

BLACKSTONE MORTGAGE TRUST, INC.

Form 10-Q

October 23, 2018

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

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)

(I.R.S. Employer

Identification No.)

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)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted 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 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

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, outstanding as of October 16, 2018 was 119,669,604.

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

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 86,987	\$ 69,654
Restricted cash		32,864
Loans receivable, net	12,176,516	10,056,732
Other assets	155,972	99,575
Total Assets	\$ 12,419,475	\$ 10,258,825
Liabilities and Equity		
Secured debt agreements, net	\$ 6,841,759	\$ 5,273,855
Loan participations sold, net	81,044	80,415
Securitized debt obligations, net	1,284,362	1,282,412
Convertible notes, net	780,951	563,911
Other liabilities	123,366	140,826
Total Liabilities	9,111,482	7,341,419
Commitments and contingencies		
Equity		
Class A common stock, \$0.01 par value, 200,000,000 shares authorized, 119,669,195 and 107,883,860 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	1,197	1,079
Additional paid-in capital	3,898,841	3,506,861
Accumulated other comprehensive loss	(32,849)	(29,706)
Accumulated deficit	(566,417)	(567,168)
Total Blackstone Mortgage Trust, Inc. stockholders' equity	3,300,772	2,911,066
Non-controlling interests	7,221	6,340
Total Equity	3,307,993	2,917,406
Total Liabilities and Equity	\$ 12,419,475	\$ 10,258,825

Note: The consolidated balance sheets as of September 30, 2018 and December 31, 2017 include assets of consolidated variable interest entities, or VIEs, that can only be used to settle obligations of each respective VIE, and liabilities of consolidated VIEs for which creditors do not have recourse to Blackstone Mortgage Trust, Inc. As of both September 30, 2018 and December 31, 2017, assets of the consolidated VIEs totaled \$1.5 billion and liabilities of the consolidated VIEs totaled \$1.3 billion. Refer to Note 15 for additional discussion of the VIEs.

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income from loans and other investments				
Interest and related income	\$ 203,107	\$ 146,446	\$ 550,011	\$ 391,787
Less: Interest and related expenses	97,955	67,891	255,677	168,917
Income from loans and other investments, net	105,152	78,555	294,334	222,870
Other expenses				
Management and incentive fees	18,368	13,243	56,248	40,557
General and administrative expenses	8,443	7,419	25,897	22,219
Total other expenses	26,811	20,662	82,145	62,776
Income before income taxes	78,341	57,893	212,189	160,094
Income tax provision	48	83	272	265
Net income	78,293	57,810	211,917	159,829
Net income attributable to non-controlling interests	(128)	(88)	(481)	(88)
Net income attributable to Blackstone Mortgage Trust, Inc.	\$ 78,165	\$ 57,722	\$ 211,436	\$ 159,741
Net income per share of common stock basic and diluted	\$ 0.67	\$ 0.61	\$ 1.90	\$ 1.68
Weighted-average shares of common stock outstanding, basic and diluted	116,203,140	95,013,087	111,251,864	95,004,188
Dividends declared per share of common stock	\$ 0.62	\$ 0.62	\$ 1.86	\$ 1.86

See accompanying notes to consolidated financial statements.

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

(in thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income	\$ 78,293	\$ 57,810	\$ 211,917	\$ 159,829
Other comprehensive income				
Unrealized (loss) gain on foreign currency remeasurement	(2,416)	16,175	(26,766)	43,990
Realized and unrealized gain (loss) on derivative financial instruments	1,703	(8,029)	23,623	(20,150)
Other comprehensive (loss) income	(713)	8,146	(3,143)	23,840
Comprehensive income	77,580	65,956	208,774	183,669
Comprehensive income attributable to non-controlling interests	(128)	(88)	(481)	(88)
Comprehensive income attributable to Blackstone Mortgage Trust, Inc.	\$ 77,452	\$ 65,868	\$ 208,293	\$ 183,581

See accompanying notes to consolidated financial statements.

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Blackstone Mortgage Trust, Inc.

Consolidated Statements of Changes in Equity (Unaudited)

(in thousands)

	Blackstone Mortgage Trust, Inc.							
	Class A		Accumulated Other		Stockholders		Non-controlling	Total
	Common	Additional	Comprehensive	Accumulated	Equity	Interests	Equity	
	Stock	Paid-In	(Loss)	Deficit				
		Capital	Income					
Balance at December 31, 2016	\$ 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		17,493			17,493		17,493	
Issuance of convertible notes		964			964		964	
Dividends reinvested		327		(296)	31		31	
Deferred directors compensation		313			313		313	
Other comprehensive income			23,840		23,840		23,840	
Net income				159,741	159,741	88	159,829	
Dividends declared on common stock				(176,374)	(176,374)		(176,374)	
Contributions to non-controlling interests						6,090	6,090	
Balance at September 30, 2017	\$ 948	\$ 3,109,094	\$ (32,362)	\$ (558,066)	\$ 2,519,614	\$ 6,178	\$ 2,525,792	
Balance at December 31, 2017	\$ 1,079	\$ 3,506,861	\$ (29,706)	\$ (567,168)	\$ 2,911,066	\$ 6,340	\$ 2,917,406	

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Shares of class A common stock issued, net	118	369,672		369,790		369,790	
Restricted class A common stock earned		20,110		20,110		20,110	
Issuance of convertible notes		1,462		1,462		1,462	
Conversion of convertible notes		(20)		(20)		(20)	
Dividends reinvested		381	(342)	39		39	
Deferred directors compensation		375		375		375	
Other comprehensive income			(3,143)	(3,143)		(3,143)	
Net income			211,436	211,436	481	211,917	
Dividends declared on common stock			(210,343)	(210,343)		(210,343)	
Contributions from non-controlling interests					4,500	4,500	
Distributions to non-controlling interests					(4,100)	(4,100)	
Balance at September 30, 2018	\$ 1,197	\$ 3,898,841	\$ (32,849)	\$ (566,417)	\$ 3,300,772	\$ 7,221	\$ 3,307,993

See accompanying notes to consolidated financial statements.

