

BLACKSTONE MORTGAGE TRUST, INC.

Form 10-Q

October 27, 2015

[Table of Contents](#)

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

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015**

**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)**

<b>Maryland</b> <b>(State or other jurisdiction of</b>	<b>94-6181186</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification No.)</b>
<b>345 Park Avenue, 42nd Floor</b>	
<b>New York, New York 10154</b>	
<b>(Address of principal executive offices)(Zip Code)</b>	
<b>(212) 655-0220</b>	
<b>(Registrant's telephone number, including area code)</b>	

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

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

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

Large accelerated filer  Accelerated filer

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

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

The number of the Registrant's outstanding shares of class A common stock, par value \$0.01 per share, as of October 20, 2015 was 93,213,042.

**Table of Contents**

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

ITEM 1.	<u>FINANCIAL STATEMENTS</u>	2
	Consolidated Financial Statements (Unaudited):	
	<u>Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014</u>	2
	<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014</u>	3
	<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014</u>	4
	<u>Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2015 and 2014</u>	5
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	33
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	52
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	53
<b>PART II. <u>OTHER INFORMATION</u></b>		
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	55
ITEM 1A.	<u>RISK FACTORS</u>	55
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	55
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	55
ITEM 4.	<u>MINE SAFETY DISCLOSURES</u>	55
ITEM 5.	<u>OTHER INFORMATION</u>	55
ITEM 6.	<u>EXHIBITS</u>	56
	<u>SIGNATURES</u>	57

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

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 138,600	\$ 51,810
Restricted cash	9,063	11,591
Loans receivable, net	9,377,591	4,428,500
Equity investments in unconsolidated subsidiaries	7,496	10,604
Accrued interest receivable, prepaid expenses, and other assets	319,118	86,016
<b>Total Assets</b>	<b>\$ 9,851,868</b>	<b>\$ 4,588,521</b>
<b>Liabilities and Equity</b>		
Accounts payable, accrued expenses, and other liabilities	\$ 95,153	\$ 61,013
Secured debt agreements	6,585,654	2,365,336
Loan participations sold	507,200	499,433
Convertible notes, net	163,699	161,853
<b>Total Liabilities</b>	<b>7,351,706</b>	<b>3,087,635</b>
<b>Equity</b>		
Class A common stock, \$0.01 par value, 200,000,000 shares authorized, 93,212,863 and 58,269,889 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	932	583
Additional paid-in capital	3,066,662	2,027,404
Accumulated other comprehensive loss	(27,588)	(15,024)
Accumulated deficit	(552,881)	(547,592)
<b>Total Blackstone Mortgage Trust, Inc. stockholders' equity</b>	<b>2,487,125</b>	<b>1,465,371</b>
Non-controlling interests	13,037	35,515
<b>Total Equity</b>	<b>2,500,162</b>	<b>1,500,886</b>
<b>Total Liabilities and Equity</b>	<b>\$ 9,851,868</b>	<b>\$ 4,588,521</b>

*See accompanying notes to consolidated financial statements.*



Table of Contents

## Blackstone Mortgage Trust, Inc.

## Consolidated Statements of Operations (Unaudited)

(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>Income from loans and other investments</b>				
Interest and related income	\$ 138,361	\$ 50,386	\$ 282,249	\$ 126,507
Less: Interest and related expenses	51,329	19,903	106,125	47,697
<b>Income from loans and other investments, net</b>	87,032	30,483	176,124	78,810
<b>Other expenses</b>				
Management and incentive fees	13,813	5,412	28,535	13,219
General and administrative expenses	5,295	3,368	28,655	21,920
<b>Total other expenses</b>	19,108	8,780	57,190	35,139
Unrealized (loss) gain on investments at fair value	(82)	1,780	22,108	7,604
Income from equity investments in unconsolidated subsidiaries	17		5,677	24,294
<b>Income before income taxes</b>	67,859	23,483	146,719	75,569
<b>Income tax provision (benefit)</b>	81	(118)	431	412
<b>Net income</b>	67,778	23,601	146,288	75,157
<b>Net income attributable to non-controlling interests</b>	(890)	(1,577)	(14,724)	(6,602)
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	\$ 66,888	\$ 22,024	\$ 131,564	\$ 68,555
<b>Net income per share of common stock basic and diluted</b>	\$ 0.72	\$ 0.45	\$ 1.69	\$ 1.52
<b>Weighted-average shares of common stock outstanding, basic and diluted</b>	93,357,960	49,211,205	77,752,247	45,093,314
<b>Dividends declared per share of common stock</b>	\$ 0.62	\$ 0.50	\$ 1.66	\$ 1.46

*See accompanying notes to consolidated financial statements.*





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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 67,778	\$ 23,601	\$ 146,288	\$ 75,157
Other comprehensive income:				
Unrealized loss on foreign currency remeasurement	(23,148)	(8,932)	(27,484)	(7,003)
Unrealized gain on derivative financial instruments	14,891		14,920	
Comprehensive income	59,521	14,669	133,724	68,154
Comprehensive income attributable to non-controlling interests	(890)	(1,577)	(14,724)	(6,602)
Comprehensive income attributable to Blackstone Mortgage Trust, Inc.	\$ 58,631	\$ 13,092	\$ 119,000	\$ 61,552

*See accompanying notes to consolidated financial statements.*

Table of Contents

## Blackstone Mortgage Trust, Inc.

## Consolidated Statements of Changes in Equity (Unaudited)

(in thousands)

Blackstone Mortgage Trust, Inc.							
	Class A Common Stock	Additional Paid-In Capital	Accumulated Comprehensive Income (Loss)	Other Accumulated Deficit	Stockholder Equity	Non-controlling Interests	Total Equity
<b>Balance at December 31, 2013</b>	\$ 295	\$ 1,252,986	\$ 798	\$ (536,170)	\$ 717,909	\$ 38,841	\$ 756,750
Shares of class A common stock issued, net	284	763,123			763,407		763,407
Restricted class A common stock earned	(2)	5,554			5,552		5,552
Dividends reinvested		149		(149)			
Deferred directors compensation		281			281		281
Other comprehensive loss			(7,003)		(7,003)		(7,003)
Net income				68,555	68,555	6,602	75,157
Dividends declared on common stock				(70,962)	(70,962)		(70,962)
Distributions to non-controlling interests						(13,323)	(13,323)
<b>Balance at September 30, 2014</b>	\$ 577	\$ 2,022,093	\$ (6,205)	\$ (538,726)	\$ 1,477,739	\$ 32,120	\$ 1,509,859
<b>Balance at December 31, 2014</b>	\$ 583	\$ 2,027,404	\$ (15,024)	\$ (547,592)	\$ 1,465,371	\$ 35,515	\$ 1,500,886
Shares of class A common stock issued, net	349	1,029,186			1,029,535		1,029,535
Restricted class A common stock earned		9,599			9,599		9,599
Dividends reinvested		192		(179)	13		13
Deferred directors compensation		281			281		281
			(12,564)		(12,564)		(12,564)

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Other comprehensive loss								
Net income			131,564		131,564		14,724	146,288
Dividends declared on common stock			(136,674)		(136,674)			(136,674)
Distributions to non-controlling interests							(37,202)	(37,202)
<b>Balance at September 30, 2015</b>	\$ 932	\$ 3,066,662	\$ (27,588)	\$ (552,881)	\$ 2,487,125	\$ 13,037	\$ 2,500,162	

*See accompanying notes to consolidated financial statements.*

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

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 146,288	\$ 75,157
Adjustments to reconcile net income to net cash provided by operating activities		
Unrealized gain on investments at fair value	(22,108)	(7,604)
Income from equity investments in unconsolidated subsidiaries	(5,677)	(24,294)
Non-cash compensation expense	14,470	6,824
Distributions of income from unconsolidated subsidiaries	5,007	14,125
Amortization of deferred interest on loans	(25,489)	(12,763)
Amortization of deferred financing costs and premiums/discount on debt obligations	14,684	6,842
Changes in assets and liabilities, net		
Accrued interest receivable, prepaid expenses, and other assets	(28,679)	(8,184)
Accounts payable, accrued expenses, and other liabilities	6,114	7,357
Net cash provided by operating activities	104,610	57,460
<b>Cash flows from investing activities</b>		
Originations and fundings of loans receivable	(6,807,347)	(2,297,545)
Principal collections and proceeds from the sale of loans receivable and other assets	1,584,189	403,189
Origination and exit fees received on loans receivable	26,799	28,015
Decrease (increase) in restricted cash	2,528	(759)
Net cash used in investing activities	(5,193,831)	(1,867,100)
<b>Cash flows from financing activities</b>		
Borrowings under secured debt agreements	6,560,426	2,511,285
Repayments under secured debt agreements	(2,279,837)	(1,718,996)
Repayment of other liabilities		(20,794)
Proceeds from sales of loan participations	256,000	368,850
Repayment of loan participations	(238,164)	
Payment of deferred financing costs	(19,932)	(12,780)
Receipts under derivative financial instruments	11,911	
Distributions to non-controlling interests	(37,202)	(13,323)
Net proceeds from issuance of class A common stock	1,029,535	763,407
Dividends paid on class A common stock	(109,178)	(55,399)

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Net cash provided by financing activities	5,173,559	1,822,250
<b>Net increase in cash and cash equivalents</b>	84,338	12,610
Cash and cash equivalents at beginning of period	51,810	52,342
Effects of currency translation on cash and cash equivalents	2,452	(1,609)
Cash and cash equivalents at end of period	\$ 138,600	\$ 63,343
<b>Supplemental disclosure of cash flows information</b>		
Payments of interest	\$ (85,494)	\$ (35,977)
Payments of income taxes	\$ (125)	\$ (1,398)
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Dividends declared, not paid	\$ (57,800)	\$ (28,892)
Participations sold, net	\$ 17,836	\$ 368,850

*See accompanying notes to consolidated financial statements.*

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. ORGANIZATION**

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

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

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

**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, 2014 filed with the Securities and Exchange Commission.

**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. Certain of the assets and credit of our consolidated subsidiaries are not available to satisfy the debt or other obligations of us, our affiliates, or other entities.

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

loans and other investments of CT Legacy Partners at fair value on our consolidated balance sheets.

Certain reclassifications have been made in the presentation of the prior period consolidated balance sheet and statement of cash flows to conform to the current period presentation.

### **Principles of Consolidation**

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

As of December 31, 2014, we no longer had any assets or liabilities on our consolidated balance sheet attributable to any consolidated VIEs.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**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 is recognized over the life of each investment using the effective interest method and is recorded on the accrual basis. Recognition of fees, premiums, and discounts associated with these investments is deferred until the loan is advanced and is then recorded over the term of the loan as an 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 similarly deferred, however expenses related to loans acquired are included in general and administrative expenses as incurred.

**Cash and Cash Equivalents**

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

**Restricted Cash**

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

**Loans Receivable and Provision for Loan Losses**

We originate and purchase commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. We are required to periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due to us pursuant to the contractual terms of the loan. If a loan is determined to be impaired, we write down the loan through a charge to the provision for loan losses. Impairment of these loans, which are collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These



valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager. Actual losses, if any, could ultimately differ from these estimates.

Our Manager performs a quarterly review of our portfolio of loans. In conjunction with this review, our Manager assesses the risk factors of each loan, and assigns a risk rating based on a variety of factors, including, without limitation, loan-to-value ratio, or LTV, debt yield, property type, geographic and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. Based on a 5-point scale, our loans are rated 1 through 5, from less risk to greater risk, which ratings are defined as follows:

**1 - Very Low Risk**

**2 - Low Risk**

**3 - Medium Risk**

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

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

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

During the second quarter of 2015, we acquired a portfolio of loans from General Electric Capital Corporation and certain of its affiliates 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 will accrete from its allocated purchase price to its expected collection value over the life of the loan, consistent with the other loans in our portfolio.

**Equity Investments in Unconsolidated Subsidiaries**

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

**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 freestanding derivative. For all derivatives other than those designated as freestanding derivatives, we formally document our hedge relationships and designation at inception. This documentation includes the identification of the hedging instruments and the hedged items, its risk management objectives, strategy for undertaking the hedge transaction and our evaluation of the effectiveness of its hedged transaction.

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

**Repurchase Agreements**

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.

### **Loan Participations Sold**

Loan participations sold represent senior interests in certain loans that we sold, however, we present such loan participations sold as liabilities because these arrangements do not qualify as sales under GAAP. These participations are non-recourse and remain on our consolidated balance sheet until the loan is repaid. The gross presentation of loan participations sold does not impact stockholders' equity or net income.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**Convertible Notes**

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

**Deferred Financing Costs**

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

**Fair Value of Financial Instruments**

The Fair Value Measurements and Disclosures Topic, or ASC 820, defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements under GAAP. Specifically, this guidance defines fair value based on exit price, or the price that would be received upon the sale of an asset or the transfer of a liability in an orderly transaction between market participants at the measurement date.

ASC 820 also establishes a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring financial instruments. Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument, and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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

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

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

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

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

Certain of our other assets are reported at fair value either (i) on a recurring basis, as of each quarter-end, or (ii) on a nonrecurring basis, as a result of impairment or other events. Our assets that are recorded at fair value are discussed further in Note 13. 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

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

impairment by comparing our Manager's estimation of fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations may require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager.

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

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

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

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

Loans receivable, net: The fair values for these loans were estimated by our Manager taking into consideration factors, including capitalization rates, leasing, occupancy rates, availability and cost of financing, exit plan, sponsorship, actions of other lenders, and indications of market value from other market participants.

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

Repurchase obligations: The fair values for these instruments were estimated based on the rate at which a similar credit facility would have currently priced.

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

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

### **Income Taxes**

Our financial results generally do not reflect provisions for current or deferred income taxes on our REIT taxable income. We believe that we operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, we generally do not expect to pay substantial corporate level taxes other than those payable by our taxable REIT subsidiaries. If we were to fail to meet these requirements, we may be subject to federal, state, and local income tax on current and past income, and penalties. Refer to Note 11 for additional information.

### **Stock-Based Compensation**

Our stock-based compensation consists of awards issued to our Manager and certain of its employees that vest over the life of the awards 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 12 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 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.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

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 class A common stock, including restricted class A common stock and deferred stock units. Refer to Note 9 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 prevailing exchange rate on the dates that they were recorded. Cumulative translation adjustments arising from the translation of non-U.S. dollar denominated subsidiaries are recorded in other comprehensive income.

**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.

**Segment Reporting**

We previously operated our business through two segments, the Loan Origination segment and the CT Legacy Portfolio segment. In the first quarter of 2015, as a result of asset resolutions in our CT Legacy Portfolio, our Manager determined that the CT Legacy Portfolio segment was no longer a distinct and separately managed business. Accordingly, we no longer present segment reporting.

**Recent Accounting Pronouncements**

In April 2015, the FASB issued ASU 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, or ASU 2015-03. ASU 2015-03 simplifies the presentation of debt issuance costs by amending the accounting guidance to require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The amendments presented in ASU 2015-03 are consistent with the accounting guidance related to debt discounts. ASU 2015-03 is effective for the first interim or annual period beginning after December 15, 2015. Early adoption is permitted, and we are currently assessing the impact of ASU 2015-03 on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, or ASU 2015-02. ASU 2015-02 amends the guidance related to accounting for the consolidation of certain



legal entities. The modifications made in ASU 2015-02 impact limited partnerships and similar legal entities, the evaluation of (i) fees paid to a decision maker or a service provider as a variable interest, (ii) fee arrangements, and (iii) related parties on the primary beneficiary determination. ASU 2015-02 is effective for the first interim or annual period beginning after December 15, 2015. We have elected early adoption of ASU 2015-02 and determined there to be no material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 2015-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, or ASU 2014-15. ASU 2014-15 introduces an explicit requirement for management to assess and provide certain disclosures if there is substantial doubt about an entity’s ability to continue as a going concern. ASU 2014-15 is effective for the annual period ending after December 15, 2016. We do not anticipate that the adoption of ASU 2014-15 will have a material impact on our consolidated financial statements.

