilities <sup>(1)</sup>	(873,119)		(530,079)
Foreign currency contracts - notional	(141,900)		(122,900)
Net exposure to exchange rate fluctuations	£ 91,282	79,535	C\$ 9,739

(1) Balances include non-consolidated senior interests of £302.0 million

**Table of Contents**

We estimate that a 10% appreciation of the United States Dollar relative to the British Pound Sterling and the Euro would result in a decline in our net assets in U.S. Dollar terms of \$29.3 million and \$8.5 million, respectively, as of March 31, 2017. Substantially all of our net asset exposure to the Canadian Dollar has been hedged with foreign currency forward contracts.

**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 SEC 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 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.

**Table of Contents**

**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 March 31, 2017, 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 under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

**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**

*Section 13(r) Disclosure*

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 disclosure publicly filed by NCR Corporation, which may be considered to have been an affiliate of Blackstone and therefore our affiliate during all or a portion of the quarter ended March 31, 2017.

---

**Table of Contents**

**ITEM 6. EXHIBITS**

10.1	Second Amended and Restated Master Repurchase Agreement, dated as of March 31, 2017, by and among Parlex 2 Finance, LLC, Parlex 2A Finco, LLC, Parlex 2 UK Finco, LLC, Parlex 2 EUR Finco, LLC and Citibank, N.A.
10.2	Third Amendment to Limited Guaranty, dated as of March 31, 2017, made by Blackstone Mortgage Trust, Inc. in favor of Citibank, N.A.
10.3	Amendment No. 6 to Amended and Restated Master Repurchase and Securities Contract, dated as of March 13, 2017, by and between Parlex 5 Finco, LLC and Wells Fargo Bank, National Association
10.4	Amendment No. 7 to Amended and Restated Master Repurchase and Securities Contract, dated as of March 31, 2017, by and between Parlex 5 Finco, LLC and Wells Fargo Bank, National Association
10.5	Amended and Restated Master Repurchase and Securities Contract, dated as of June 16, 2014 by and among Parlex 6 UK Finco, LLC, Parlex 6 EUR Finco, LLC, Blackstone Mortgage Trust, Inc. and Morgan Stanley Bank, N.A.
10.6	First Amendment to Amended and Restated Master Repurchase and Securities Contract Agreement, dated as of March 29, 2017, by and among Parlex 6 UK Finco, LLC, Parlex 6 EUR Finco, LLC and Morgan Stanley Bank, N.A.
10.7	Amended and Restated Master Repurchase Agreement, dated as of February 9, 2017, by and among Parlex 15 Finco, LLC and Deutsche Bank AG, Cayman Islands Branch
10.8	Amendment No. 1 to Amended and Restated Master Repurchase Agreement and Guaranty, dated as of March 24, 2017, by and among Parlex 15 Finco, LLC, Blackstone Mortgage Trust, Inc. and Deutsche Bank AG, Cayman Islands Branch
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

---

**Table of Contents**

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.

**Table of Contents**

**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.

April 25, 2017  
Date

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

April 25, 2017  
Date

/s/ Anthony F. Marone, Jr.  
Anthony F. Marone, Jr.  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)