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

(in thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 211,917	\$ 159,829
Adjustments to reconcile net income to net cash provided by operating activities		
Non-cash compensation expense	20,488	17,809
Amortization of deferred fees on loans and debt securities	(35,955)	(28,887)
Amortization of deferred financing costs and premiums/discount on debt obligations	20,993	16,356
Changes in assets and liabilities, net		
Other assets	(9,709)	(219)
Other liabilities	15,001	11,651
Net cash provided by operating activities	222,735	176,539
Cash flows from investing activities		
Origination and fundings of loans receivable	(5,222,803)	(2,314,721)
Principal collections and sales proceeds from loans receivable	2,503,454	1,976,271
Loan contributed to securitization	512,002	
Investment in debt securities held-to-maturity	(95,937)	
Origination and exit fees received on loans receivable	74,111	38,434
Receipts under derivative financial instruments	34,975	6,115
Payments under derivative financial instruments	(14,031)	(18,115)
Return of collateral deposited under derivative agreements	28,870	8,980
Collateral deposited under derivative agreements	(32,110)	(16,651)
Net cash used in investing activities	(2,211,469)	(319,687)

continued

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from financing activities		
Borrowings under secured debt agreements	\$ 5,749,678	\$ 2,776,058
Repayments under secured debt agreements	(4,147,893)	(2,481,250)
Proceeds from sale of loan participations	86,339	33,193
Repayment of loan participations	(85,875)	(381,310)
Payment of deferred financing costs	(18,995)	(13,591)
Contributions from non-controlling interests	4,500	6,090
Distributions to non-controlling interests	(4,100)	
Net proceeds from issuance of convertible notes	214,775	394,074
Repayment of convertible notes	(192)	
Net proceeds from issuance of class A common stock	369,787	31
Dividends paid on class A common stock	(203,065)	(176,195)
Net cash provided by financing activities	1,964,959	157,100
Net decrease in cash, cash equivalents, and restricted cash	(23,775)	13,952
Cash, cash equivalents, and restricted cash at beginning of period	102,518	75,567
Effects of currency translation on cash, cash equivalents, and restricted cash	8,244	4,566
Cash, cash equivalents, and restricted cash at end of period	\$ 86,987	\$ 94,085
Supplemental disclosure of cash flows information		
Payments of interest	\$ (224,320)	\$ (141,124)
Payments of income taxes	\$ (546)	\$ (220)
Supplemental disclosure of non-cash investing and financing activities		
Dividends declared, not paid	\$ (74,195)	\$ (58,793)
Loan principal payments held by servicer, net	\$ 3,577	\$ 513
Consolidation of loans receivable of a VIE	\$	\$ 500,000
Consolidation of securitized debt obligations of a VIE	\$	\$ (474,620)

See accompanying notes to consolidated financial statements.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. ORGANIZATION

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

Blackstone Mortgage Trust is a real estate finance company that originates senior loans collateralized by commercial real estate in North America, Europe, and Australia. Our investment objective is to preserve and protect shareholder capital while producing attractive risk-adjusted returns primarily through dividends generated from current income from our loan portfolio. 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. Our principal executive offices are located at 345 Park Avenue, 42nd Floor, New York, New York 10154. We were incorporated in Maryland in 1998, when we reorganized from a California common law business trust into a Maryland corporation.

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, 2017 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.

In the third quarter of 2018, we contributed a loan to a single asset securitization vehicle, or the 2018 Single Asset Securitization, which is a VIE, and invested in the related subordinate risk retention position. We are not the primary beneficiary of the VIE because we do not have the power to direct the activities that most significantly affect the VIE's economic performance and, therefore, do not consolidate the 2018 Single Asset Securitization on our balance sheet. We have classified the subordinate risk retention position as a held-to-maturity debt security that is included in other assets on our consolidated balance sheets. Refer to Note 15 for additional discussion of our VIEs.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

In April 2017, we entered into a joint venture, or our Multifamily Joint Venture, with Walker & Dunlop Inc. to originate, hold, and finance multifamily bridge loans. Pursuant to the terms of the agreements governing the joint venture, Walker & Dunlop contributed 15% of the venture's equity capital and we contributed 85%. We consolidate the Multifamily Joint Venture as we have a controlling financial interest. The non-controlling interests included on our consolidated balance sheets represent the equity interests in our Multifamily Joint Venture that are owned by Walker & Dunlop. A portion of our Multifamily Joint Venture's consolidated equity and results of operations are allocated to these non-controlling interests based on Walker & Dunlop's pro rata ownership of our Multifamily Joint Venture.

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 and debt securities 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 and recorded over the term of the loan or debt security as an adjustment to yield. Income accrual is generally suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of our Manager, recovery of income and principal becomes doubtful. Income is then recorded on the basis of cash received until accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. 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, Cash Equivalents, and Restricted Cash

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

Restricted cash represents cash held in a segregated bank account related to a letter of credit.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash in our consolidated balance sheets to the total amount shown in our consolidated statements of cash flows (\$ in thousands):

	September 30, 2018	September 30, 2017
Cash and cash equivalents	\$ 86,987	\$ 61,221
Restricted cash		32,864
Total cash, cash equivalents, and restricted cash shown in our consolidated statements of cash flows	\$ 86,987	\$ 94,085

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.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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 it 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.

Debt Securities Held-to-Maturity

We classify our debt securities as held-to-maturity, as we have the intent and ability to hold these securities until maturity. We include our debt securities in other assets on our consolidated balance sheets at amortized cost.

If, based on current information and events, there is an adverse change in cash flows expected to be collected from the cash flows previously projected for one of our debt securities, an other-than-temporary impairment is deemed to have occurred. A change in expected cash flows is considered adverse if the present value of the revised cash flows (taking into consideration both the timing and amount of cash flows expected to be collected), discounted using the debt security's current yield, is less than the present value of the previously estimated remaining cash flows. If an other-than-temporary impairment is considered to have occurred, the debt security is written down to fair value. The total other-than-temporary impairment is bifurcated into (i) the amount related to expected credit losses, and (ii) the amount related to fair value adjustments in excess of expected credit losses. The other-than-temporary impairment related to expected credit losses is calculated by comparing the amortized cost basis of the security to the present value of cash flows expected to be collected, discounted at the security's current yield, and is recognized in earnings in the consolidated statement of operations. The remaining other-than-temporary impairment that is not related to expected credit losses is recognized in other comprehensive income (loss). A portion of other-than-temporary impairments recognized through earnings is accreted back to the amortized cost basis of the security through interest

income, while amounts recognized through other comprehensive income (loss) are amortized over the life of the security with no impact on earnings.

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 and the changes in fair value of the instrument are included in net income prospectively. Changes in

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

the fair value of our derivative instruments that qualify as hedges are reported as a component of accumulated other comprehensive income (loss) on our consolidated financial statements. Deferred gains and losses are reclassified out of accumulated other comprehensive income (loss) and into net income in the same period or periods during which the hedged transaction affects earnings, and are presented in the same line item as the earnings effect of the hedged item. For cash flow hedges, this is typically when the periodic swap settlements are made, while for net investment hedges, this occurs when the hedged item is sold or substantially liquidated. To the extent a derivative does not qualify for hedge accounting and is deemed a non-designated hedge, the changes in its fair value are included in net income concurrently.