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

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, or ASU 2014-11. ASU 2014-11 amends the accounting guidance for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings, and requires additional disclosure about certain transactions by the transferor. ASU 2014-11 is effective for certain transactions that qualify for sales treatment for the first interim or annual period beginning after December 15, 2014. The new disclosure requirements for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that qualify for secured borrowing treatment is effective for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. We have historically recorded our repurchase arrangements as secured borrowings and, accordingly, the adoption of ASU 2014-11 did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09. ASU 2014-09 broadly amends the accounting guidance for revenue recognition. ASU 2014-09 is effective for the first interim or annual period beginning after December 15, 2017, and is to be applied retrospectively. We do not anticipate that the adoption of ASU 2014-09 will have a material impact on our consolidated financial statements.

**3. LOANS RECEIVABLE**

During the second quarter of 2015, we completed the acquisition of a \$4.9 billion portfolio of commercial mortgage loans secured by properties located in North America and Europe from General Electric Capital Corporation, or GE, and certain of its affiliates and joint venture partnerships. During the three months ended September 30, 2015, we originated and acquired \$351.4 million of loans and funded \$85.4 million under existing loans.

The following table details overall statistics for our loans receivable portfolio as of September 30, 2015 (\$ in thousands):

	<b>Floating Rate</b>	<b>Fixed Rate</b>	<b>Total</b>
Number of loans	96	36	132
Principal balance	\$ 7,339,875	\$ 2,073,090	\$ 9,412,965
Net book value	\$ 7,303,478	\$ 2,074,113	\$ 9,377,591
Unfunded loan commitments <sup>(1)</sup>	\$ 733,540	\$ 4,720	\$ 738,260
Weighted-average cash coupon <sup>(2)</sup>	L+4.18%	5.65%	4.77%
Weighted-average all-in yield <sup>(2)</sup>	L+4.55%	5.79%	5.09%
Weighted-average maximum maturity (years) <sup>(3)</sup>	3.4	2.9	3.3

(1)

Unfunded commitments will primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will expire over the next four years.

- (2) As of September 30, 2015, our floating rate loans were indexed to various benchmark rates, with 84% of floating rate loans indexed to USD LIBOR. In addition, \$1.1 billion of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 0.64%, as of September 30, 2015. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees. Coupon and all-in yield for the total portfolio assume applicable floating benchmark rate 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, 2015, 65% of our loans were subject to yield maintenance or other prepayment restrictions and 35% were open to repayment by the borrower without penalty.

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

The following table details overall statistics for our loans receivable portfolio as of December 31, 2014 (\$ in thousands):

	<b>December 31, 2014</b>
Number of loans	60
Principal balance	\$ 4,462,897
Net book value	\$ 4,428,500
Unfunded loan commitments <sup>(1)</sup>	\$ 513,229
Weighted-average cash coupon <sup>(2)</sup>	L+4.36%
Weighted-average all-in yield <sup>(2)</sup>	L+4.81%
Weighted-average maximum maturity (years) <sup>(3)</sup>	3.9

- (1) Unfunded commitments will primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will expire over the next four years.
- (2) As of December 31, 2014, all of our loans were floating rate loans and were indexed to various benchmark rates, with 79% of floating rate loans indexed to USD LIBOR. In addition, 14% of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 0.31%, as of December 31, 2014. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees.
- (3) Maximum maturity assumes all extension options are exercised by the borrower, however our loans may be repaid prior to such date. As of December 31, 2014, 85% of our loans were subject to yield maintenance or other prepayment restrictions and 15% were open to repayment by the borrower without penalty.

There were no fixed rate loans in our loans receivable portfolio as of December 31, 2014.

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

	<b>Principal Balance</b>	<b>Deferred Fees / Other Items<sup>(1)</sup></b>	<b>Net Book Value</b>
December 31, 2014	\$ 4,462,897	\$ (34,397)	\$ 4,428,500
Loan originations, acquisitions, and fundings	6,807,347		6,807,347
Loan repayments	(1,758,821)		(1,758,821)
Unrealized (loss) gain on foreign currency translation	(98,458)	333	(98,125)

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Deferred fees and other items <sup>(1)</sup>	(26,799)	(26,799)
Amortization of fees and other items <sup>(1)</sup>	25,489	25,489
September 30, 2015	\$ 9,412,965	\$ (35,374) \$ 9,377,591

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

<b>Asset Type</b>	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	<b>Net Book Value</b>	<b>Percentage</b>	<b>Net Book Value</b>	<b>Percentage</b>
Senior loans <sup>(1)</sup>	\$ 9,118,863	97%	\$ 4,340,586	98%
Subordinate loans <sup>(2)</sup>	258,728	3	87,914	2
	\$ 9,377,591	100%	\$ 4,428,500	100%

<b>Property Type</b>	<b>Net Book</b>		<b>Net Book</b>	
	<b>Value</b>	<b>Percentage</b>	<b>Value</b>	<b>Percentage</b>
Office	\$ 3,894,843	41%	\$ 1,878,605	42%
Hotel	1,943,233	21	1,267,486	29
Manufactured housing	1,407,890	15		
Retail	762,293	8	270,812	6
Multifamily	581,689	6	426,094	10
Condominium	163,323	2	315,686	7
Other	624,320	7	269,817	6
	\$ 9,377,591	100%	\$ 4,428,500	100%

<b>Geographic Location</b>	<b>Net Book</b>		<b>Net Book</b>	
	<b>Value</b>	<b>Percentage</b>	<b>Value</b>	<b>Percentage</b>
<u>United States</u>				
Northeast	\$ 2,220,088	23%	\$ 1,383,258	31%
Southeast	1,920,611	20	657,484	15
Southwest	1,211,043	13	405,741	9
West	1,105,932	12	628,275	14
Midwest	615,121	7	335,406	8
Northwest	384,855	4	138,796	3
Subtotal	7,457,650	79	3,548,960	80

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<u>International</u>				
United Kingdom	970,099	10	622,692	14
Canada	577,181	6	137,024	3
Germany	243,082	3		
Spain	68,398	1	86,289	2
Netherlands	61,181	1	33,535	1
<b>Subtotal</b>	<b>1,919,941</b>	<b>21</b>	<b>879,540</b>	<b>20</b>
<b>Total</b>	<b>\$ 9,377,591</b>	<b>100%</b>	<b>\$ 4,428,500</b>	<b>100%</b>

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

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

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, 2015			December 31, 2014		
	Number of Loans	Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value
1	14	\$ 1,080,812	\$ 1,074,105	5	\$ 209,961	\$ 209,112
2	82	6,218,253	6,196,357	44	3,339,972	3,313,906
3	35	1,993,998	1,987,472	11	912,964	905,482
4	1	119,902	119,657			
5						
	132	\$ 9,412,965	\$ 9,377,591	60	\$ 4,462,897	\$ 4,428,500

We did not have any loan impairments or nonaccrual loans as of September 30, 2015 or December 31, 2014. We had one loan with a net book value of \$119.7 million which had a maturity default that was less than 90 days past due as of September 30, 2015. As of September 30, 2015, we expect to collect all amounts due under this loan. We did not have any loans in maturity default as of December 31, 2014.

**4. EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES**

As of September 30, 2015, our equity investments in unconsolidated subsidiaries consisted solely of our carried interest in CTOPI, a fund sponsored and managed by an affiliate of our Manager. Activity relating to our equity investments in unconsolidated subsidiaries was as follows (\$ in thousands):

	CTOPI Carried Interest
Total as of December 31, 2014	\$ 10,604
Distributions	(5,007)



Income allocation <sup>(1)</sup>		1,899
Total as of September 30, 2015	\$	7,496

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

Our carried interest in CTOPI entitles us to earn promote revenue in an amount equal to 17.7% of the fund's profits, after a 9% preferred return and 100% return of capital to the CTOPI partners. As of September 30, 2015, we had been allocated \$7.5 million of promote revenue from CTOPI based on a hypothetical liquidation of the fund at its net asset value. Accordingly, we have recognized this allocation as an equity investment in CTOPI on our consolidated balance sheets. Generally, we defer recognition of income from CTOPI until cash is received or earned, pending distribution, and appropriate contingencies have been eliminated. We recognized \$17,000 and \$5.7 million of promote income from CTOPI in respect of our carried interest and recorded such amounts as income in our consolidated statement of operations during the three and nine months ended September 30, 2015, respectively, compared to \$24.3 million for both the three and nine months ended September 30, 2014. This carried interest was either received in cash, or was earned and available in cash at CTOPI pending future distribution as of September 30, 2015.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****CTOPI Incentive Management Fee Grants**

In January 2011, we created a management compensation pool for employees equal to 45% of the CTOPI promote distributions received by us. Approximately 68% of the pool is two-thirds vested as of September 30, 2015, with the remainder contingent on continued employment with an affiliate of our Manager and upon our receipt of promote distributions from CTOPI. The remaining 32% of the pool is fully vested as a result of an acceleration event. During the three and nine months ended September 30, 2015, we accrued \$8,000 and \$2.6 million under the CTOPI incentive plan compared to \$11.2 million for both the three and nine months ended September 30, 2014, which amounts were recognized as a component of general and administrative expenses in our consolidated statement of operations.

**5. SECURED DEBT AGREEMENTS**

As of September 30, 2015, our secured financings included revolving repurchase facilities, the GE portfolio acquisition facility, and asset-specific repurchase agreements. The following table details our secured debt agreements (\$ in thousands):

	<b>Secured Debt Agreements</b>	
	<b>Borrowings Outstanding</b>	
	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Revolving repurchase facilities	\$ 2,780,205	\$ 2,040,783
GE portfolio acquisition facility	3,570,131	
Asset-specific repurchase agreements	235,318	324,553
	\$ 6,585,654	\$ 2,365,336

**Revolving Repurchase Facilities**

During the nine months ended September 30, 2015, we entered into one new revolving repurchase facility agreement and increased the maximum facility size of three of our revolving repurchase facilities, providing an additional \$1.2 billion of credit capacity. The following table details our revolving repurchase facilities as of September 30, 2015 (\$ in thousands):

<b>Lender</b>	<b>Maximum Facility Size<sup>(1)</sup></b>	<b>Collateral Assets<sup>(2)</sup></b>	<b>Repurchase Borrowings</b>		
			<b>Potential</b>	<b>Outstanding</b>	<b>Available<sup>(3)</sup></b>
Bank of America	\$ 750,000	\$ 833,772	\$ 658,608	\$ 618,944	\$ 39,664
Wells Fargo	1,000,000	908,925	704,733	567,299	137,434

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JP Morgan <sup>(4)</sup>	744,365	847,313	663,958	565,233	98,725
Citibank	500,000	607,186	465,753	397,126	68,627
MetLife	750,000	593,203	462,849	393,557	69,292
Morgan Stanley <sup>(5)</sup>	378,775	240,413	185,634	182,554	3,080
Société Générale <sup>(6)</sup>	449,960	69,365	55,492	55,492	
	\$ 4,573,100	\$ 4,100,177	\$ 3,197,027	\$ 2,780,205	\$ 416,822

- (1) Maximum facility size represents the total amount of borrowings in each repurchase agreement, however these borrowings are only available to us once sufficient collateral assets have been pledged under each facility at the discretion of the lender.
- (2) Represents the principal balance of the collateral assets.
- (3) Potential borrowings represent the total amount we could draw under each facility based on collateral already approved and pledged. When undrawn, these amounts are immediately available to us at our sole discretion under the terms of each revolving credit facility.
- (4) The JP Morgan maximum facility size is composed of a \$250.0 million facility, a £153.0 million (\$231.9 million) facility, and \$262.5 million related solely to a specific asset with a repurchase date of January 9, 2018.
- (5) The Morgan Stanley maximum facility size represents a £250.0 million (\$378.8 million) facility.
- (6) The Société Générale maximum facility size represents a 400.0 million (\$450.0 million) facility.

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

The weighted-average outstanding balance of our revolving repurchase facilities was \$2.4 billion for the nine months ended September 30, 2015. As of September 30, 2015, we had aggregate borrowings of \$2.8 billion outstanding under our revolving repurchase facilities, with a weighted-average cash coupon of LIBOR plus 1.83% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.04% per annum. As of September 30, 2015, 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 table outlines the key terms of our revolving repurchase facilities:

<b>Lender</b>	<b>Rate<sup>(1)(2)</sup></b>	<b>Guarantee<sup>(3)</sup></b>	<b>Advance Rate<sup>(1)</sup></b>	<b>Margin Call<sup>(4)</sup></b>	<b>Term/Maturity</b>
Bank of America	L+1.69%	50%	79.5%	Collateral marks only	May 21, 2019 <sup>(5)</sup>
Wells Fargo	L+1.80%	25%	79.3%	Collateral marks only	Term matched <sup>(6)</sup>
JP Morgan	L+1.81%	25%	80.4%	Collateral marks only	Term matched <sup>(6)(7)</sup>
Citibank	L+1.93%	25%	77.7%	Collateral marks only	Term matched <sup>(6)</sup>
MetLife	L+1.79%	50%	78.1%	Collateral marks only	February 24, 2021 <sup>(8)</sup>
Morgan Stanley	L+2.34%	25%	78.5%	Collateral marks only	March 3, 2017
Société Générale	L+1.60%	25%	80.0%	Collateral marks only	July 13, 2018 <sup>(9)</sup>

- (1) Represents a weighted-average based on borrowings outstanding and collateral assets pledged as of September 30, 2015.
- (2) Represents weighted-average cash coupon on borrowings outstanding as of September 30, 2015. As of September 30, 2015, our floating rate loans and related liabilities were indexed to the various benchmark rates relevant in each case in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate.
- (3) Other than amounts guaranteed based on specific collateral asset types, borrowings under our revolving repurchase facilities are not recourse to us.
- (4) Margin call provisions under our revolving repurchase facilities do not permit valuation adjustments based on capital markets activity, and are limited to collateral-specific credit marks.

- (5) Includes two one-year extension options which may be exercised at our sole discretion.
- (6) These revolving repurchase 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.
- (7) Borrowings denominated in British pound sterling under this facility mature on January 7, 2018.
- (8) Includes five one-year extension options which may be exercised at our sole discretion.
- (9) Includes a one-year extension option which, subject to certain provisions, may be exercised at our discretion.

**GE Portfolio Acquisition Facility**

During the second quarter of 2015, concurrently with our acquisition of the GE loan portfolio, we entered into an agreement with Wells Fargo to provide us with secured financing for the acquired portfolio. As of September 30, 2015, this facility provided for \$3.7 billion of financing, of which \$3.6 billion was outstanding and an additional \$158.5 million was available to finance future loan fundings. The GE portfolio acquisition facility is non-revolving and consists of a single master repurchase agreement providing for both (i) asset-specific borrowings for each collateral asset as well as (ii) a sequential pay advance feature.