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 respective issuance dates based on our nonconvertible debt borrowing rate. The equity component of each series of our 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 such 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 such convertible notes will increase in subsequent periods through the maturity date as the notes accrete to their par value over the same period.

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 of the FASB, 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.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

The following methods and assumptions 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.

Restricted cash: The carrying amount of restricted cash 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.

Debt securities held-to-maturity: The fair value of these instruments was estimated by utilizing third-party pricing service providers. In determining the value of a particular investment, pricing service providers may use broker-dealer quotations, reported trades, or valuation estimates from their internal pricing models to determine the reported price.

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.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

Securitized debt obligations, net: The fair value of these instruments was estimated by utilizing third-party pricing service providers. In determining the value of a particular investment, pricing service providers may use broker-dealer quotations, reported trades, or valuation estimates from their internal pricing models to determine the reported price.

Convertible notes, net: Each series of the convertible notes is 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 (loss).

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.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Recent Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-07 Compensation Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, or ASU 2018-07. ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance is intended to align the accounting for such payments to nonemployees with the existing requirements for share-based payments granted to employees. Upon adoption of ASU 2018-07, the cost of our long-term incentive plans will be a fixed amount determined based on the grant date fair value of shares granted, rather than the prior methodology that recognizes a variable cost based on the fair value of such shares as of their vesting dates. ASU 2018-07 is to be adopted through a cumulative-effect adjustment to retained earnings for outstanding share-based payments to nonemployees as of the beginning of the fiscal year in which the guidance is effective. We adopted ASU 2018-07 in the third quarter of 2018 and it did not have an impact on our consolidated financial statements.

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 January 1, 2020. 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 in 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 adopted ASU 2014-09 in the first quarter of 2018 and it did not 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):

	September 30, 2018	December 31, 2017
Number of loans	112	110
Principal balance	\$ 12,260,103	\$ 10,108,226
Net book value	\$ 12,176,516	\$ 10,056,732
Unfunded loan commitments ⁽¹⁾	\$ 3,046,350	\$ 1,573,107
Weighted-average cash coupon ⁽²⁾	5.61%	5.55%
Weighted-average all-in yield ⁽²⁾	5.94%	5.95%
Weighted-average maximum maturity (years) ⁽³⁾	3.8	3.5

- (1) Unfunded commitments will primarily be funded to finance our borrowers construction or development of real estate-related assets, capital improvements of existing assets, or lease-related expenditures. These commitments will generally be funded over the term of each loan, subject in certain cases to an expiration date.
- (2) Our floating rate loans are indexed to various benchmark rates, with 83% and 92% of our floating rate loans by principal balance indexed to USD LIBOR as of September 30, 2018 and December 31, 2017, respectively. In addition to cash coupon, all-in yield includes the amortization of deferred origination and extension fees, loan origination costs, and purchase discounts, as well as the accrual of 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 September 30, 2018, 86% of our loans by principal balance were subject to yield maintenance or other prepayment restrictions and 14% were open to repayment by the borrower without penalty. As of December 31, 2017, 75% of our loans were subject to yield maintenance or other prepayment restrictions and 25% were open to repayment by the borrower without penalty.

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

	Principal Balance	Deferred Fees / Other Items⁽¹⁾	Net Book Value
December 31, 2017	\$ 10,108,226	\$ (51,494)	\$ 10,056,732
Loan fundings	5,222,803		5,222,803
Loan repayments	(2,452,811)		(2,452,811)
Loan contributed to securitization	(517,500)	5,498	(512,002)
Unrealized (loss) gain on foreign currency translation	(100,615)	678	(99,937)
Deferred fees and other items		(74,111)	(74,111)
Amortization of fees and other items		35,842	35,842
September 30, 2018	\$ 12,260,103	\$ (83,587)	\$ 12,176,516

- (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):

Property Type	September 30, 2018			
	Number of Loans	Net Book Value	Total Loan Exposure⁽¹⁾⁽²⁾	Percentage of Portfolio
Office	49	\$ 5,956,675	\$ 6,006,534	47%
Hotel	15	1,992,889	2,069,818	16
Multifamily	32	1,894,001	1,903,572	15
Spanish Assets	1	1,152,487	1,160,400	9
Retail	4	336,787	337,334	3
Condominium	2	84,429	158,462	1
Other	9	759,248	1,090,711	9
	112	\$ 12,176,516	\$ 12,726,831	100%

Geographic Location	September 30, 2018			
	Number of Loans	Net Book Value	Total Loan Exposure⁽¹⁾⁽²⁾	Percentage of Portfolio
<u>United States</u>				
Northeast	30	\$ 3,796,633	\$ 3,830,021	29%
West	25	2,543,743	2,637,582	21
Southeast	18	2,025,381	2,034,852	16
Midwest	8	901,310	906,102	7
Southwest	13	477,809	480,792	4
Northwest	2	141,199	141,630	1
Subtotal	96	9,886,075	10,030,979	78
<u>International</u>				
Spain	1	1,152,487	1,160,400	9
United Kingdom	5	492,790	837,688	7
Canada	5	335,957	332,841	3
Australia	2	218,286	220,335	2
Belgium	1	71,494	71,945	1
Germany	1	11,814	65,000	
Netherlands	1	7,613	7,643	
Subtotal	16	2,290,441	2,695,852	22

Total	112	\$ 12,176,516	\$ 12,726,831	100%
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- (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 \$466.7 million of such non-consolidated senior interests as of September 30, 2018.
- (2) Excludes investment exposure to the \$1.0 billion 2018 Single Asset Securitization. See Note 4 for details of the subordinated risk retention interest we own in the 2018 Single Asset Securitization.

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

Property Type	December 31, 2017			
	Number of Loans	Net Book Value	Total Loan Exposure⁽¹⁾	Percentage of Portfolio
Office	53	\$ 5,773,972	\$ 5,807,170	53%
Hotel	15	1,830,568	1,905,497	17
Multifamily	25	1,220,423	1,228,959	11
Retail	6	487,473	940,980	8
Condominium	2	142,342	268,751	2
Other	9	601,954	942,251	9
	110	\$ 10,056,732	\$ 11,093,608	100%

Geographic Location	December 31, 2017			
	Number of Loans	Net Book Value	Total Loan Exposure⁽¹⁾	Percentage of Portfolio
United States				
Northeast	26	\$ 2,857,948	\$ 2,871,219	26%
West	29	2,672,069	2,816,276	24
Southeast	17	2,007,202	2,470,992	22
Midwest	9	856,559	862,578	8
Southwest	10	380,204	380,120	3
Northwest	2	283,381	286,221	3
Subtotal	93	9,057,363	9,687,406	86
International				
United Kingdom	6	440,317	794,789	7
Canada	7	415,893	412,343	4
Belgium	1	73,779	74,431	1
Germany	1	12,237	67,399	1
Netherlands	2	57,143	57,240	1
Subtotal	17	999,369	1,406,202	14
Total	110	\$ 10,056,732	\$ 11,093,608	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

\$985.4 million of such non-consolidated senior interests as of December 31, 2017.

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):

Risk Rating	September 30, 2018				December 31, 2017			
	Number of Loans	Net Book Value	Total Loan Exposure	(1)(2)	Number of Loans	Net Book Value	Total Loan Exposure	(1)
1	1	\$ 53,849	\$ 53,873	1	1	\$ 31,842	\$ 31,890	
2	43	4,167,871	4,272,068	2	41	3,512,709	3,521,701	
3	68	7,954,796	8,400,890	3	67	6,491,617	7,519,465	
4				4	1	20,564	20,552	
5				5				
	112	\$ 12,176,516	\$ 12,726,831		110	\$ 10,056,732	\$ 11,093,608	

(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 \$466.7 million and \$985.4 million of such non-consolidated senior interests as of September 30, 2018 and December 31, 2017, respectively.

(2) Excludes investment exposure to the \$1.0 billion 2018 Single Asset Securitization. See Note 4 for details of the subordinated risk retention interest we own in the 2018 Single Asset Securitization.

The weighted-average risk rating of our total loan exposure was 2.7 as of both September 30, 2018 and December 31, 2017. We had one loan with a risk rating of 4 in our portfolio as of December 31, 2017, which was repaid in full in April 2018.

We did not have any impaired loans, nonaccrual loans, or loans in maturity default as of September 30, 2018 or December 31, 2017.

Multifamily Joint Venture

As discussed in Note 2, we entered into a Multifamily Joint Venture in April 2017. As of September 30, 2018 and December 31, 2017, our Multifamily Joint Venture held \$222.7 million and \$182.2 million of loans, respectively, which are included in the loan disclosures above. Refer to Note 2 for additional discussion of our Multifamily Joint Venture.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****4. OTHER ASSETS AND LIABILITIES**

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

	September 30, 2018	December 31, 2017
Debt securities held-to-maturity ⁽¹⁾	\$ 96,050	\$ 38,573
Accrued interest receivable	45,762	38,573
Collateral deposited under derivative agreements	7,360	4,120
Loan portfolio payments held by servicer ⁽²⁾	3,902	54,759
Derivative assets	2,719	1,214
Prepaid expenses	151	798
Prepaid taxes	28	31
Other		80
Total	\$ 155,972	\$ 99,575

- (1) Represents a \$99.0 million subordinate risk retention interest in the \$1.0 billion 2018 Single Asset Securitization, with a yield to full maturity of L+10.0% and a maximum maturity date of June 9, 2025, assuming all extension options are exercised by the borrower. Refer to Note 15 for additional discussion.
- (2) 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):

	September 30, 2018	December 31, 2017
Accrued dividends payable	\$ 74,195	\$ 66,888
Accrued interest payable	23,701	14,162
Accrued management and incentive fees payable	18,368	14,284
Derivative liabilities	3,676	4,911
Accounts payable and other liabilities	3,426	2,125
		38,456

Secured debt repayments pending servicer
remittance⁽¹⁾

Total	\$	123,366	\$	140,826
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- (1) Represents pending transfers from our third-party loan servicer that were remitted to our banking counterparties during the subsequent remittance cycle.

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

	Secured Debt Agreements Borrowings Outstanding	
	September 30, 2018	December 31, 2017
Credit facilities	\$ 4,850,911	\$ 4,068,249
Asset-specific financings	1,499,286	518,864
GE portfolio acquisition facility	512,059	703,423
Revolving credit agreement		
Total secured debt agreements	\$ 6,862,256	\$ 5,290,536
Deferred financing costs ⁽¹⁾	(20,497)	(16,681)
Net book value of secured debt	\$ 6,841,759	\$ 5,273,855

- (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.

Credit Facilities

During the nine months ended September 30, 2018, we added one new credit facility, providing an additional \$1.0 billion of credit capacity, and increased the maximum facility size of one of our existing credit facilities, providing an additional \$250.0 million of credit capacity.

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

The following tables detail our credit facilities (\$ in thousands):

Lender	Maximum Facility Size⁽¹⁾	September 30, 2018 Credit Borrowings			Collateral Assets⁽³⁾
		Potential⁽²⁾	Outstanding	Available⁽²⁾	
Bank of America	\$ 1,000,000	\$ 863,592	\$ 863,592	\$	\$ 1,091,860
Wells Fargo	2,000,000	1,160,678	850,687	309,991	1,577,251
MetLife	1,000,000	737,770	737,770		946,933
Barclays	1,000,000	617,360	617,360		771,700
Citibank ⁽⁴⁾	750,000	576,369	480,129	96,240	730,723
JP Morgan	500,000	435,095	332,909	102,186	564,070
Morgan Stanley ⁽⁵⁾	651,550	329,256	278,770	50,486	461,760
Deutsche Bank	500,000	277,247	277,247		380,986
Société Générale ⁽⁶⁾	464,160	235,229	235,229		298,951
Goldman Sachs - Multi. JV ⁽⁷⁾	250,000	117,498	117,498		148,099
Bank of America - Multi. JV ⁽⁷⁾	200,000	59,720	59,720		74,650
	\$ 8,315,710	\$ 5,409,814	\$ 4,850,911	\$ 558,903	\$ 7,046,983

Lender	Maximum Facility Size⁽¹⁾	December 31, 2017 Credit Borrowings			Collateral Assets⁽³⁾
		Potential⁽²⁾	Outstanding	Available⁽²⁾	
Wells Fargo	\$ 2,000,000	\$ 1,289,135	\$ 1,170,801	\$ 118,334	\$ 1,680,325
MetLife	1,000,000	807,164	807,164		1,039,231
Bank of America	750,000	573,542	573,542		765,049
JP Morgan	500,000	443,496	319,755	123,741	579,218
Société Générale ⁽⁶⁾	480,200	300,871	300,871		373,181
Deutsche Bank	500,000	295,743	295,743		399,203
Citibank ⁽⁴⁾	800,125	354,354	240,881	113,473	455,433
Morgan Stanley ⁽⁵⁾	675,650	456,344	216,044	240,300	591,168
Bank of America - Multi. JV ⁽⁷⁾	200,000	85,560	85,560		106,950
Goldman Sachs - Multi. JV ⁽⁷⁾	250,000	57,888	57,888		75,225
	\$ 7,155,975	\$ 4,664,097	\$ 4,068,249	\$ 595,848	\$ 6,064,983