*Asset-Specific Borrowings*

The asset-specific borrowings under the GE portfolio acquisition facility were advanced at a weighted average rate of 80% of our purchase price of the collateral assets and will be repaid pro rata from collateral asset repayment proceeds. The asset-specific borrowings are currency matched to the collateral assets and accrue interest at a rate equal to the sum of (i) the applicable base rate plus (ii) a margin of 1.75%, which will increase to 1.80% and 1.85% in year four and year five, respectively. As of September 30, 2015, those borrowings were denominated in U.S. Dollars, Canadian Dollars, British Pounds Sterling, and Euros. The asset-specific borrowings are term matched to the underlying collateral assets with an outside maturity date of May 20, 2020, which may be extended pursuant to two one-year extension options. We guarantee obligations under the GE portfolio acquisition facility in an amount equal to the greater of (i) 25% of outstanding asset-specific borrowings, and (ii) \$250.0 million. As of September 30, 2015, we had outstanding asset-specific borrowings of \$3.4 billion under the GE portfolio acquisition facility.

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

The GE portfolio acquisition facility also includes a sequential pay advance feature that provided for \$237.2 million of borrowings, representing an additional 5% advance against each collateral asset pledged under the facility. Borrowings under the sequential pay advance accrue interest at a rate equal to the sum of (i) 30-day LIBOR plus (ii) a margin of 3.10%. The sequential pay advance is denominated in U.S. Dollars and will be repaid from collateral loan principal repayments, after repayment of the related asset-specific borrowing. The sequential pay advances each have a maturity date that is one year from the date of funding, and we guarantee 100% of outstanding borrowings of the sequential pay advance. As of September 30, 2015, we had outstanding sequential pay advance borrowings of \$134.0 million under the GE portfolio acquisition facility.

**Asset-Specific Repurchase Agreements**

During the nine months ended September 30, 2015, we entered into one asset-specific repurchase agreement providing an additional \$103.1 million of credit capacity. The following table details statistics for our asset-specific repurchase agreements (\$ in thousands):

	September 30, 2015		December 31, 2014	
	Repurchase Agreements	Collateral Assets	Repurchase Agreements	Collateral Assets
Number of loans	3	3	3	4
Principal balance	\$ 235,318	\$ 308,786	\$ 324,553	\$ 429,197
Weighted-average cash coupon <sup>(1)</sup>	L+2.64%	L+5.01%	L+2.68%	L+5.07%
Weighted-average cost / all-in yield <sup>(1)</sup>	L+3.06%	L+5.48%	L+3.16%	L+5.53%

(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, cost / all-in yield includes the amortization of deferred origination fees / financing costs.

The weighted-average outstanding balance of our asset-specific repurchase agreements was \$379.0 million and \$257.9 million for the nine months ended September 30, 2015 and year ended December 31, 2014, respectively.

**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 1.40 to 1.0; (ii) our tangible net worth, as defined in the agreements, shall not

be less than \$1.9 billion as of each measurement date plus 75% of the net cash proceeds of future equity issuances subsequent to September 30, 2015; (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, 2015 and December 31, 2014, we were in compliance with these covenants.

## **6. LOAN PARTICIPATIONS SOLD**

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 gross presentation of loan participations sold does not impact stockholders' equity or net income.

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

During the nine months ended September 30, 2015, we sold one senior loan participation, providing an additional \$256.0 million of credit capacity. The following table details statistics for our loan participations sold (\$ in thousands):

	September 30, 2015		December 31, 2014	
	Participations Sold <sup>(2)</sup>	Underlying Loans	Participations Sold <sup>(2)</sup>	Underlying Loans
Number of loans	3	3	4	4
Principal balance	\$ 507,200	\$ 618,470	\$ 499,433	\$ 635,701
Weighted-average cash coupon <sup>(1)</sup>	L+2.38%	L+3.93%	L+2.51%	L+4.10%
Weighted-average all-in cost / yield <sup>(1)</sup>	L+2.49%	L+4.15%	L+2.71%	L+4.71%

- (1) Our floating rate loans and related liabilities were indexed to the various benchmark rates relevant in each arrangement in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate. In addition to cash coupon, all-in cost / yield includes the amortization of deferred origination fees / financing costs.
- (2) During the three and nine months ended September 30, 2015, we recorded \$5.2 million and \$14.4 million, respectively, of interest expense related to our loan participations sold, compared to \$4.2 million and \$8.1 million for the same periods in 2014.

**7. CONVERTIBLE NOTES, NET**

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

The Convertible Notes are convertible at the holders' option into shares of our class A common stock, only under specific circumstances, prior to the close of business on August 31, 2018, at the applicable conversion rate in effect on the conversion date. Thereafter, the Convertible Notes are convertible at the option of the holder at any time until the second scheduled trading day immediately preceding the maturity date. The Convertible Notes were not convertible as of September 30, 2015. The conversion rate was initially set to equal 34.8943 shares of class A common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to an initial conversion price of \$28.66 per share of class A common stock, subject to adjustment upon the occurrence of certain events. We may not redeem the Convertible Notes prior to maturity. As of September 30, 2015, the conversion option value was zero based on the price of our class A common stock of \$27.44. In addition, we had the intent and ability to settle the Convertible Notes in cash. As a result, the Convertible Notes did not have any impact on our diluted earnings per share.



We recorded a \$13.2 million discount upon issuance of the Convertible Notes, including \$4.1 million of initial issuance costs, based on the implied value of the conversion option and an assumed effective interest rate of 6.50%. Including the amortization of this discount and the issuance costs, our total cost of the Convertible Notes is 7.16% per annum. During the three and nine months ended September 30, 2015, we incurred total interest on our convertible notes of \$2.9 million and \$8.7 million, respectively, of which \$2.3 million and \$6.8 million related to cash coupon and \$649,000 and \$1.9 million related to the amortization of discount and certain issuance costs. During the three and nine months ended September 30, 2014, we incurred total interest on our convertible notes of \$2.9 million and \$8.6 million, respectively, of which \$2.3 million and \$6.8 million related to cash coupon and \$610,000 and \$1.8 million related to the amortization of discount and certain issuance costs. As of September 30, 2015, the Convertible Notes were carried on our consolidated balance sheet at \$163.7 million, net of an unamortized discount of \$8.8 million. Refer to Note 2 for additional discussion of our accounting policies for the Convertible Notes.

## **8. DERIVATIVE FINANCIAL INSTRUMENTS**

### **Risk Management Objective of Using Derivatives**

Certain of our foreign operations expose us to fluctuations of foreign interest rates and exchange rates. These fluctuations may impact the value of our cash receipts and payments in terms of our functional currency, the U.S. Dollar. In addition, we enter into derivative financial instruments to protect the value or fix the amount of certain obligations in terms of the U.S. Dollar. In addition, we use derivative financial instruments, which include interest rate caps and may also include interest rate swaps, options, floors and other interest rate derivative contracts, to hedge all or a portion of the interest rate risk associated with our borrowings.

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

The principal objective of such arrangements is to minimize the risks and/or costs associated with our operating and financing structure as well as to hedge specific transactions. We do not intend to utilize derivatives for speculative or other purposes. The use of derivative financial instruments carries certain risks, including the risk that the counterparties to these contractual arrangements are not able to perform under the agreements. To mitigate this risk, we only enter into derivative financial instruments with counterparties with high credit ratings and with 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**

We have made investments in foreign entities that expose us to fluctuations between the U.S. Dollar and the foreign currency of each such investment. Currently, we use derivative financial instruments to manage, or hedge, the variability in the carrying value of certain of our net investments in consolidated, foreign currency-denominated subsidiaries caused by the fluctuations in foreign currency exchange rates. For derivatives that are designated and qualify as a hedge of our net investment in a foreign currency, the gain or loss on such derivatives is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. Any ineffective portion of a net investment hedge is recognized in our consolidated statement of operations. For derivatives that are not designated as hedging instruments, gains or losses are recognized in our consolidated statement of operations as incurred.

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

Foreign Currency Derivatives	September 30, 2015		Foreign Currency Derivatives	December 31, 2014	
	Number of Instruments	Notional Amount		Number of Instruments	Notional Amount
Sell CAD Forward	1	C\$ 162,000	Sell CAD Forward	1	C\$ 42,525
Sell GBP Forward	1	£ 96,900			
Sell EUR Forward	1	50,000			

**Cash Flow Hedges of Interest Rate Risk**

Our objective in using interest rate derivatives is to add stability to interest expense and to manage our exposure to interest rate movements. In addition, we may be required by our lenders to enter into certain derivative contracts related to our credit facilities. To accomplish this objective, we primarily use interest rate caps. Interest rate caps designated as cash flow hedges involve the receipt of variable-rate amounts if interest rates rise above a certain level in exchange for an up-front premium.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged transaction affects net income. These derivatives were used to hedge the variable cash flows associated with floating rate debt. The ineffective portion of the change in fair value of such derivatives is recognized directly in net income. We have not recognized any income or loss resulting from hedge ineffectiveness of interest rate caps in our consolidated statement of operations during the nine months ended September 30, 2015 and 2014.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our floating rate debt. During the twelve months following September 30, 2015, we estimate that an additional \$367,000 will be reclassified from other accumulated comprehensive income as an increase to interest expense.

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

As of September 30, 2015, we had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk (notional amount in thousands):

<b>Interest Rate</b>	<b>Number of Instruments</b>	<b>Notional Amount</b>	<b>Strike</b>	<b>Index</b>	<b>Wtd. Avg. Maturity</b>
Interest Rate Caps	26	\$ 1,097,632	2%	USD LIBOR	1.6
Interest Rate Caps	11	C 550,589	2%	CDOR	1.5
Interest Rate Caps	1	152,710	2%	EURIBOR	1.3
Interest Rate Caps	1	£ 15,142	2%	GBP LIBOR	1.6

We did not have any interest rate derivatives that were designated as cash flow hedges of interest rate risk as of December 31, 2014.

**Non-designated Hedges**

Derivatives not designated as hedges are not speculative and are used to manage our exposure to interest rate movements and other identified risks, but do not meet the strict hedge accounting requirements of ASC 815

Derivatives and Hedging. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in our consolidated statement of operations. During both the three and nine months ended September 30, 2015, we recorded losses of \$748,000 and \$759,000, respectively related to non-designated hedges.

As of September 30, 2015, we had the following outstanding non-designated hedges (notional amount in thousands):

<b>Non-designated Hedges</b>	<b>Number of Instruments</b>	<b>Notional Amount</b>
Sell EUR / Buy GBP Forward	1	12,857
Interest Rate Caps	1	\$ 13

We did not have any non-designated hedges outstanding as of December 31, 2014.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****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 <sup>(1)</sup> as of		Fair Value of Derivatives in a Liability Position <sup>(2)</sup> as of	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange contracts	\$ 3,416	\$ 1,138	\$ 108	\$
Interest rate caps	314			
Total derivatives designated as hedging instruments	\$ 3,730	\$ 1,138	\$ 108	\$
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange contracts	\$	\$	\$ 260	\$
Interest rate caps				
Total derivatives not designated as hedging instruments	\$	\$	\$ 260	\$
<b>Total Derivatives</b>	<b>\$ 3,730</b>	<b>\$ 1,138</b>	<b>\$ 368</b>	<b>\$</b>

(1) Included in accrued interest receivable, prepaid expenses, and other assets in our consolidated balance sheet.

(2) Included in accounts payable, accrued expenses, and other liabilities in our consolidated balance sheet.

The following table presents the effect of our derivative financial instruments on our consolidated statement of operations for the three and nine months ended September 30, 2015 (\$ in thousands):

Amount of Gain (Loss) Recognized in OCI on Derivatives	Location of Gain (Loss)	Amount of Gain (Loss) Reclassified from
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	(Effective Portion) <sup>(1)</sup>		Reclassified from Accumulated OCI into Income (Effective Portion)	Accumulated OCI into Income (Effective Portion)	
	Three Months Ended	Nine Months Ended		Three Months Ended	Nine Months Ended
Derivatives in Hedging Relationships	September 30, 2015	September 30, 2015	(Effective Portion)	September 30, 2015	September 30, 2015
Net Investment Foreign exchange contracts	\$ 15,478	\$ 16,330	Gain (Loss) on Sale of Subsidiary	\$	\$
Cash Flow Hedges Interest rate caps contracts	(587)	(1,410)	Interest Expense		
<b>Total</b>	<b>\$ 14,891</b>	<b>\$ 14,920</b>		<b>\$</b>	<b>\$</b>

(1) During the three and nine months ended September 30, 2015, we received net cash settlements of \$10.8 million and \$13.7 million, respectively, on our foreign currency forward contracts. Those amounts are included as a component of accumulated other comprehensive loss on our consolidated balance sheet.

We did not have any derivative financial instruments as of or during the nine months ended September 30, 2014.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****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, 2015, we were in a net asset position with both of our derivative counterparties.

**9. EQUITY****Stock and Stock Equivalents***Authorized Capital*

As of September 30, 2015, 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, 2015.

*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, 2015 (\$ in thousands, except share and per share data):

	Class A Common Stock Offerings			2015 Total /
	April 2015	May 2015 <sup>(1)</sup>	June 2015	Wtd. Avg.
Shares issued	23,000,000	280,025	11,500,000	34,780,025
Share issue price <sup>(2)</sup>	\$ 29.75	\$ 29.97	\$ 29.42	\$ 29.64
Net proceeds <sup>(3)</sup>	\$ 683,722	\$ 7,895	\$ 337,918	\$ 1,029,535

(1)

Issuance represents 280,025 shares issued over a five-day period in May 2015 under our at-the-market stock offering program, with a weighted average issue price of \$29.97.

- (2) Represents price per share paid by the underwriters or sales agents, as applicable, after underwriting or sales discounts and commissions.
- (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 12 for additional discussion of these long-term incentive plans. In addition to our class A common stock, we also issue deferred stock units to certain members of our board of directors in lieu of cash compensation for services rendered. These deferred stock units are non-voting, but carry the right to receive dividends in the form of additional deferred stock units in an amount equivalent to the cash dividends paid to holders of shares of class A common stock.



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

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

<b>Common Stock Outstanding<sup>(1)</sup></b>	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Beginning balance	58,388,808	29,602,884
Issuance of class A common stock	34,780,443	28,175,003
Issuance of restricted class A common stock, net	162,531	
Issuance of deferred stock units	16,288	15,104
Ending balance	93,348,070	57,792,991

(1) Deferred stock units held by members of our board of directors totaled 135,207 and 113,486 as of September 30, 2015 and 2014, 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, 2015, we issued 145 shares and 418 shares, respectively, of class A common stock under the dividend reinvestment component of the plan compared to two shares and three shares for the same periods in 2014. We did not issue shares under the direct stock purchase plan component of the plan during the three and nine months ended September 30, 2015 and 2014. As of September 30, 2015, a total of 9,999,576 shares of class A common stock remain available for issuance under the dividend reinvestment and direct stock purchase plan.

*At the Market Stock Offering Program*

On May 9, 2014, we entered into equity distribution agreements, or ATM Agreements, pursuant to which we may sell, from time to time, up to an aggregate sales price of \$200.0 million of our class A common stock. 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. In May 2015, we

sold 280,025 shares of class A common stock under the ATM Agreements, with net proceeds totaling \$7.9 million. As of September 30, 2015, sales of our class A common stock with an aggregate sales price of \$188.6 million remain available for issuance under the ATM Agreements.