- (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) 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.
- (3) Represents the principal balance of the collateral assets.
- (4) As of September 30, 2018, the Citibank facility was denominated in U.S. dollars. As of December 31, 2017, the maximum facility size was composed of a \$500.0 million facility denominated in U.S. dollars plus a 250.0 million facility, which translated to \$300.1 million as of such date.
- (5) As of September 30, 2018 and December 31, 2017, the Morgan Stanley maximum facility size was £500.0 million, which translated to \$651.6 million and \$675.7 million, respectively.
- (6) As of September 30, 2018 and December 31, 2017, the Société Générale maximum facility size was 400.0 million, which translated to \$464.2 million and \$480.2 million, respectively.
- (7) These facilities finance the loan investments of our consolidated Multifamily Joint Venture. Refer to Note 2 for additional discussion of our Multifamily Joint Venture.

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

The weighted-average outstanding balance of our credit facilities was \$4.4 billion for the nine months ended September 30, 2018. As of September 30, 2018, we had aggregate borrowings of \$4.9 billion outstanding under our credit facilities, with a weighted-average cash coupon of LIBOR plus 1.77% per annum, a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 1.98% per annum, and a weighted-average advance rate of 79.2%. As of September 30, 2018, 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 \$4.2 billion for the nine months ended December 31, 2017. As of December 31, 2017, we had aggregated borrowings of \$4.1 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 2.12% per annum, and a weighted-average advance rate of 78.7%. As of December 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.

The following tables outline the key terms of our credit facilities as of September 30, 2018:

Lender	Currency	Guarantee⁽¹⁾	Margin Call⁽²⁾	Term/Maturity
Morgan Stanley	\$ / £ /	25%	Collateral marks only	March 3, 2020
Goldman Sachs - Multi. JV ⁽³⁾	\$	25%	Collateral marks only	July 12, 2020 ⁽⁴⁾
JP Morgan	\$ / £	50%	Collateral marks only	January 7, 2021
Bank of America - Multi. JV ⁽³⁾	\$	43%	Collateral marks only	July 19, 2021 ⁽⁵⁾
Deutsche Bank	\$	32%	Collateral marks only	August 9, 2021 ⁽⁶⁾
Barclays	\$	25%	Collateral marks only	March 29, 2023 ⁽⁷⁾
MetLife	\$	50%	Collateral marks only	April 22, 2023 ⁽⁸⁾
Bank of America	\$	50%	Collateral marks only	May 21, 2023 ⁽⁹⁾
Citibank	\$ / £ /	25%	Collateral marks only	Term matched ⁽¹⁰⁾
Société Générale	\$ / £ /	25%	Collateral marks only	Term matched ⁽¹⁰⁾
Wells Fargo	\$	25%	Collateral marks only	Term matched ⁽¹⁰⁾

- (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 facilities finance the loan investments of our consolidated Multifamily Joint Venture. Refer to Note 2 for additional discussion of our Multifamily Joint Venture.
- (4) Includes a one-year extension option which may be exercised at our sole discretion.
- (5) Includes two one-year extension options which may be exercised at our sole discretion.
- (6) Includes two one-year extension options which may be exercised at our sole discretion.
- (7) Includes four one-year extension options which may be exercised at our sole discretion.
- (8) Includes four one-year extension options which may be exercised at our sole discretion.
- (9) Includes two one-year extension options which may be exercised at our sole discretion.
- (10) 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.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Currency	Potential Borrowings	Outstanding Borrowings ⁽¹⁾	Floating Rate Index	Spread ⁽²⁾	Advance Rate ⁽³⁾
\$	\$ 5,024,025	\$ 4,551,603	1-month USD LIBOR	1.75%	79.2%
	54,869	12,100	3-month EURIBOR	2.28%	80.0%
£	£ 247,194	£ 218,914	3-month GBP LIBOR	1.97%	79.0%
	\$ 5,409,815	\$ 4,850,911		1.77%	79.2%

- (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 spread over the applicable floating rate index, based on borrowings outstanding.
- (3) Represents weighted-average advance rate based on the approved outstanding principal balance of the collateral assets pledged.

Asset-Specific Financings

During the nine months ended September 30, 2018, we entered into an 800.0 million asset-specific financing secured by a 1.0 billion senior loan. The following tables detail our asset-specific financings (\$ in thousands):

Asset-Specific Financings	Count	September 30, 2018				
		Principal Balance	Book Value	Wtd. Avg. Yield/Cost ⁽¹⁾	Guarantee ⁽²⁾	Wtd. Avg. Term ⁽³⁾
Collateral assets	5	\$ 1,905,475	\$ 1,895,094	L+3.61%	n/a	Sep. 2022
Financing provided ⁽⁴⁾	5	\$ 1,499,286	\$ 1,492,614	L+1.77%	\$ 1,178,874	Sep. 2022

Asset-Specific Financings	Count	December 31, 2017				
		Principal Balance	Book Value	Wtd. Avg. Yield/Cost ⁽¹⁾	Guarantee ⁽²⁾	Wtd. Avg. Term ⁽³⁾
Collateral assets	6	\$ 682,259	\$ 677,296	L+4.76%	n/a	Dec. 2020
Financing provided ⁽⁴⁾	6	\$ 518,864	\$ 517,088	L+2.50%	\$ 162,475	Dec. 2020

- (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) As of September 30, 2018 and December 31, 2017, borrowings of \$517.8 million and \$394.8 million, respectively, under these asset specific financings are cross collateralized with related credit facilities with the same lenders.

The weighted-average outstanding balance of our asset-specific financings was \$1.3 billion for the nine months ended September 30, 2018 and \$522.5 million for the nine months ended December 31, 2017.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****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. 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 following tables detail our asset-specific borrowings related to the GE portfolio acquisition (\$ in thousands):

GE Portfolio Acquisition Facility	Count	Principal Balance⁽¹⁾	September 30, 2018		Guarantee⁽³⁾	Wtd. Avg. Term⁽⁴⁾
			Book Value	Wtd. Avg. Yield/Cost⁽²⁾		
Collateral assets	11	\$ 662,464	\$ 664,189	5.92%	n/a	May 2021
Financing provided	11	\$ 512,059	\$ 511,346	L+1.77%	\$ 250,000	May 2021

GE Portfolio Acquisition Facility	Count	Principal Balance⁽¹⁾	December 31, 2017		Guarantee⁽³⁾	Wtd. Avg. Term⁽⁴⁾
			Book Value	Wtd. Avg. Yield/Cost⁽²⁾		
Collateral assets	16	\$ 906,707	\$ 911,092	5.74%	n/a	Jul. 2020
Financing provided	16	\$ 703,423	\$ 702,337	L+1.72%	\$ 250,000	Jul. 2020

- (1) As of September 30, 2018, this facility provided for \$608.7 million of financing, of which \$512.1 million was outstanding and an additional \$96.6 million was available to finance future loan fundings in the GE portfolio. As of December 31, 2017, this facility provided for \$816.3 million of financing, of which \$703.4 million was outstanding and an additional \$112.9 million was available to finance future loan fundings in the GE portfolio.
- (2) In addition to cash coupon, yield/cost includes the amortization of deferred origination fees / financing costs.
- (3) 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.
- (4) 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.

Revolving Credit Agreement

We have a \$250.0 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 maturity date of the facility is April 4, 2020.

During the nine months ended September 30, 2018, the weighted-average outstanding borrowings under the revolving credit agreement was \$37.8 million and we recorded interest expense of \$2.6 million, including \$825,000 of amortization of deferred fees and expenses. As of September 30, 2018, we had no outstanding borrowings under the agreement.

During the nine months ended December 31, 2017, the weighted-average outstanding borrowings under the revolving credit agreement was \$40.7 million and we recorded interest expense of \$2.6 million, including \$703,000 of amortization of deferred fees and expenses. As of December 31, 2017, we had no outstanding borrowings under the agreement.

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 \$2.4 billion as of each measurement date plus 75% of the net cash proceeds of future equity issuances subsequent to September 30, 2018; (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 September 30, 2018 and December 31, 2017, we were in compliance with these covenants.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****6. 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 our loan participations sold (\$ in thousands):

September 30, 2018							
Loan Participations Sold	Count	Principal Balance	Book Value	Yield/Cost	Guarantee⁽²⁾	Term	
Total loan	1	\$ 106,259	\$ 105,149	L+6.06%	n/a	Feb. 2022	
Senior participation ⁽³⁾⁽⁴⁾	1	81,170	81,044	L+4.08%	n/a	Feb. 2022	

December 31, 2017							
Loan Participations Sold	Count	Principal Balance	Book Value	Yield/Cost	Guarantee⁽²⁾	Term	
Total loan	1	\$ 141,119	\$ 138,907	L+5.94%	n/a	Feb. 2022	
Senior participation ⁽³⁾⁽⁴⁾	1	80,706	80,415	L+4.14%	n/a	Feb. 2022	

- (1) Our 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 fees / financing costs.
- (2) As of September 30, 2018 and December 31, 2017, our loan participations sold was non-recourse to us.
- (3) During the three and nine months ended September 30, 2018, we recorded \$11.7 million and \$15.2 million, respectively, of interest expense related to our loan participations sold. During the three and nine months ended September 30, 2017, we recorded \$4.0 million and \$9.3 million, respectively, of interest expense related to our loan participations sold.
- (4) The difference between principal balance and book value of loan participations sold is due to deferred financing costs of \$126,000 and \$291,000, as of September 30, 2018 and December 31, 2017, respectively.

7. SECURITIZED DEBT OBLIGATIONS, NET

We have financed a pool of our loans through a collateralized loan obligation, or the CLO, and have also financed one of our loans through a single asset securitization vehicle, or the 2017 Single Asset Securitization. The CLO and the 2017 Single Asset Securitization have issued securitized debt obligations that are non-recourse to us. Both the CLO and the 2017 Single Asset Securitization are consolidated in our financial statements. Refer to Note 15 for further discussion of our CLO and 2017 Single Asset Securitization.

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

The following tables detail our securitized debt obligations (\$ in thousands):

Securitized Debt Obligations	Count	September 30, 2018			
		Principal Balance	Book Value	Wtd. Avg. Yield/Cost⁽¹⁾	Term⁽²⁾
<u>Collateralized Loan Obligation</u>					
Collateral assets	28	\$ 1,000,000	\$ 1,000,000	6.09%	Feb. 2022
Financing provided	1	817,500	809,944	L+1.74%	June 2035
<u>2017 Single Asset Securitization</u>					
Collateral assets ⁽³⁾	1	678,963	675,437	L+3.60%	June 2023
Financing provided	1	474,620	474,418	L+1.65%	June 2033
<u>Total</u>					
Collateral assets	29	\$ 1,678,963	\$ 1,675,437	6.00%	
Financing provided ⁽⁴⁾	2	\$ 1,292,120	\$ 1,284,362	L+1.71%	

Securitized Debt Obligations	Count	December 31, 2017			
		Principal Balance	Book Value	Wtd. Avg. Yield/Cost⁽¹⁾	Term⁽²⁾
<u>Collateralized Loan Obligation</u>					
Collateral assets	31	\$ 1,000,000	\$ 1,000,000	5.16%	Nov. 2021
Financing provided	1	817,500	808,083	L+1.76%	June 2035
<u>2017 Single Asset Securitization</u>					
Collateral assets ⁽³⁾	1	656,406	652,880	L+3.60%	June 2023
Financing provided	1	474,620	474,328	L+1.94%	June 2033
<u>Total</u>					
Collateral assets	32	\$ 1,656,406	\$ 1,652,880	5.17%	
Financing provided ⁽⁴⁾	2	\$ 1,292,120	\$ 1,282,411	L+1.83%	

(1) As of September 30, 2018, 98% of our loans financed by securitized debt obligations earned a floating rate of interest. As of December 31, 2017, 98% of our loans financed by securitized debt obligations earned a floating rate of interest. In

addition to cash coupon, all-in yield includes the amortization of deferred origination and extension fees, loan origination costs, purchase discounts, and accrual of exit fees. All-in yield for the total portfolio assume applicable floating benchmark rates for weighted-average calculation.