### **Dividends**

We generally intend to distribute substantially all of our taxable income, which does not necessarily equal net income as calculated in accordance with GAAP, to our stockholders each year to comply with the REIT provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Our dividend policy remains subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend upon our taxable income, our financial condition, our maintenance of REIT status, applicable law, and other factors as our board of directors deems relevant.

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

On September 14, 2015, we declared a dividend of \$0.62 per share, or \$57.8 million, which was paid on October 15, 2015, to stockholders of record as of September 30, 2015. The follow table details our dividend activity:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Dividends declared per share of common stock	\$ 0.62	\$ 0.50	\$ 1.66	\$ 1.46

**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 for the indicated periods (\$ in thousands, except per share data):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income <sup>(1)</sup>	\$ 66,888	\$ 22,024	\$ 131,564	\$ 68,555
Weighted-average shares outstanding, basic and diluted	93,357,960	49,211,205	77,752,247	45,093,314
Per share amount, basic and diluted	\$ 0.72	\$ 0.45	\$ 1.69	\$ 1.52

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

**Other Balance Sheet Items**

*Accumulated Other Comprehensive Loss*

As of September 30, 2015, total accumulated other comprehensive loss was \$27.6 million, primarily representing (i) \$43.6 million of cumulative currency translation adjustment on assets and liabilities denominated in foreign currencies and (ii) an offsetting \$16.1 million gain related to changes in the fair value of derivative instruments. As of December 31, 2014, total accumulated other comprehensive loss was \$15.0 million, primarily representing the cumulative currency translation adjustments on assets and liabilities denominated in a foreign currency.

*Non-Controlling Interests*

The non-controlling interests included on our consolidated balance sheets represent the equity interests in CT Legacy Partners that are not owned by us. A portion of CT Legacy Partners' consolidated equity and results of operations are allocated to these non-controlling interests based on their pro rata ownership of CT Legacy Partners. As of September 30, 2015, CT Legacy Partners' total equity was \$22.3 million, of which \$9.3 million was owned by Blackstone Mortgage Trust, Inc., and \$13.0 million was allocated to non-controlling interests. As of December 31, 2014, CT Legacy Partners' total equity was \$60.8 million, of which \$25.3 million was owned by Blackstone Mortgage Trust, Inc., and \$35.5 million was allocated to non-controlling interests.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****10. 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 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 (or the period since the date of the first offering of our class A common stock following December 19, 2012, whichever is shorter) is greater than zero. Core Earnings, 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, 2015, we incurred \$9.4 million and \$22.9 million, respectively, of management fees payable to our Manager, compared to \$4.6 million and \$12.4 million during the same periods in 2014. In addition, during the three and nine months ended September 30, 2015, we incurred \$4.5 million and \$5.7 million, respectively, of incentive fees payable to our Manager, compared to \$842,000 incurred during both the three and nine months ended September 30, 2014. We did not incur any incentive fees payable to our Manager during the first and second quarter of 2014.

As of September 30, 2015 we had accrued management and incentive fees payable to our Manager of \$9.4 million and \$4.5 million respectively, compared to \$5.5 million and \$817,000 as of December 31, 2014.

**General and Administrative Expenses**

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

	<b>Three Months Ended</b>		<b>Nine Months</b>	
	<b>September 30,</b>		<b>Ended</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Professional services	\$ 898	\$ 635	\$ 2,375	\$ 1,733
Operating and other costs	671	451	1,783	1,482
GE transaction costs	370		9,583	

Subtotal	1,939	1,086	13,741	3,215
<u>Non-cash and CT Legacy Portfolio compensation expenses</u>				
Management incentive awards plan - CTOPI <sup>(1)</sup>	8		2,605	11,190
Management incentive awards plan - CT Legacy Partners <sup>(2)</sup>	89	458	2,151	1,010
Restricted class A common stock earned	3,095	1,525	9,601	5,554
Director stock-based compensation	94	94	281	281
Subtotal	3,286	2,077	14,638	18,035
Total BXMT expenses	5,225	3,163	28,379	21,250
Expenses of consolidated subsidiaries	70	205	276	670
Total general and administrative expenses	\$ 5,295	\$ 3,368	\$ 28,655	\$ 21,920

- (1) Represents the portion of CTOPI promote revenue accrued under compensation awards. See Note 4 for further discussion.
- (2) Represents the accrual of amounts payable under the CT Legacy Partners management incentive awards during the period. See below for discussion of the CT Legacy Partners management incentive awards plan.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**CT Legacy Partners Management Incentive Awards Plan**

In conjunction with our March 2011 restructuring, we created an employee pool for up to 6.75% of the distributions paid to the common equity holders of CT Legacy Partners (subject to certain caps and priority distributions). Approximately 50% of the pool is three-fourths vested as of September 30, 2015, with the remainder contingent on continued employment with an affiliate of our Manager and our receipt of distributions from CT Legacy Partners. Of the remaining 50% of the pool, 27% is fully vested as a result of an acceleration event, and 33% vest only upon our receipt of distributions from CT Legacy Partners. We accrue a liability for the amounts due under these grants based on the value of CT Legacy Partners and the periodic vesting of the awards granted. Accrued payables for these awards were \$1.3 million and \$2.8 million as of September 30, 2015 and December 31, 2014, respectively.

**11. INCOME TAXES**

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

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state, and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years. As of September 30, 2015 and December 31, 2014, we were in compliance with all REIT requirements.

During the three months and nine months ended September 30, 2015, we recorded a current income tax provision of \$81,000 and \$431,000, respectively, related to our taxable REIT subsidiaries as well as various state and local taxes. During the three months and nine months ended September 30, 2014, we recorded an income tax benefit of \$118,000 and a provision of \$412,000, respectively. We did not have any deferred tax assets or liabilities as of September 30, 2015 or December 31, 2014.

As a result of our issuance of 25,875,000 shares of class A common stock in May 2013, the availability of our net operating losses, or NOLs, and net capital losses, or NCLs, is generally limited to \$2.0 million per annum by change of control provisions promulgated by the Internal Revenue Service, or the IRS, with respect to the ownership of Blackstone Mortgage Trust. As of December 31, 2014, we had NOLs of \$159.0 million and NCLs of \$32.0 million

available to be carried forward and utilized in current or future periods. If we are unable to utilize our NOLs, they will expire in 2029. If we are unable to utilize our NCLs, \$31.4 million will expire in 2015, and \$602,000 will expire in 2016 or later.

As of September 30, 2015, tax years 2012 through 2014 remain subject to examination by taxing authorities, however no such examinations are ongoing.

## **12. STOCK-BASED INCENTIVE PLANS**

We do not have any employees as we are externally managed by our Manager. However, as of September 30, 2015, our Manager, certain individuals employed by an affiliate of our Manager, and certain members of our board of directors were compensated, in part, through the issuance of stock-based instruments.

We had stock-based incentive awards outstanding under five benefit plans as of September 30, 2015: (i) our amended and restated 1997 non-employee director stock plan, or 1997 Plan; (ii) our 2007 long-term incentive plan, or 2007 Plan; (iii) our 2011 long-term incentive plan, or 2011 Plan; (iv) our 2013 stock incentive plan, or 2013 Plan; and (v) our 2013 manager incentive plan, or 2013 Manager Plan. We refer to our 1997 Plan, our 2007 Plan, and our 2011 Plan collectively as our Expired Plans and we refer to our 2013 Plan and 2013 Manager Plan collectively as our Current Plans.



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

Our Expired Plans have expired and no new awards may be issued under them. Under our Current Plans, a maximum of 2,160,106 shares of our class A common stock may be issued to our Manager, our directors and officers, and certain employees of affiliates of our Manager. As of September 30, 2015, there were 760,500 shares available under the Current Plans.

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

	<b>Restricted Class A Common Stock</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Balance as of December 31, 2014	919,719	\$ 26.86
Granted	190,674	29.39
Vested	(342,978)	26.94
Forfeited	(28,143)	28.27
Balance as of September 30, 2015	739,272	\$ 27.42

These shares generally vest in quarterly installments over a three-year period, pursuant to the terms of the respective award agreements and the terms of the Current Plans. The 739,272 shares of restricted class A common stock outstanding as of September 30, 2015 will vest as follows: 113,657 shares will vest in 2015; 404,600 shares will vest in 2016; 220,765 shares will vest in 2017; and 250 shares will vest in 2018. As of September 30, 2015, total unrecognized compensation cost relating to nonvested share-based compensation arrangements was \$20.3 million. This cost is expected to be recognized over a weighted average period of one year from September 30, 2015.

**13. FAIR VALUES****Assets and Liabilities Measured at Fair Value**

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

<b>September 30, 2015</b>				<b>December 31, 2014</b>			
	<b>Level</b>				<b>Level</b>		
<b>Level 1</b>	<b>2</b>	<b>Level 3</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>2</b>	<b>Level 3</b>	<b>Fair Value</b>

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<u>Assets</u>							
Derivatives	\$	\$ 3,730	\$	\$ 3,730	\$	\$ 1,138	\$ 1,138
Other assets, at fair value <sup>(1)</sup>	\$	\$ 377	\$ 12,696	\$ 13,073	\$	\$ 1,510	\$ 47,507
<u>Liabilities</u>							
Derivatives	\$	\$ 368	\$	\$ 368	\$	\$	\$

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

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
January 1,	\$ 47,507	\$ 54,461
Proceeds from investment realizations	(57,039)	(19,781)
<u>Adjustments to fair value included in earnings</u>		
Unrealized gain on investments at fair value	22,228	7,616
September 30,	\$ 12,696	\$ 42,296

Our other assets include loans, securities, equity investments, and other receivables that are carried at fair value. The following describes the key assumptions used in arriving at the fair value of each of these assets as of September 30, 2015 and December 31, 2014.

Securities: As of September 30, 2015, our securities, which had a book value of \$10.2 million, were valued by obtaining assessments from third-party dealers.

Loans: As of September 30, 2015, we had no loans carried at fair value. As of December 31, 2014, we had one hotel loan and one office loan with an aggregate fair value of \$19.0 million. The discount rate used to value the hotel loan that was outstanding as of December 31, 2014, was 7% and a 100 bp discount rate increase would have resulted in a decrease in fair value of 0.3%. The discount rate used to value the office loan that was outstanding as of December 31, 2014, was 15% and a 100 bp discount rate increase would have resulted in a decrease in fair value of 1.1%.

Equity investments and other receivables: As of September 30, 2015, equity investments and other receivables, which had an aggregate book value of \$2.9 million, were generally valued by discounting expected cash flows.

Refer to Note 2 for further discussion regarding fair value measurement.

**Fair Value of Financial Instruments**

As discussed in Note 2, GAAP requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate that value. The following table details the carrying amount, face amount, and fair value of the financial instruments described in Note 2 (\$ in thousands):

	September 30, 2015			December 31, 2014		
	Carrying Amount	Face Amount	Fair Value	Carrying Amount	Face Amount	Fair Value
<b>Financial assets</b>						
Cash and cash equivalents	\$ 138,600	\$ 138,600	\$ 138,600	\$ 51,810	\$ 51,810	\$ 51,810
Restricted cash	9,063	9,063	9,063	11,591	11,591	11,591
Loans receivable, net	9,377,591	9,412,965	9,441,754	4,428,500	4,462,897	4,462,897
<b>Financial liabilities</b>						
Secured debt agreements	6,585,654	6,585,654	6,585,654	2,365,336	2,365,336	2,365,336
Loan participations sold	507,200	507,200	507,200	499,433	499,433	499,433
Convertible notes, net	163,699	172,500	181,988	161,853	172,500	181,341

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

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**14. TRANSACTIONS WITH RELATED PARTIES**

We are managed by our Manager pursuant to a management agreement, the initial term of which expires on December 19, 2016 and will be automatically renewed for a one-year term each anniversary thereafter unless earlier terminated.

As of September 30, 2015, our consolidated balance sheet included \$13.8 million of accrued management and incentive fees payable to our Manager. During the three and nine months ended September 30, 2015, we paid \$8.1 million and \$21.0 million, respectively, of management and incentive fees to our Manager, compared to \$4.4 million and \$10.3 million during the same periods of 2014. In addition, during the nine months ended September 30, 2015, we reimbursed our Manager for \$139,000 of expenses incurred on our behalf compared to \$115,000 during the same period of 2014. We did not reimburse our Manager for expenses incurred on our behalf during the three months ended September 30, 2015, compared to \$25,000 during the same period of 2014. As of September 30, 2015, our consolidated balance sheet includes \$83,333 of preferred distributions payable by CT Legacy Partners to an affiliate of our Manager, compared to \$151,000 as of December 31, 2014. During the three and nine months ended September 30, 2015, CT Legacy Partners made aggregate preferred distributions of \$216,000 and \$1.1 million, respectively, to such affiliate compared to \$533,000 and \$1.7 million during the same periods of 2014.

On October 23, 2014, we issued 337,941 shares of restricted class A common stock with a fair value of \$9.4 million as of the grant date to our Manager under the 2013 Manager Plan. On October 3, 2013, we issued 339,431 shares of restricted class A common stock with a grant date fair value of \$8.5 million to our Manager under the 2013 Manager Plan. The shares of restricted class A common stock vest ratably in quarterly installments over three years from the date of issuance. During the three and nine months ended September 30, 2015, we recorded non-cash expense related to these shares of \$1.6 million and \$4.9 million, respectively, compared to \$766,000 and \$2.4 million during the same periods of 2014. Refer to Note 12 for further discussion of our restricted class A common stock.

In conjunction with our April 2015 stock offering, affiliates of our Manager, including certain of our executive officers and directors, purchased 1,885,245 shares of our class A common at the same \$30.50 per share price offered to the public. We did not, however, pay the underwriters any fees for these affiliate share purchases. Blackstone Capital Markets acted as co-manager of the offering, for which it was compensated \$761,000 on terms consistent with those for other non-affiliated underwriters.

On April 10, 2015, we entered into a memorandum of designation and understanding, or Designation Agreement, with GE and certain affiliates of our Manager to acquire a \$4.6 billion portfolio of commercial mortgage loans from GE. Pursuant to the terms of the Designation Agreement, we were designated as the purchaser of this loan portfolio by an affiliate of our Manager that entered into a purchase and sale agreement dated as of April 10, 2015 with GE to acquire the majority of GE's global real estate debt and equity business for an aggregate purchase price of approximately \$23.0 billion. Certain transaction-related expenses incurred by us in connection with the acquisition of this loan portfolio represent an allocation of transaction expenses paid by affiliates of our Manager in connection with the overall acquisition transaction with GE. In August 2015, we paid an aggregate \$53,000 to certain independent members of

our Board of Directors for special committee services related to the GE portfolio acquisition.

On May 8, 2015, a joint venture of CT Legacy Partners, certain affiliates of our Manager, and other non-affiliated parties, which we refer to as the Three-Pack JV, sold a hotel portfolio it owned to an investment vehicle managed by an affiliate of our Manager. We consented to the sale of the hotel portfolio by the Three-Pack JV, which sale will result in the ultimate liquidation of the Three-Pack JV and distribution of net sale proceeds to CT Legacy Partners in respect of its investment therein. As of December 31, 2014, CT Legacy Partners carried its investment in the Three-Pack JV at \$18.5 million. During the nine months ended September 30, 2015, we recognized a gain of \$22.1 million on our consolidated statement of operations to reflect the \$40.5 million of expected net sales proceeds to be received by CT Legacy Partners, of which \$37.7 million has been received as of September 30, 2015. As a result of the sale transaction, employees of our Manager, including certain of our executive officers, will receive incentive compensation payments of an aggregate \$2.7 million under the CT Legacy Partners Management Incentive Awards Plan, of which \$2.5 million has already been paid, based on \$40.5 million of net sale proceeds to CT Legacy Partners. See Note 10 for further discussion of the CT Legacy Partners Management Incentive Awards Plan.