- (2) Loan term represents weighted-average final maturity, assuming all extension options are exercised by the borrower. Repayments of securitized debt obligations are tied to timing of the related collateral loan asset repayments. The term of these obligations represents the rated final distribution date of the securitizations.
- (3) The collateral assets for the 2017 Single Asset Securitization include the total loan amount, of which we securitized \$500.0 million.
- (4) During the three and nine months ended September 30, 2018, we recorded \$12.5 million and \$35.6 million of interest expense, respectively, related to our securitized debt obligations. During both the three and nine months ended September 30, 2017, we recorded \$3.8 million of interest expense related to our securitized debt obligations.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****8. CONVERTIBLE NOTES, NET**

As of September 30, 2018, the following convertible senior notes, or Convertible Notes, were outstanding (\$ in thousands):

Convertible Notes Issuance	Face Value	Coupon Rate	Yield Cost⁽¹⁾	Conversion Rate⁽²⁾	Maturity
November 2013	\$ 172,328	5.25%	5.87%	36.5472	December 1, 2018
May 2017	402,500	4.38%	4.85%	28.0324	May 5, 2022
March 2018	220,000	4.75%	5.33%	27.6052	March 15, 2023

- (1) Includes issuance costs that are amortized through interest expense over the life of the Convertible Notes using the effective interest method.
- (2) Represents the shares of class A common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to a conversion price of \$27.36, \$35.67, and \$36.23 per share of class A common stock, respectively, for the November 2013, May 2017, and March 2018 convertible notes. As a result of exceeding the cumulative dividend threshold, as defined in the November 2013 convertible notes supplemental indenture, the conversion rate on the November 2013 convertible notes was most recently adjusted on March 28, 2018 from the prior conversion rate of 36.1380 shares of class A common stock per \$1,000 principal amount of convertible notes, which was equivalent to a conversion price of \$27.67 per share of class A common stock. Pursuant to the terms of the November 2013 supplemental indenture, the conversion rate will be adjusted to 36.8161 on the first day of any future observation period related to a conversion of the November 2013 convertible notes to account for the dividends paid on our class A common stock on July 16, 2018 and October 15, 2018. The cumulative dividend threshold as defined in the respective May 2017 and March 2018 convertible notes supplemental indentures have not been exceeded as of September 30, 2018.

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, January 31, 2022, and December 14, 2022 for the November 2013, May 2017, and March 2018 convertible notes, respectively, 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. We may not redeem the Convertible Notes prior to maturity. The last reported sale price of our class A common stock of \$33.51 on September 28, 2018, the last trading day in the quarter ended September 30, 2018, was greater than the per share conversion price of the November 2013 convertible notes but less than the per share conversion price of the May 2017 and March 2018 convertible notes. We have the intent and ability to settle each series of the Convertible Notes in cash and, as a result, the Convertible Notes did not have any impact on our diluted earnings per share. During the nine

months ended September 30, 2018, holders of \$172,000 of our November 2013 convertible notes elected to convert their notes pursuant to the terms of the November 2013 convertible notes supplemental indenture. The conversions were settled entirely in cash.

Upon our issuance of the November 2013 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 November 2013 convertible notes issuance is 7.16% per annum.

Upon our issuance of the May 2017 convertible notes, we recorded a \$979,000 discount based on the implied value of the conversion option and an assumed effective interest rate of 4.57%, as well as \$8.4 million of initial debt discount and issuance costs. Including the amortization of the discount and issuance costs, our total cost of the May 2017 convertible notes issuance is 4.91% per annum.

Upon our issuance of the March 2018 convertible notes, we recorded a \$1.5 million discount based on the implied value of the conversion option and an assumed effective interest rate of 5.25%, as well as \$5.2 million of initial debt discount and issuance costs. Including the amortization of the discount and issuance costs, our total cost of the March 2018 convertible notes issuance is 5.49% per annum.

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

The following table details the net book value of our Convertible Notes on our consolidated balance sheets (\$ in thousands):

	September 30, 2018	December 31, 2017
Face value	\$ 794,828	\$ 575,000
Unamortized discount	(12,956)	(10,279)
Deferred financing costs	(921)	(810)
Net book value	\$ 780,951	\$ 563,911

The following table details our interest expense related to the Convertible Notes (\$ in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Cash coupon	\$ 9,277	\$ 6,247	\$ 25,333	\$ 12,732
Discount and issuance cost amortization	1,535	1,202	4,242	2,869
Total interest expense	\$ 10,812	\$ 7,449	\$ 29,575	\$ 15,601

Accrued interest payable for the Convertible Notes was \$10.8 million and \$3.7 million as of September 30, 2018, and December 31, 2017, 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.

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

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

September 30, 2018			December 31, 2017		
Foreign Currency Derivatives	Number of Instruments	Notional Amount	Foreign Currency Derivatives	Number of Instruments	Notional Amount
Sell AUD Forward	3	A\$ 305,000	Sell GBP Forward	1	£ 112,700
Sell EUR Forward	1	185,000	Sell CAD Forward	1	C\$ 95,100
Sell GBP Forward	1	£ 79,100			
Sell CAD Forward	1	C\$ 71,600			

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):

September 30, 2018						
Interest Rate	Number of Instruments	Notional Amount	Strike	Index	Wtd.-Avg. Maturity (Years)	
Interest Rate Swaps	4	C\$ 107,822	1.0%	CDOR	0.7	
Interest Rate Caps	9	\$ 204,248	2.4%	USD LIBOR	0.7	
Interest Rate Caps	3	C\$ 22,765	2.0%	CDOR	0.4	
December 31, 2017						
Interest Rate	Number of Instruments	Notional Amount	Strike	Index	Wtd.-Avg. Maturity (Years)	
Interest Rate Swaps	4	C\$ 108,094	1.0%	CDOR	1.4	

Interest Rate						
Caps	9	\$	204,248	2.4%	USD LIBOR	1.5
Interest Rate						
Caps	3	C\$	23,370	2.0%	CDOR	0.3

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on our floating rate debt. During the twelve months following September 30, 2018, we estimate that an additional \$570,000 will be reclassified from accumulated other comprehensive income (loss) as an increase to interest income.

Non-designated Hedges

During the three and nine months ended September 30, 2018, we recorded losses of \$51,000 and gains of \$94,000, respectively, related to non-designated hedges that were reported as a component of interest expense in our consolidated financial statements. During the three and nine months ended September 30, 2017, we recorded losses of \$42,000 and \$355,000, respectively.