**Table of Contents**

**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

In May 2015, we originated a \$590.0 million loan, the proceeds of which were used by the borrower to repay an existing loan owned by an affiliate of our Manager.

In March 2015, we originated a \$320.0 million loan to a third-party. In conjunction with the origination of our loan and repayment of the pre-existing financing, an affiliate of our Manager earned a modification fee of \$354,000.

During the three and nine months ended September 30, 2015, we incurred \$178,000 and \$307,000 respectively of expenses for various administrative and capital market data services to third-party service providers that are affiliates of our Manager, compared to \$79,000 and \$141,000 during the same periods of 2014.

**15. COMMITMENTS AND CONTINGENCIES**

**Unfunded Commitments Under Loans Receivable**

As of September 30, 2015, we had unfunded commitments of \$738.3 million related to 76 loans receivable, which amounts will generally be funded to finance lease-related or capital expenditures by our borrowers. These future commitments will expire variously over the next four years.

**Income Tax Audits of CTIMCO**

The IRS and the State of New York are separately undergoing examinations of the income tax returns for the years ended December 31, 2012 and 2011 of our former subsidiary, CT Investment Management Co., LLC, or CTIMCO. The examinations are on-going, and no adjustments have been communicated to us. When we sold CTIMCO in December 2012, we provided certain indemnifications related to its operations, and any amounts determined to be owed by CTIMCO would ultimately be paid by us. As of September 30, 2015, there are no reserves recorded for the CTIMCO examinations.

**Litigation**

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of September 30, 2015, we were not involved in any material legal proceedings.

**Board of Directors Compensation**

As of September 30, 2015, of the eight members of our board of directors, our five independent directors are entitled to annual compensation of \$125,000 each. The other three board members, including our chairman and our chief executive officer, serve as directors with no compensation. As of September 30, 2015, the annual compensation for our directors was paid 40% in cash and 60% in the form of deferred stock units. In addition, the member of our board of directors that serves as the chairperson of the audit committee of our board of directors receives additional annual cash compensation of \$12,000. Compensation to the board of directors is payable in four equal quarterly installments.





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**Table of Contents**

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

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

*The following discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto appearing elsewhere in this quarterly report on Form 10-Q. In addition to historical data, this discussion contains forward-looking statements about our business, operations and financial performance based on current expectations that involve risks, uncertainties and assumptions. Our actual results may differ materially from those in this discussion as a result of various factors, including but not limited to those discussed in Item 1A. Risk Factors in our annual report on Form 10-K for the year ended December 31, 2014 and elsewhere in this quarterly report on Form 10-Q.*

**Introduction**

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

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

**Loan Portfolio Acquisition**

During the second quarter of 2015, we acquired a portfolio of 77 loans from General Electric Capital Corporation and certain of its affiliates, or GE, for a total purchase price of \$4.7 billion. The GE loan portfolio consists of commercial mortgage loans secured by properties located in North America and Europe, and represents a significant expansion of our lending business. The acquisition closed in stages during the second quarter of 2015 and was financed through borrowings of \$4.0 billion under a secured debt agreement with Wells Fargo as well as a portion of the \$1.0 billion of proceeds we received from our underwritten offerings of shares of class A common stock.

**I. Key Financial Measures and Indicators**

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends declared, Core Earnings, and book value per share. For the three months ended September 30, 2015 we recorded earnings per share of \$0.72, declared a dividend of \$0.62 per share, and reported \$0.72 per share of Core Earnings. In addition, our book value per share as of September 30, 2015 was \$26.64. As further described below, Core Earnings is a measure that is not prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. We use Core Earnings to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan activity and operations. Beginning with the third quarter of 2015, we have revised our definition of Core Earnings for reporting purposes to be net of incentive fees.



**Table of Contents****Earnings Per Share and Dividends Declared**

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

	<b>Three Months Ended</b>	
	<b>September 30, 2015</b>	<b>June 30, 2015</b>
Net income <sup>(1)</sup>	\$ 66,888	\$ 29,284
Weighted-average shares outstanding, basic and diluted	93,357,960	80,940,535
Net income per share, basic and diluted	\$ 0.72	\$ 0.36
Dividends per share	\$ 0.62	\$ 0.52

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

**Core Earnings**

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

We believe that Core Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with GAAP. This adjusted measure helps us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current loan portfolio and operations. Although, according to our management agreement, we calculate the incentive and base management fees due to our Manager using Core Earnings before incentive fees expense, beginning with the third quarter of 2015, we will report Core Earnings after incentive fees expense, as we believe this is a more meaningful presentation of the economic performance of our class A common stock.

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

Core Earnings was \$0.72 per share for the three months ended September 30, 2015 compared to \$0.38 per share for the three months ended June 30, 2015. The increase in Core Earnings is primarily due to earnings accretion associated with the GE loan portfolio acquisition and the one-time transaction costs incurred in the second quarter of 2015.



**Table of Contents**

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

	<b>Three Months Ended</b>	
	<b>September 30, 2015</b>	<b>June 30, 2015</b>
Net income <sup>(1)</sup>	\$ 66,888	\$ 29,284
CT Legacy Portfolio net income	(401)	(1,857)
Non-cash compensation expense	3,188	3,396
GE purchase discount accretion adjustment <sup>(2)</sup>	(2,008)	(459)
Other items	(119)	416
<b>Core Earnings</b>	<b>\$ 67,548</b>	<b>\$ 30,780</b>
<b>Weighted-average shares outstanding, basic and diluted</b>	<b>93,357,960</b>	<b>80,940,535</b>
<b>Core Earnings per share, basic and diluted</b>	<b>\$ 0.72</b>	<b>\$ 0.38</b>

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

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

**Book Value Per Share**

As of September 30, 2015, book value was \$26.64 per share compared to \$26.60 per share as of June 30, 2015. The following table calculates our book value per share (\$ in thousands, except per share data):

	<b>September 30, 2015</b>	<b>June 30, 2015</b>
	Stockholders equity	\$ 2,487,125
Shares		
Class A common stock	92,473,592	92,360,038
Restricted class A common stock	739,272	869,948
Deferred stock units	135,207	129,584
<b>Total outstanding</b>	<b>93,348,070</b>	<b>93,359,570</b>
<b>Book value per share</b>	<b>\$ 26.64</b>	<b>\$ 26.60</b>

**II. Loan Portfolio**

During the quarter ended September 30, 2015, we originated or acquired \$885.6 million of loans, including loans financed with \$534.2 million of non-consolidated senior interests. Loan fundings during the quarter totaled \$868.0 million, including \$490.9 million of non-consolidated senior interests. We generated interest income of \$138.4 million and incurred interest expense of \$51.3 million during the quarter, which resulted in \$87.0 million of net interest income during the three months ended September 30, 2015.

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

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

	Three Months Ended September 30, 2015		Three Months Ended June 30, 2015	
	Loan Originations <sup>(1)</sup>	Loan Fundings <sup>(2)</sup>	Loan Originations <sup>(1)</sup>	Loan Fundings <sup>(2)</sup>
Senior loans <sup>(3)</sup>	\$ 224,959	\$ 269,780	\$ 5,614,422	\$ 5,404,820
Subordinate loans <sup>(4)</sup>	126,435	107,325	166,000	122,271
<b>Total</b>	<b>\$ 351,394</b>	<b>\$ 377,105</b>	<b>\$ 5,780,422</b>	<b>\$ 5,527,091</b>
Non-consolidated senior interests <sup>(4)</sup>	534,195	490,930	754,000	549,449
<b>Total</b>	<b>\$ 885,589</b>	<b>\$ 868,035</b>	<b>\$ 6,534,422</b>	<b>\$ 6,076,540</b>

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

(2) Loan fundings during the three months ended September 30, 2015 include \$85.4 million of additional fundings under existing loans as of June 30, 2015, and loan fundings during the three months ended June 30, 2015 include \$116.2 million of additional fundings under existing loans as of March 31, 2015.

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

(4) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. These subordinate loan originations are therefore presented net of the related non-consolidated senior interests. During the three months ended September 30, 2015, our subordinate loan originations are presented net of related non-consolidated senior interest of \$534.2 million. Loan fundings under these non-consolidated senior interests totaled \$490.9 million during the quarter. See **Non-Consolidated Senior Interests** below.

As of September 30, 2015, the majority of our loans were senior mortgages and similar credit quality loans. The following table details overall statistics for our loan portfolio (\$ in thousands):

	Floating Rate	Fixed Rate	Total
Number of loans	96	36	132
Principal balance	\$ 7,339,875	\$ 2,073,090	\$ 9,412,965
Net book value	\$ 7,303,478	\$ 2,074,113	\$ 9,377,591
Unfunded loan commitments <sup>(1)</sup>	\$ 733,540	\$ 4,720	\$ 738,260
Weighted-average cash coupon <sup>(2)(3)</sup>	L+4.18%	5.65%	4.77%
Weighted-average all-in yield <sup>(2)(3)</sup>	L+4.55%	5.79%	5.09%
Weighted-average maximum maturity (years) <sup>(4)</sup>	3.4	2.9	3.3

Loan to value (LTV)	63.4%	64.0%	63.6%
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- (1) Unfunded commitments will primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will expire over the next four years.
- (2) As of September 30, 2015, our floating rate loans were indexed to various benchmark rates, with 84% of floating rate loans indexed to USD LIBOR. In addition, \$1.1 billion of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 0.64%, as of September 30, 2015. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees. Coupon and all-in yield for the total portfolio assume applicable floating benchmark rate for weighted-average calculation.
- (3) Weighted average coupon and all-in yield include subordinate loans, which are not comparable to other loans as they are reported net of related non-consolidated senior interests. Excluding subordinate loans, total weighted average coupon is 4.55% and total weighted average yield is 4.87%.
- (4) 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, 2015, 65% of our loans were subject to yield maintenance or other prepayment restrictions and 35% were open to repayment by the borrower without penalty.



**Table of Contents**

The following table details overall statistics for our loans receivable portfolio as of December 31, 2014 (\$ in thousands):

	<b>Floating Rate</b>
Number of loans	60
Principal balance	\$ 4,462,897
Net book value	\$ 4,428,500
Unfunded loan commitments <sup>(1)</sup>	\$ 513,229
Weighted-average cash coupon <sup>(2)(3)</sup>	L+4.36%
Weighted-average all-in yield <sup>(2)(3)</sup>	L+4.81%
Weighted-average maximum maturity (years) <sup>(4)</sup>	3.9
Loan to value (LTV)	63.9%

- (1) Unfunded commitments will primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will expire over the next four years.
- (2) As of December 31, 2014, all of our loans were floating rate and were indexed to various benchmark rates, with 79% of floating rate loans indexed to USD LIBOR. In addition, 14% of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 0.31%, as of December 31, 2014. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees.
- (3) Weighted average coupon and all-in yield include subordinate loans, which are not comparable to other loans as they are reported net of related non-consolidated senior interests. Excluding subordinate loans, total weighted average coupon is L+4.30% and total weighted average yield is L+4.76%.
- (4) Maximum maturity assumes all extension options are exercised by the borrower, however our loans may be repaid prior to such date. As of December 31, 2014, 85% of our loans were subject to yield maintenance or other prepayment restrictions and 15% were open to repayment by the borrower without penalty.

The charts below detail the geographic distribution and types of properties securing these loans, as of September 30, 2015 (\$ in millions):

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

*Asset Management*

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

As discussed in Note 2 to our consolidated financial statements, our Manager performs a quarterly review of our loan portfolio, assesses the performance of each loan, and assigns it a risk rating between 1 and 5, from less risk to greater risk. As of September 30, 2015, the weighted-average risk rating of our loan portfolio is 2.1.



**Table of Contents****Secured Debt Agreements**

Our secured debt agreements included revolving repurchase facilities, the GE portfolio acquisition facility, and asset-specific repurchase agreements.

The following table details our secured debt agreements (\$ in thousands):

	<b>Secured Debt Agreements Borrowings Outstanding</b>	
	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Revolving repurchase facilities	\$ 2,780,205	\$ 2,040,783
GE portfolio acquisition facility	3,570,131	
Asset-specific repurchase agreements	235,318	324,553
	<b>\$ 6,585,654</b>	<b>\$ 2,365,336</b>

**Revolving Repurchase Facilities**

During the nine months ended September 30, 2015, we entered into one new revolving repurchase facility agreement and increased the maximum facility size of three of our revolving repurchase facilities, providing an additional \$1.2 billion of credit capacity. The following table details our revolving repurchase facilities as of September 30, 2015 (\$ in thousands):

<b>Lender</b>	<b>Maximum Facility Size<sup>(1)</sup></b>	<b>Collateral Assets<sup>(2)</sup></b>	<b>Repurchase Borrowings</b>		
			<b>Potential</b>	<b>Outstanding</b>	<b>Available<sup>(3)</sup></b>
Bank of America	\$ 750,000	\$ 833,772	\$ 658,608	\$ 618,944	\$ 39,664
Wells Fargo	1,000,000	908,925	704,733	567,299	137,434
JP Morgan <sup>(4)</sup>	744,365	847,313	663,958	565,233	98,725
Citibank	500,000	607,186	465,753	397,126	68,627
MetLife	750,000	593,203	462,849	393,557	69,292
Morgan Stanley <sup>(5)</sup>	378,775	240,413	185,634	182,554	3,080
Société Générale <sup>(6)</sup>	449,960	69,365	55,492	55,492	
	<b>\$ 4,573,100</b>	<b>\$ 4,100,177</b>	<b>\$ 3,197,027</b>	<b>\$ 2,780,205</b>	<b>\$ 416,822</b>

(1) Maximum facility size represents the total amount of borrowings in each repurchase agreement; however these borrowings are only available to us once sufficient collateral assets have been pledged under each facility at the discretion of the lender.

(2) Represents the principal balance of the collateral assets.

(3) Potential borrowings represent the total amount we could draw under each facility based on collateral already approved and pledged. When undrawn, these amounts are immediately available to us at our sole discretion under the terms of each revolving credit facility.

- (4) The JP Morgan maximum facility size is composed of a \$250.0 million facility, a £153.0 million (\$231.9 million) facility, and \$262.5 million related solely to a specific asset with a repurchase date of January 9, 2018.
- (5) The Morgan Stanley maximum facility size represents a £250.0 million (\$378.8 million) facility.
- (6) The Société Générale maximum facility size represents a 400.0 million (\$450.0 million) facility.

The weighted-average outstanding balance of our revolving repurchase facilities was \$2.4 billion for the nine months ended September 30, 2015. As of September 30, 2015, we had aggregate borrowings of \$2.8 billion outstanding under our revolving repurchase facilities, with a weighted-average cash coupon of LIBOR plus 1.83% per annum, a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.04% per annum, and a weighted-average advance rate of 79.1%. As of September 30, 2015, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.5 years. Borrowings under each facility are subject to the initial approval of eligible collateral loans by the lender and the maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan.