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):

September 30, 2018		
Non-designated Hedges	Number of Instruments	Notional Amount
Buy GBP / Sell EUR Forward	1	12,857

December 31, 2017		
Non-designated Hedges	Number of Instruments	Notional Amount
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):

	Fair Value of Derivatives in an Asset Position⁽¹⁾ as of		Fair Value of Derivatives in a Liability Position⁽²⁾ as of	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Derivatives designated as hedging instruments:				
Foreign exchange contracts	\$ 1,514	\$	\$ 3,676	\$ 4,872
Interest rate derivatives	1,042	1,214		
Total	\$ 2,556	\$ 1,214	\$ 3,676	\$ 4,872
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	\$ 163	\$	\$	\$ 39
Interest rate derivatives				
Total	\$ 163	\$	\$	\$ 39
Total Derivatives	\$ 2,719	\$ 1,214	\$ 3,676	\$ 4,911

(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):

	Amount of Gain (Loss) Recognized in OCI on Derivatives		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018		Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Derivatives in Hedging Relationships					
Net Investment Hedges					
Foreign exchange contracts ⁽¹⁾	\$ 1,763	\$ 23,782	Interest Expense	\$	\$
Cash Flow Hedges					
Interest rate derivatives	92	228	Interest Expense ⁽²⁾	152	388
Total	\$ 1,855	\$ 24,011		\$ 152	\$ 388

- (1) During the three and nine months ended September 30, 2018, we received net cash settlements of \$7.6 million and \$21.0 million, respectively, on our foreign currency forward contracts. Those amounts are included as a component of accumulated other comprehensive loss on our consolidated balance sheets.
- (2) During the three months ended September 30, 2018, we recorded total interest and related expenses of \$98.0 million, which included a \$152,000 expense reduction related to income generated by our cash flow hedges. During the nine months ended September 30, 2018, we recorded total interest and related expenses of \$255.7 million, which included a \$388,000 expense reduction related to income generated by our cash flow hedges.

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 September 30, 2018, we were in a net asset position with one of our derivative counterparties and in a net liability position with our other derivative counterparty, and posted collateral of \$7.4 million under these derivative contracts. As of December 31, 2017, we were in a net asset position with one of our derivative counterparties and in a net liability position with our other derivative counterparty, and posted collateral of \$4.1 million under these derivative contracts.

10. EQUITY

Stock and Stock Equivalents

Authorized Capital

As of September 30, 2018, 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 September 30, 2018.

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

The following table details our issuance of class A common stock during the nine months ended September 30, 2018 (\$ in thousands, except share and per share data):

	Class A Common Stock Offerings		
	August 2018	At-the-Market 2018 ⁽¹⁾	2018 Total / Wtd. Avg.
Shares issued	6,900,000	4,583,135	11,483,135
Share issue price ⁽²⁾	\$ 32.60	\$ 32.73	\$ 32.65
Net proceeds ⁽³⁾	\$ 222,275	\$ 147,512	\$ 369,787

- (1) Issuance represents shares issued under our at-the-market program, with a weighted-average issue price of \$32.73.
- (2) Represents price per share paid by the underwriters or sales agents, as applicable. Net proceeds after underwriting or sales discounts and commissions were \$32.26 and \$32.24 per share for our August offering and at-the-market program, respectively.
- (3) Net proceeds represents proceeds received from the underwriters less applicable transaction costs.

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.

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:

Common Stock Outstanding ⁽¹⁾	Nine Months Ended September 30,	
	2018	2017
Beginning balance	108,081,077	94,709,290

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Issuance of class A common stock ⁽²⁾	11,484,414	971
Issuance of restricted class A common stock, net	300,921	286,773
Issuance of deferred stock units	23,730	20,560
Ending balance	119,890,142	95,017,594

- (1) Includes deferred stock units held by members of our board of directors of 220,947 and 189,587 as of September 30, 2018 and 2017, respectively.
- (2) Includes 1,279 and 971 shares issued under our dividend reinvestment program during the nine months ended September 30, 2018 and 2017, 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 and nine months ended September 30, 2018, we issued 403 shares and 1,279 shares, respectively, of class A common stock under the dividend reinvestment component of the plan compared to 428 shares and 971 shares for the same periods in 2017. As of September 30, 2018, a total of 9,995,647 shares of class A common stock remained available for issuance under the dividend reinvestment and direct stock purchase plan.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)***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. During the nine months ended September 30, 2018, we issued and sold 4,583,135 shares of class A common stock under the ATM Agreements, with net proceeds totaling \$147.5 million. We did not sell any shares of our class A common stock under the ATM Agreements during the nine months ended September 30, 2017. As of September 30, 2018, sales of our class A common stock with an aggregate sales price of \$38.6 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.

On September 14, 2018, we declared a dividend of \$0.62 per share, or \$74.2 million, that was paid on October 15, 2018, to stockholders of record as of September 28, 2018. The following table details our dividend activity (\$ in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Dividends declared per share of common stock	\$ 0.62	\$ 0.62	\$ 1.86	\$ 1.86
Total dividends declared	\$ 74,195	\$ 58,793	\$ 210,369	\$ 176,374

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income ⁽¹⁾	\$ 78,165	\$ 57,722	\$ 211,436	\$ 159,741
Weighted-average shares outstanding, basic and diluted	116,203,140	95,013,087	111,251,864	95,004,188
Per share amount, basic and diluted	\$ 0.67	\$ 0.61	\$ 1.90	\$ 1.68

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

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Other Balance Sheet Items

Accumulated Other Comprehensive Loss

As of September 30, 2018, total accumulated other comprehensive loss was \$32.8 million, primarily representing (i) \$87.1 million of cumulative unrealized currency translation adjustments on assets and liabilities denominated in foreign currencies and (ii) an offsetting \$54.3 million of net realized and unrealized gains related to changes in the fair value of derivative instruments. As of December 31, 2017, total accumulated other comprehensive loss was \$29.7 million, primarily representing (i) \$60.3 million of cumulative unrealized currency translation adjustments on assets and liabilities denominated in foreign currencies and (ii) an offsetting \$30.6 million of net realized and unrealized gains related to changes in the fair value of derivative instruments.

Non-Controlling Interests

The non-controlling interests included on our consolidated balance sheets represent the equity interests in our Multifamily Joint Venture that are not owned by us. A portion of our Multifamily Joint Venture's consolidated equity and results of operations are allocated to these non-controlling interests based on their pro rata ownership of our Multifamily Joint Venture. As of September 30, 2018, our Multifamily Joint Venture's total equity was \$48.1 million, of which \$40.9 million was owned by us, and \$7.2 million was allocated to non-controlling interests. As of December 31, 2017, our Multifamily Joint Venture's total equity was \$42.3 million, of which \$36.0 million was owned by us, and \$6.3 million was allocated to non-controlling interests.

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.

During the three and nine months ended September 30, 2018, we incurred \$12.1 million and \$34.2 million, respectively, of management fees payable to our Manager, compared to \$9.5 million and \$28.6 million during the

same periods in 2017. In addition, during the three and nine months ended September 30, 2018, we incurred \$6.3 million and \$22.0 million, respectively, of incentive fees payable to our Manager, compared to \$3.7 million and \$11.9 million during the same periods in 2017.

As of September 30, 2018 and December 31, 2017 we had accrued management and incentive fees payable to our Manager of \$18.4 million and \$14.3 million, respectively.

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