**Table of Contents****GE Portfolio Acquisition Facility**

During the second quarter of 2015, concurrently with our acquisition of the GE loan portfolio, we entered into an agreement with Wells Fargo to provide us with secured financing for the acquired portfolio. As of September 30, 2015, this facility provided for \$3.7 billion of financing of which \$3.6 billion was outstanding and an additional \$158.5 million was available to finance future loan fundings. The GE portfolio acquisition facility is non-revolving and consists of a single master repurchase agreement providing for both (i) asset-specific borrowings for each collateral asset as well as (ii) a sequential pay advance feature.

*Asset-Specific Borrowings*

The asset-specific borrowings under the GE portfolio acquisition facility were advanced at a weighted average rate of 80% of our purchase price of the collateral assets and will be repaid pro rata from collateral asset repayment proceeds. The asset-specific borrowings are currency matched to the collateral assets and accrue interest at a rate equal to the sum of (i) the applicable base rate plus (ii) a margin of 1.75%, which will increase to 1.80% and 1.85% in year four and year five, respectively. As of September 30, 2015, those borrowings were denominated in U.S. Dollars, Canadian Dollars, British Pounds Sterling, and Euros. The asset-specific borrowings are term matched to the underlying collateral assets with an outside maturity date of May 20, 2020, which may be extended pursuant to two one-year extension options. We guarantee obligations under the GE portfolio acquisition facility in an amount equal to the greater of (i) 25% of outstanding asset-specific borrowings, and (ii) \$250.0 million. As of September 30, 2015, we had outstanding asset-specific borrowings of \$3.4 billion under the GE portfolio acquisition facility.

*Sequential Pay Advance*

The GE portfolio acquisition facility also includes a sequential pay advance feature that provided for \$237.2 million of borrowings, representing an additional 5% advance against each collateral asset pledged under the facility. Borrowings under the sequential pay advance accrue interest at a rate equal to the sum of (i) 30-day LIBOR plus (ii) a margin of 3.10%. The sequential pay advance is denominated in U.S. Dollars and will be repaid from collateral loan principal repayments, after repayment of the related asset-specific borrowing. The sequential pay advances each have a maturity date that is one year from the date of funding, and we guarantee 100% of outstanding borrowings of the sequential pay advance. As of September 30, 2015, we had outstanding sequential pay advance borrowings of \$134.0 million under the GE portfolio acquisition facility.

**Asset-Specific Repurchase Agreements**

During the nine months ended September 30, 2015, we entered into one asset-specific repurchase agreement providing an additional \$103.1 million of credit capacity. The following table details statistics for our asset-specific repurchase agreements (\$ in thousands):

	September 30, 2015		December 31, 2014	
	Repurchase Agreements	Collateral Assets	Repurchase Agreements	Collateral Assets
Number of loans	3	3	3	4
Principal balance	\$ 235,318	\$ 308,786	\$ 324,553	\$ 429,197
Weighted-average cash coupon <sup>(1)</sup>	L+2.64%	L+5.01%	L+2.68%	L+5.07%
Weighted-average cost / all-in yield <sup>(1)</sup>	L+3.06%	L+5.48%	L+3.16%	L+5.53%

- (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, cost / all-in yield includes the amortization of deferred origination fees / financing costs.

Refer to Note 5 to our consolidated financial statements for additional terms and details of our secured debt agreements, including certain financial covenants.

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

During the nine months ended September 30, 2015, we sold one senior loan participation, providing an additional \$256.0 million of credit capacity. The following table details statistics for our loan participations sold (\$ in thousands):

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	<b>Participations Sold<sup>(2)</sup></b>	<b>Underlying Loans</b>	<b>Participations Sold<sup>(2)</sup></b>	<b>Underlying Loans</b>
Number of loans	3	3	4	4
Principal balance	\$ 507,200	\$ 618,470	\$ 499,433	\$ 635,701
Weighted-average cash coupon <sup>(1)</sup>	L+2.38%	L+3.93%	L+2.51%	L+4.10%
Weighted-average all-in cost / yield <sup>(1)</sup>	L+2.49%	L+4.15%	L+2.71%	L+4.71%

- (1) Our floating rate loans and related liabilities were indexed to the various benchmark rates relevant in each arrangement in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate. In addition to cash coupon, all-in cost / yield includes the amortization of deferred origination fees / financing costs.
- (2) During the three and nine months ended September 30, 2015, we recorded \$5.2 million and \$14.4 million, respectively, of interest expense related to our loan participations sold, compared to \$4.2 million and \$8.1 million, respectively, for the same periods in 2014.

Refer to Note 6 to our consolidated financial statements for additional details related to our loan participations sold.

**Non-Consolidated Senior Interests**

In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. These non-consolidated senior interests provide structural leverage for our net investments which are reflected in the form of mezzanine loans or other subordinate interests on our balance sheet and our results of operations. During the nine months ended September 30, 2015, we facilitated the syndication of four such non-consolidated senior interests, totaling \$1.3 billion. Fundings under these non-consolidated senior interests totaled \$1.0 billion during the nine months ended September 30, 2015. The following table details the subordinate interests retained on our balance sheet and the related non-consolidated senior interests as of September 30, 2015 (\$ in thousands):

	<b>September 30, 2015</b>		
	<b>Total Loan</b>	<b>Senior Interest</b>	<b>Subordinate Interest</b>
Number of loans	5	5	5
Principal balance	\$ 1,399,185	\$ 1,137,434	\$ 261,751
Weighted-average cash coupon <sup>(1)</sup>	4.69%	2.92%	12.39%
Weighted-average all-in yield <sup>(1)</sup>	5.50%	3.82%	12.82%

- (1) In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees. Coupon and all-in yield for the total portfolio assume applicable floating benchmark rate for weighted-average calculation.

The following table details our non-consolidated senior interests as of December 31, 2014 (\$ in thousands):

	<b>December 31, 2014</b>		
	<b>Total Loan</b>	<b>Non-Consolidated Senior Interest</b>	<b>Subordinate Interest</b>
Number of loans	1	1	1
Principal balance	\$ 144,354	\$ 110,388	\$ 33,966
Weighted-average cash coupon	L+5.25%	L+3.00%	L+12.56%
Weighted-average all-in yield <sup>(1)</sup>	L+5.21%	L+3.00%	L+12.35%

- (1) In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees.



**Table of Contents****Floating Rate Portfolio**

Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income. As of September 30, 2015, 78% of our loans earned a floating rate of interest and were financed with liabilities that pay interest at floating rates, which resulted in an amount of net equity that is positively correlated to rising interest rates, subject to the impact of interest rate floors on certain of our floating rate loans. As of September 30, 2015, 22% of our loans earned a fixed rate of interest, but are financed with liabilities that pay interest at floating rates, which resulted in a negative correlation to rising interest rates to the extent of our financing. In certain instances where we have financed fixed rate assets with floating rate liabilities, we have purchased interest rate caps to limit our exposure to increases in interest rates on such liabilities.

Our liabilities are generally currency and index-matched to each collateral asset, resulting in a net exposure to movements in benchmark rates that varies by currency silo based on the relative proportion of floating rate assets and liabilities. The following table details our loan portfolio's sensitivity to interest rates by currency as of September 30, 2015 (\$/£/ /C\$ in thousands):

	<b>USD</b>	<b>GBP</b>	<b>EUR</b>	<b>CAD</b>
Floating rate loans <sup>(1)</sup>	\$ 6,142,039	£ 570,704	132,699	C\$ 246,816
Floating rate debt <sup>(1)(2)</sup>	(5,475,832)	(474,795)	(259,358)	(684,235)
<b>Net floating rate exposure<sup>(3)</sup></b>	<b>\$ 666,207</b>	<b>£ 95,909</b>	<b>(126,659)</b>	<b>C\$ (437,419)</b>

- (1) Our floating rate loans and related liabilities are indexed to the various benchmark rates relevant in each case in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate.
- (2) Includes borrowings under secured debt agreements and loan participations sold.
- (3) In addition, we have interest rate caps of \$1.1 billion, £15.1 million, 152.7 million, and C\$550.6 million to limit our exposure to increases in interest rates.

**Convertible Notes**

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

Refer to Notes 2 and 7 to our consolidated financial statements for additional discussion of our Convertible Notes.

**CT Legacy Portfolio**

As of September 30, 2015, Our CT Legacy Portfolio consists of: (i) our interests in CT Legacy Partners, LLC, or CT Legacy Partners and (ii) our carried interest in CT Opportunity Partners I, LP, or CTOPI, a private investment fund that was previously under our management and is now managed by an affiliate of our Manager.

During the nine months ended September 30, 2015 we recognized (i) \$22.1 million of unrealized gain on investments at fair value, (ii) \$5.7 million of income from equity investments in unconsolidated subsidiaries, and (iii) \$14.7 million of non-controlling interest related to our CT Legacy Portfolio. In addition, we received \$30.8 million of distributions related to assets in the CT Legacy Portfolio.

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

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

	<b>Three Months Ended</b>		<b>2015 vs</b>	<b>Nine Months Ended</b>		<b>2015 vs</b>
	<b>September 30,</b>		<b>2014</b>	<b>September 30,</b>		<b>2014</b>
	<b>2015</b>	<b>2014</b>	<b>\$</b>	<b>2015</b>	<b>2014</b>	<b>\$</b>
<b>Income from loans and other investments</b>						
Interest and related income	\$ 138,361	\$ 50,386	\$ 87,975	\$ 282,249	\$ 126,507	\$ 155,742
Less: Interest and related expenses	51,329	19,903	31,426	106,125	47,697	58,428
Income from loans and other investments, net	87,032	30,483	56,549	176,124	78,810	97,314
<b>Other expenses</b>						
Management and incentive fees	13,813	5,412	8,401	28,535	13,219	15,316
General and administrative expenses	5,295	3,368	1,927	28,655	21,920	6,735
Total other expenses	19,108	8,780	10,328	57,190	35,139	22,051
Unrealized (loss) gain on investments at fair value	(82)	1,780	(1,862)	22,108	7,604	14,504
Income from equity investments in unconsolidated subsidiaries	17		17	5,677	24,294	(18,617)
<b>Income before income taxes</b>	<b>67,859</b>	<b>23,483</b>	<b>44,376</b>	<b>146,719</b>	<b>75,569</b>	<b>71,150</b>
<b>Income tax provision (benefit)</b>	<b>81</b>	<b>(118)</b>	<b>199</b>	<b>431</b>	<b>412</b>	<b>19</b>
<b>Net income</b>	<b>67,778</b>	<b>23,601</b>	<b>44,177</b>	<b>146,288</b>	<b>75,157</b>	<b>71,131</b>
<b>Net income attributable to non-controlling interests</b>	<b>(890)</b>	<b>(1,577)</b>	<b>687</b>	<b>(14,724)</b>	<b>(6,602)</b>	<b>(8,122)</b>
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	<b>\$ 66,888</b>	<b>\$ 22,024</b>	<b>\$ 44,864</b>	<b>\$ 131,564</b>	<b>\$ 68,555</b>	<b>\$ 63,009</b>
Net income per share - basic and diluted	\$ 0.72	\$ 0.45	\$ 0.27	\$ 1.69	\$ 1.52	\$ 0.17
Dividends per share	\$ 0.62	\$ 0.50	\$ 0.12	\$ 1.66	\$ 1.46	\$ 0.20

*Income from loans and other investments, net*

Income from loans and other investments, net increased \$56.5 million during the three months ended September 30, 2015 compared to the corresponding period in 2014. The increase was primarily due to the increase in the principal

balance of our loan portfolio, which increased by \$5.5 billion as of September 30, 2015 compared with September 30, 2014. This was partially offset by additional interest expense incurred on our secured debt agreements, the principal balance of which increased by \$4.7 billion as of September 30, 2015 compared with September 30, 2014.

Income from loans and other investments, net increased \$97.3 million during the nine months ended September 30, 2015 compared to the corresponding period in 2014. The increase was primarily due to the increase in the principal balance of our loan portfolio, which increased by \$5.5 billion as of September 30, 2015 compared with September 30, 2014. This was partially offset by additional interest expense incurred on our secured debt agreements, the principal balance of which increased by \$4.7 billion as of September 30, 2015 compared with September 30, 2014.

*Other expenses*

Other expenses are comprised of management and incentive fees payable to our Manager and general and administrative expenses. Other expenses increased by \$10.3 million during the three months ended September 30, 2015 compared to the corresponding period in 2014 due to (i) an increase of \$4.8 million of management fees payable to our Manager, primarily as a result of additional net proceeds received from the sale of our class A common stock, (ii) an increase of \$3.6 million of incentive fees payable to our Manager, primarily as a result of Core Earnings (before any incentive fees) exceeding the performance hurdle, (iii) \$1.6 million of additional non-cash restricted stock amortization related to shares awarded under our long-term incentive plans, (iv) \$370,000 of transaction costs related the GE loan portfolio acquisition, and (v) \$349,000 of additional general operating expenses. These were partially offset by a decrease of \$361,000 of compensation expenses associated with our CT Legacy Portfolio incentive plans.

**Table of Contents**

Other expenses increased by \$22.1 million during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 due to (i) an increase of \$10.5 million of management fees payable to our Manager, primarily as a result of additional net proceeds received from the sale of our class A common stock, (ii) an increase of \$4.8 million of incentive fees payable to our Manager, primarily as a result of Core Earnings (before any incentive fees) exceeding the performance hurdle (iii) \$9.6 million of transaction costs related the GE loan portfolio acquisition, (iv) \$4.0 million of additional non-cash restricted stock amortization related to shares awarded under our long-term incentive plans, and (v) \$549,000 of additional general operating expenses. These were partially offset by a decrease of \$7.4 million of compensation expenses associated with our CT Legacy Portfolio incentive plans.

*Unrealized gain on investments at fair value*

During the three months ended September 30, 2015, we recognized \$82,000 of net unrealized gains on investments held by CT Legacy Partners. During the three months ended September 30, 2014, we recognized \$1.8 million of net unrealized gains on investments held by CT Legacy Partners.

During the nine months ended September 30, 2015, we recognized \$22.1 million of net unrealized gains on investments held by CT Legacy Partners. During the nine months ended September 30, 2014, we recognized \$7.6 million of net unrealized gains on investments held by CT Legacy Partners.

*Income from equity investments in unconsolidated subsidiaries*

During the three months ended September 30, 2015, we recognized \$17,000 of promote income from CTOPI. No such income was recognized during the three months ended September 30, 2014.

During the nine months ended September 30, 2015, we recognized \$5.7 million of promote income from CTOPI. During the nine months ended September 30, 2014, we recognized \$24.3 million of promote income from CTOPI.

*Net income attributable to non-controlling interests*

During the three months ended September 30, 2015, we recognized \$890,000 of net income attributable to non-controlling interests compared with \$1.6 million during the three months ended September 30, 2014. The non-controlling interests represent the portion of CT Legacy Partners net income that is not owned by us. The decrease in income attributable to non-controlling interests is primarily a result of the decrease of \$1.9 million of unrealized gain on investments at fair value recognized by CT Legacy Partners during the three months ended September 30, 2015 compared to the three months ended September 30, 2014.

During the nine months ended September 30, 2015, we recognized \$14.7 million of net income attributable to non-controlling interests compared with \$6.6 million during the nine months ended September 30, 2014. The increase in income attributable to non-controlling interests is primarily a result of the increase of \$14.5 million of unrealized gain on investments at fair value recognized by CT Legacy Partners during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014.

*Dividends per share*

During the three months ended September 30, 2015, we declared a dividend of \$0.62 per share, or \$57.8 million, which was paid on October 15, 2015 to common stockholders of record as of September 30, 2015. During the three months ended September 30, 2014, we declared a dividend of \$0.50 per share, or \$28.8 million.

During the nine months ended September 30, 2015, we declared aggregate dividends of \$1.66 per share, or \$136.7 million. During the nine months ended September 30, 2014, we declared aggregate dividends of \$1.46 per share, or \$71.0 million.

#### **IV. Liquidity and Capital Resources**

##### **Capitalization**

We have capitalized our business to date through, among other things, the issuance and sale of shares of our class A common stock, borrowings under secured debt agreements, and the issuance and sale of Convertible Notes. As of September 30, 2015, we had 93,348,070 shares of our class A common stock outstanding representing \$2.5 billion of stockholders' equity, \$6.6 billion of outstanding borrowings under secured debt agreements, and \$172.5 million of Convertible Notes outstanding.

**Table of Contents**

As of September 30, 2015, our secured debt agreements consisted of revolving repurchase facilities with an outstanding balance of \$2.8 billion, the GE portfolio acquisition facility with an outstanding balance of \$3.6 billion, and \$235.4 million of asset-specific repurchase agreements. We also finance our business through the sale of loan participations and non-consolidated senior interests. As of September 30, 2015 we had \$507.2 million of loan participations sold and \$1.1 billion of non-consolidated senior interests.

As of September 30, 2015, we also had \$172.5 million aggregate principal amount of convertible notes with a net book value of \$163.7 million, which carry a cash coupon of 5.25% and an all-in cost of 5.87%. These notes mature in December 2018.

See Notes 5, 6, and 7 to our consolidated financial statements for additional details regarding our secured debt agreements, loan participations sold, and Convertible Notes.

**Sources of Liquidity**

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

	September 30, 2015	December 31, 2014
Cash and cash equivalents	\$ 138,600	\$ 51,810
Available borrowings under revolving repurchase facilities	416,822	384,567
	\$ 555,422	\$ 436,377

In addition to our current sources of liquidity, we have access to liquidity through public offerings of debt and equity securities. To facilitate such offerings, in July 2013, we filed a shelf registration statement with the Securities and Exchange Commission, or the SEC, that is effective for a term of three years and will expire in July 2016. The amount of securities to be issued pursuant to this shelf registration statement was not specified when it was filed and there is no specific dollar limit on the amount of securities we may issue. The securities covered by this registration statement include: (i) class A common stock, (ii) preferred stock, (iii) debt securities, (iv) depositary shares representing preferred stock, (v) warrants, (vi) subscription rights, (vii) purchase contracts, and (viii) units consisting of one or more of such securities or any combination of these securities. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of any offering.

We may also access liquidity through a dividend reinvestment plan and direct stock purchase plan, under which we registered and reserved for issuance, in the aggregate, 10,000,000 shares of class A common stock, and our at-the-market stock offering program, pursuant to which we may sell, from time to time, up to an aggregate of \$200.0 million of our class A common stock. Refer to Note 9 to our consolidated financial statements for additional details.

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

**Liquidity Needs**

In addition to our ongoing loan origination activity, our primary liquidity needs include interest and principal payments under our \$6.6 billion of outstanding borrowings under secured debt agreements, our convertible notes, our \$738.3 million of unfunded loan commitments, dividend distributions to our stockholders, and operating expenses.



**Table of Contents****Contractual Obligations and Commitments**

Our contractual obligations and commitments as of September 30, 2015 were as follows (\$ in thousands):

	<b>Total</b>	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>
Unfunded loan commitments <sup>(1)</sup>	\$ 738,260	\$ 192,674	\$ 478,756	\$ 66,830	\$
Secured debt agreements <sup>(2)(3)</sup>	6,822,278	2,084,780	4,117,777	580,410	39,311
Loan participations sold <sup>(3)</sup>	550,399	148,986	21,675	379,738	
Convertible notes, net	204,625	12,201	18,364	174,060	
<b>Total</b>	<b>\$ 8,315,562</b>	<b>\$ 2,438,641</b>	<b>\$ 4,636,572</b>	<b>\$ 1,201,038</b>	<b>\$ 39,311</b>

- (1) The allocation of our unfunded loan commitments is based on the earlier of the commitment expiration date or the loan maturity date.
- (2) The allocation of our revolving repurchase facilities is based on the current maturity date of each individual borrowing under our revolving repurchase facilities. Includes the related future interest payment obligations, which are estimated by assuming the amounts outstanding under our revolving repurchase facilities and the interest rates in effect as of September 30, 2015 will remain constant into the future; this is only an estimate, as actual amounts borrowed and rates will vary over time.
- (3) Assumes repayment date based on initial maturity of each instrument. Future interest payment obligations are determined using the relevant benchmark rates in effect as of September 30, 2015, as applicable.

We are also required to pay our Manager a base management fee, an incentive fee, and reimbursements for certain expenses pursuant to our Management Agreement. The table above does not include the amounts payable to our Manager under our Management Agreement as they are not fixed and determinable. Refer to Note 10 to our consolidated financial statements for additional terms and details of the fees payable under our Management Agreement.

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

**Cash Flows**

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

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities	\$ 104,610	\$ 57,460
Cash flows from investing activities	(5,193,831)	(1,867,100)
Cash flows from financing activities	5,173,559	1,822,250

Net increase in cash and cash equivalents	\$	84,338	\$	12,610
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We experienced a net increase in cash of \$84.3 million for the nine months ended September 30, 2015, compared to a net increase of \$12.6 million for the nine months ended September 30, 2014. During the nine months ended September 30, 2015, we (i) borrowed a net \$4.2 billion under our secured debt agreements, (ii) generated \$1.0 billion of proceeds from issuances of our class A common stock, (iii) received \$1.6 million of proceeds from loan principal collections, and (iv) sold \$256.0 million of loan participations. We used the proceeds from our debt and equity financing activities to purchase and originate \$6.8 billion of new loans. Refer to Notes 5 and 6 to our consolidated financial statements for additional discussion of our secured debt obligations and participations sold. Refer to Note 3 to our consolidated financial statements for further discussion of our loan activity.

## V. Other Items

### Income Taxes

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

**Table of Contents**

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years. As of September 30, 2015 and December 31, 2014, we were in compliance with all REIT requirements.

Refer to Note 11 to our consolidated financial statements for additional discussion of our income taxes.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. There have been no material changes to our Critical Accounting Policies described in our annual report on Form 10-K filed with the SEC on February 17, 2015.

Refer to Note 2 to our consolidated financial statements for the description of our Significant Accounting Policies.

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

The following table provides details of our loan portfolio, on a loan-by-loan basis, as of September 30, 2015 (\$ in millions):

Loan Type <sup>(1)</sup>	Origination Date <sup>(2)</sup>	Total Loan	Principal Balance	Book Balance	Cash Coupon <sup>(3)</sup>	All-in Yield <sup>(3)</sup>	Maximum Maturity <sup>(4)</sup>	Geographic Location	Property Type	Original LTV <sup>(2)</sup>
Commercial loan	6/11/2015	\$ 339.9	\$339.8	\$ 340.8	4.88% <sup>(6)</sup>	4.92% <sup>(6)</sup>	4/30/2019	Diversified-US	MHC	78%
Commercial loan	6/23/2015	305.8	305.8	306.9	5.26% <sup>(6)</sup>	5.33% <sup>(6)</sup>	1/31/2017	Diversified-US	MHC	60%
Commercial loan	5/22/2014	303.0	303.0	299.6	L + 4.00%	L + 4.34%	5/22/2019	U.K.	Hotel	57%
Commercial loan	5/1/2015	320.3	294.5	291.8	L + 3.45%	L + 3.83%	5/1/2020	NY	Office	68%
Commercial loan	1/7/2015	315.0	267.0	264.4	L + 3.50%	L + 3.95%	1/9/2020	NY	Office	53%
Commercial loan	6/4/2015	261.9	259.1	261.6	5.53% <sup>(6)</sup>	5.56% <sup>(6)</sup>	2/9/2019	Canada	Hotel	54%
Commercial loan	6/23/2015	212.5	212.5	212.0	5.38%	5.53%	1/18/2017	Germany	Retail	53%
Commercial loan	6/11/2015	205.8	205.8	206.6	4.76% <sup>(6)</sup>	4.83% <sup>(6)</sup>	1/31/2017	Diversified-US	MHC	65%
Commercial loan	3/4/2015	170.0	170.0	170.0	L + 4.25%	L + 4.25%	3/9/2017	WA	Office	64%
Commercial loan	2/25/2014	166.0	166.0	165.1	L + 4.40%	L + 4.82%	3/9/2019	Diversified-US	Hotel	49%
Commercial loan	12/9/2014	210.7	165.4	164.5	L + 3.80%	L + 4.31%	12/9/2019	Diversified-US	Office	65%
Commercial loan	7/31/2014	215.0	163.4	162.6	L + 3.50%	L + 4.09%	8/9/2019	IL	Office	70%
Commercial loan	1/7/2014	156.3	156.3	155.5	L + 4.75%	L + 5.14%	1/7/2019	Diversified-US	Other	58%
Commercial loan	6/23/2015	154.4	146.1	146.1	L + 5.00%	L + 5.01%	12/20/2017	D.C.	Office	72%
Commercial loan	11/20/2014	145.4	145.4	144.2	L + 3.40%	L + 3.62%	11/20/2019	U.K.	Hotel	62%
Commercial loan	12/17/2013	139.3	139.2	139.2	L + 4.75%	L + 5.27%	1/9/2019	NY	Office	70%
Commercial loan	1/30/2014	145.9	133.4	133.3	L + 4.30%	L + 4.63%	12/1/2017	NY	Hotel	38%
Commercial loan	10/30/2013	130.0	128.6	128.3	L + 4.38%	L + 4.62%	11/9/2018	CA	Hotel	71%
Commercial loan	6/23/2015	125.0	125.0	125.5	L + 3.65%	L + 3.64%	11/30/2018	Diversified-US	Hotel	83%
Commercial loan	6/23/2015	119.4	119.4	121.3	L + 3.05%	L + 3.02%	11/1/2016	Diversified-US	Other	57%
Commercial loan	9/22/2015	122.0	122.0	120.8	L + 3.40%	L + 4.28%	11/9/2019	NY	Multi	63%
Commercial loan	5/28/2015	119.9	119.9	119.7	L + 4.75%	L + 4.85%	8/31/2017	Diversified-US	Various	86%
Commercial loan	6/4/2015	107.9	107.9	107.6	L + 5.00%	L + 5.08%	8/15/2018	U.K.	Hotel	48%
Commercial loan	3/4/2014	118.2	104.3	103.6	L + 4.00%	L + 4.76%	3/4/2018	U.K.	Office	50%
Commercial loan	8/28/2014	125.0	100.9	100.6	L + 4.35%	L + 4.66%	12/9/2018	NY	Office	78%
Commercial loan	2/20/2014	100.0	100.0	99.8	L + 4.40%	L + 4.58%	3/9/2019	NY	Office	68%
Commercial loan	6/24/2015	100.0	100.0	99.2	L + 3.50%	L + 3.86%	12/1/2019	VA	Office	43%
Commercial loan	8/6/2015	99.3	99.3	98.6	12.22%	12.38%	10/29/2022	U.K.	Various	72%
Commercial loan	9/30/2013	113.5	98.3	98.3	L + 3.94%	L + 4.82%	9/30/2020	NY	Multi	67%
Commercial loan	3/12/2015	101.2	94.6	93.8	L + 3.25%	L + 3.86%	3/11/2020	CA	Office	66%

continued



**Table of Contents**

Loan Type <sup>(1)</sup>	Origination Date <sup>(2)</sup>	Total Loan	Principal Balance	Book Balance	Cash Coupon <sup>(3)</sup>	All-in Yield <sup>(3)</sup>	Maximum Maturity <sup>(4)</sup>	Geographic		Origination LTV <sup>(2)</sup>
								Location	Property Type	
Commercial loan	6/23/2015	100.0	90.0	89.7	L + 3.55%	L + 3.64%	7/31/2019	NY	Hotel	59%
Commercial loan	6/30/2015	88.6	88.6	88.4	5.69% <sup>(6)</sup>	5.80% <sup>(6)</sup>	11/30/2017	Diversified-US	MHC	56%
Commercial loan	6/23/2015	97.4	87.9	87.5	L + 3.40%	L + 3.52%	7/31/2019	VA	Office	75%
Commercial loan	11/17/2014	106.1	83.8	83.0	L + 5.50%	L + 5.84%	12/9/2019	Canada	Office	53%
Commercial loan	10/28/2014	85.0	81.9	81.3	L + 3.75%	L + 4.12%	11/9/2019	NY	Retail	78%
Commercial loan	2/18/2015	89.9	81.8	81.1	L + 3.75%	L + 4.30%	3/9/2020	CA	Office	71%
Commercial loan	6/24/2015	107.3	81.6	80.6	L + 4.25%	L + 4.72%	7/9/2020	HI	Hotel	67%
Commercial loan	5/20/2014	82.0	80.0	79.7	L + 4.00%	L + 4.54%	6/9/2019	D.C.	Office	79%
Commercial loan	5/16/2014	86.8	80.1	79.7	L + 3.85%	L + 4.15%	6/9/2019	FL	Office	74%
Commercial loan	7/11/2014	82.2	76.0	75.5	L + 3.65%	L + 4.03%	8/9/2019	IL	Office	64%
Commercial loan	6/4/2015	77.5	74.2	75.0	5.03% <sup>(6)</sup>	5.04% <sup>(6)</sup>	3/28/2019	Canada	Retail	74%
Commercial loan	6/5/2014	74.2	74.2	73.7	L + 4.50%	L + 4.90%	6/5/2019	U.K.	Retail	80%
Commercial loan	8/8/2013	73.4	73.4	73.4	L + 4.00%	L + 4.35%	6/10/2016	NY	Office	68%
Commercial loan	5/22/2014	79.7	73.2	72.8	L + 4.50%	L + 4.92%	6/15/2019	CA	Office	67%
Commercial loan	7/26/2013	81.8	68.8	68.8	L + 5.00%	L + 5.82%	8/9/2018	VA	Office	72%
Commercial loan	9/8/2014	69.4	69.4	68.4	L + 4.00%	L + 4.34%	11/20/2019	Spain	Retail	70%
Commercial loan znanine <sup>(5)</sup>	5/15/2015	100.0	68.7	68.0	L + 12.83%	L + 13.46%	5/15/2020	FL	Retail	36%
Commercial loan	6/11/2015	75.0	67.8	67.6	L + 3.47%	L + 3.54%	11/30/2018	TX	Office	50%
Commercial loan	5/20/2015	71.4	65.3	65.4	L + 4.15%	L + 4.19%	5/31/2018	Diversified-US	Office	62%
Commercial loan	6/23/2015	65.5	65.1	65.3	4.84% <sup>(6)</sup>	4.88% <sup>(6)</sup>	8/31/2020	FL	MHC	69%
Commercial loan	6/4/2015	64.4	64.4	64.3	L + 3.25%	L + 3.37%	7/6/2017	U.K.	Retail	55%
Commercial loan	5/1/2015	83.5	64.5	63.7	L + 3.95%	L + 4.41%	5/9/2020	MD	Hotel	67%
Commercial loan	6/23/2015	71.6	61.6	61.2	L + 3.75%	L + 3.90%	8/31/2019	NY	Condo	50%
Commercial loan	6/11/2015	70.4	61.1	60.9	4.55% <sup>(6)</sup>	4.70% <sup>(6)</sup>	10/31/2018	FL	MHC	63%
Commercial loan	3/11/2014	65.0	59.9	59.6	L + 4.50%	L + 4.92%	4/9/2019	NY	Multi	65%
Commercial loan	1/13/2014	60.0	60.0	57.9	L + 3.45%	L + 4.89%	6/9/2020	NY	Office	53%
Commercial loan	7/17/2013	60.0	56.0	56.0	L + 4.50%	L + 5.34%	7/16/2017	NY	Retail	69%
Commercial loan	5/28/2015	63.5	55.8	55.9	L + 3.50%	L + 3.55%	12/31/2018	CA	Office	74%
Commercial loan	6/11/2015	55.5	55.3	55.4	4.59% <sup>(6)</sup>	4.62% <sup>(6)</sup>	9/30/2020	Diversified-US	MHC	79%
Commercial loan	6/27/2013	54.5	54.5	54.4	L + 3.85%	L + 4.01%	7/9/2018	GA	Multi	75%

continued

**Table of Contents**

Loan Type <sup>(1)</sup>	Origination Date <sup>(2)</sup>	Total Loan	Principal Balance	Book Balance	Cash Coupon <sup>(3)</sup>	All-in Yield <sup>(3)</sup>	Maximum Maturity <sup>(4)</sup>	Geographic Location	Property Type	Origination LTV <sup>(2)</sup>
zzanine										
ior loan <sup>(5)</sup>	6/30/2015	66.0	55.5	54.3	L + 10.75%	L + 11.70%	7/9/2020	CA	Condo	66%
ior loan	5/20/2015	53.0	53.0	52.9	L + 3.75%	L + 3.83%	11/30/2018	AZ	Other	72%
ior loan	10/6/2014	60.0	51.0	50.6	L + 4.15%	L + 4.56%	10/9/2019	NY	Hotel	65%
ior loan	5/20/2015	54.0	50.4	50.6	L + 3.50%	L + 3.55%	12/31/2018	IL	Office	67%
ior loan	4/1/2014	50.0	50.0	49.9	L + 4.20%	L + 4.73%	4/9/2019	HI	Hotel	69%
ior loan	7/12/2013	50.0	50.0	49.7	L + 3.85%	L + 3.64%	8/9/2018	IL	Office	68%
ior loan	2/27/2015	71.0	50.2	49.6	L + 3.50%	L + 4.00%	2/26/2020	IL	Office	64%
ior loan	9/4/2013	51.8	49.6	49.4	L + 3.85%	L + 4.25%	9/10/2018	Diversified-US	Multi	76%
ior loan	9/9/2014	56.0	48.5	48.2	L + 4.00%	L + 4.31%	9/9/2019	FL	Office	71%
ior loan	12/30/2013	51.0	47.4	47.2	L + 4.50%	L + 4.89%	1/9/2019	AZ	Office	67%
ior loan	7/2/2013	50.0	46.3	46.2	L + 4.25%	L + 4.64%	7/10/2018	CO	Hotel	69%
ior loan	5/20/2015	58.0	45.4	45.3	5.27% <sup>(6)</sup>	5.34% <sup>(6)</sup>	6/30/2019	NC	Office	71%
ior loan	5/28/2015	49.2	45.0	45.2	5.37% <sup>(6)</sup>	5.44% <sup>(6)</sup>	2/28/2018	CA	Office	66%
ior loan	12/19/2014	44.0	44.0	43.8	L + 4.25%	L + 4.94%	1/9/2017	NY	Multi	50%
ior loan	3/26/2014	43.3	42.9	42.6	L + 4.30%	L + 4.70%	4/9/2019	CA	Office	71%
ior loan	8/8/2013	43.5	42.4	42.3	L + 4.25%	L + 4.73%	8/10/2018	Diversified-US	Hotel	61%
ior loan	12/20/2013	46.5	42.0	41.8	L + 4.10%	L + 4.43%	1/9/2019	CA	Office	43%
ior loan	6/4/2015	46.8	40.5	40.6	5.36% <sup>(6)</sup>	5.76% <sup>(6)</sup>	4/30/2016	Canada	Hotel	64%
ior loan	9/26/2014	51.0	40.1	39.9	L + 4.00%	L + 4.67%	10/9/2019	TX	Office	70%
ior loan	6/12/2014	40.0	40.0	39.4	L + 4.00%	L + 6.14%	6/30/2018	CA	Office	44%
ior loan	5/28/2015	41.4	38.9	39.0	L + 3.55%	L + 3.59%	10/31/2018	CA	Office	64%
ior loan	5/20/2015	42.9	38.7	38.8	5.00% <sup>(6)</sup>	5.04% <sup>(6)</sup>	10/31/2018	Diversified-US	Office	66%
ior loan	5/20/2015	42.5	38.6	38.6	L + 3.50%	L + 3.55%	12/31/2018	TX	Retail	84%
ior loan	5/20/2015	43.0	38.0	38.1	L + 3.82%	L + 3.86%	9/27/2018	NC	Office	61%
ior loan	5/28/2015	40.7	37.9	37.9	5.89% <sup>(6)</sup>	5.96% <sup>(6)</sup>	3/6/2017	GA	Office	48%
ior loan	5/28/2015	38.0	38.0	37.4	L + 3.90%	L + 4.58%	6/30/2018	TX	Hotel	45%
ior loan	8/25/2015	43.8	36.8	36.3	L + 4.50%	L + 5.13%	9/9/2018	CA	Office	46%
ior loan	6/26/2015	42.1	36.3	35.9	L + 3.75%	L + 4.36%	7/9/2020	CA	Office	73%
ior loan	6/11/2015	35.5	35.5	35.6	4.59% <sup>(6)</sup>	4.64% <sup>(6)</sup>	7/31/2019	FL	MHC	80%
ior loan	6/11/2015	35.2	35.2	35.3	5.34%	5.37%	5/31/2020	Diversified-US	MHC	65%

continued

**Table of Contents**

Loan Type <sup>(1)</sup>	Origination Date <sup>(2)</sup>	Total Loan	Principal Balance	Book Balance	Cash Coupon <sup>(3)</sup>	All-in Yield <sup>(3)</sup>	Maximum Maturity <sup>(4)</sup>	Geographic Location	Property Type	Origination LTV <sup>(2)</sup>
Residential mortgage	12/13/2013	35.1	34.2	34.3	L + 13.88%	L + 13.69%	12/13/2017	NY	Condo	77%
Senior loan	5/28/2015	33.3	33.3	33.8	L + 5.00%	L + 3.90%	1/2/2017	FL	Multi	69%
Senior loan	11/28/2013	32.9	32.9	32.6	L + 4.63%	L + 5.40%	11/27/2018	U.K.	Office	68%
Senior loan	5/20/2015	38.5	32.7	32.5	4.71% <sup>(6)</sup>	5.10% <sup>(6)</sup>	1/31/2019	CA	Office	59%
Senior loan	6/23/2015	32.6	32.6	32.2	4.90%	5.30%	8/26/2025	GA	Multi	72%
Senior loan	6/4/2015	32.5	32.5	32.1	L + 3.75%	L + 4.47%	4/26/2017	U.K.	Retail	56%
Senior loan	5/20/2015	36.5	32.0	31.7	L + 3.60%	L + 3.88%	7/11/2019	CA	Office	46%
Senior loan	5/20/2015	37.0	31.5	31.3	4.42% <sup>(6)</sup>	4.75% <sup>(6)</sup>	4/30/2019	WA	Multi	74%
Senior loan	6/18/2014	31.5	31.5	31.1	L + 4.00%	L + 4.46%	7/20/2019	Netherlands	Office	69%
Senior loan	4/17/2015	30.4	30.4	30.1	L + 4.50%	L + 4.95%	4/20/2020	Netherlands	Hotel	71%
Senior loan	9/27/2013	29.7	29.3	29.2	L + 3.85%	L + 4.22%	10/10/2018	Diversified-US	Multi	76%
Senior loan	6/11/2015	29.3	29.3	29.2	L + 5.00%	L + 5.23%	11/30/2017	Diversified-US	Other	53%
Senior loan	4/4/2014	30.7	28.5	28.3	L + 4.25%	L + 4.66%	4/9/2019	CA	Office	64%
Senior loan	7/23/2014	80.0	28.8	27.8	L + 5.00%	L + 5.91%	8/9/2019	GA	Office	43%
Senior loan	5/28/2015	32.3	27.8	27.5	L + 4.35%	L + 4.89%	12/31/2017	CA	Office	48%
Senior loan	6/23/2015	27.4	27.4	27.1	6.29%	7.05%	5/18/2017	U.K.	Office	40%
Senior loan	6/4/2015	26.8	26.8	26.5	5.97%	6.66%	7/1/2017	Canada	MHC	49%
Senior loan	2/28/2014	26.0	26.0	25.9	L + 4.00%	L + 4.27%	3/9/2019	AZ	Other	69%
Senior loan	6/11/2015	26.0	26.0	25.8	5.18% <sup>(6)</sup>	5.45% <sup>(6)</sup>	11/30/2020	FL	MHC	75%
Senior loan	5/20/2015	25.7	25.7	25.5	L + 3.65%	L + 4.63%	7/1/2016	TX	Other	63%
Senior loan	9/23/2014	25.0	25.0	25.0	L + 3.75%	L + 7.57%	10/1/2017	NY	Condo	48%
Senior loan	5/28/2015	52.0	25.0	24.7	L + 4.00%	L + 4.38%	6/30/2018	CA	Office	53%
Senior loan	6/11/2015	24.5	24.5	24.3	5.26% <sup>(6)</sup>	5.54% <sup>(6)</sup>	11/30/2020	FL	MHC	70%
Senior loan	5/28/2015	26.3	24.5	24.2	L + 4.25%	L + 4.97%	3/31/2017	CA	Office	59%
Senior loan	6/11/2015	23.4	23.4	23.1	4.57% <sup>(6)</sup>	4.95% <sup>(6)</sup>	4/30/2019	SC	MHC	72%
Senior loan	5/20/2015	21.5	21.5	21.3	4.96%	5.32%	9/30/2018	AZ	Multi	73%
Senior loan	5/28/2015	21.1	21.1	21.0	L + 3.95%	L + 4.29%	3/31/2019	PA	Hotel	71%
Senior loan	6/4/2015	20.5	18.0	17.8	L + 3.50%	L + 3.92%	7/17/2019	Germany	Office	67%
Senior loan	6/11/2015	17.8	17.8	17.6	4.57% <sup>(6)</sup>	4.85% <sup>(6)</sup>	11/30/2020	FL	MHC	51%
Senior loan	6/4/2015	17.5	17.5	17.3	4.63%	5.39%	3/1/2017	Canada	Other	59%

continued



**Table of Contents**

Type <sup>(1)</sup>	Origination Date <sup>(2)</sup>	Total Loan	Principal Balance	Book Balance	Cash Coupon <sup>(3)</sup>	All-in Yield <sup>(3)</sup>	Maximum Maturity <sup>(4)</sup>	Geographic	Property Type	LTV
								Location		
an	6/11/2015	18.9	16.9	16.8	L + 3.65%	L + 4.07%	10/31/2018	Canada	MHC	
an	5/28/2015	16.6	16.6	16.6	5.09% <sup>(6)</sup>	5.60% <sup>(6)</sup>	4/30/2017	FL	MHC	
an	6/4/2015	16.7	16.5	16.4	4.44% <sup>(6)</sup>	4.85% <sup>(6)</sup>	12/23/2018	Canada	Office	
an	6/23/2015	15.7	15.7	16.0	5.87%	5.76%	10/30/2015	Diversified-US	MHC	
an	5/28/2015	17.3	15.8	15.6	L + 3.70%	L + 4.04%	8/31/2019	NM	Hotel	
an	6/11/2015	15.7	15.7	15.6	4.80% <sup>(6)</sup>	5.06% <sup>(6)</sup>	4/30/2021	FL	MHC	
an	6/11/2015	15.0	15.0	14.9	5.28% <sup>(6)</sup>	5.57% <sup>(6)</sup>	9/30/2020	FL	MHC	
an	6/4/2015	14.1	14.1	13.9	5.45%	6.39%	10/1/2016	Canada	Other	
an	6/4/2015	13.6	13.6	13.6	6.22%	7.13%	9/7/2016	Canada	Other	
an	6/23/2015	13.4	13.4	13.2	7.33%	7.82%	3/13/2019	CT	Other	
an	6/4/2015	15.0	12.2	12.6	L + 3.50%	L + 3.82%	6/1/2017	Canada	Office	
ne	9/3/2015	25.0	4.1	3.7	L + 11.17%	L + 12.48%	9/2/2019	WA	Office	
		\$ 10,151.2	\$ 9,413.0	\$ 9,377.6	4.77%	5.09%	3.3 yrs			

- (1) Senior loans include senior mortgages and similar credit quality loans, including related contiguous subordinate loans and pari passu participations in senior mortgage loans.
- (2) Date loan was originated or acquired by us, and the LTV as of such date.
- (3) As of September 30, 2015, our floating rate loans were indexed to various benchmark rates, with 84% of floating rate loans indexed to USD LIBOR. In addition, \$1.1 billion of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 0.64%, as of September 30, 2015. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees.
- (4) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date.
- (5) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. These mezzanine loan originations are therefore presented net of the related non-consolidated senior interests.
- (6) Loan consists of one or more floating and fixed rate tranches. Coupon and all-in yield assume applicable floating benchmark rate for weighted-average calculation.

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

Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income. As of September 30, 2015, 78% of our loans earned a floating rate of interest and were financed with liabilities that pay interest at floating rates, which resulted in an amount of net equity that is positively correlated to rising interest rates, subject to the impact of interest rate floors on certain of our floating rate loans. As of September 30, 2015, 22% of our loans earned a fixed rate of interest, but are financed with liabilities that pay interest at floating rates, which resulted in a negative correlation to rising interest rates to the extent of our financing. In certain instances where we have financed fixed rate assets with floating rate liabilities, we have purchased interest rate caps to limit our exposure to increases in interest rates on such liabilities.

Our liabilities are generally currency and index-matched to each collateral asset, resulting in a net exposure to movements in benchmark rates that varies by currency silo based on the relative proportion of floating rate assets and liabilities. The following table details our loan portfolio's sensitivity to interest rates by currency as of September 30, 2015 (\$/£/ /C\$ in thousands):

	<b>USD</b>	<b>GBP</b>	<b>EUR</b>	<b>CAD</b>
Floating rate loans <sup>(1)</sup>	\$ 6,142,039	£ 570,704	132,699	C\$ 246,816
Floating rate debt <sup>(1)(2)</sup>	(5,475,832)	(474,795)	(259,385)	(684,235)
Net floating rate exposure <sup>(3)</sup>	\$ 666,207	£ 95,909	(126,686)	C\$ (437,419)

- (1) Our floating rate loans and related liabilities are indexed to the various benchmark rates relevant in each case in terms of currency and payment frequency. Therefore the net exposure to each benchmark rate is in direct proportion to our net assets indexed to that rate.
- (2) Includes borrowings under secured debt agreements and loan participations sold.
- (3) In addition, we have interest rate caps of \$1.1 billion, £15.1 million, 152.7 million, and C\$550.6 million to limit our exposure to increases in interest rates.

*Loan Portfolio Value*

As of September 30, 2015, 22% of our loans earned a fixed rate of interest and as such, the values of such loans are sensitive to changes in interest rates. We generally hold all of our loans to maturity and so do not expect to realize gains or losses on our fixed rate loan portfolio as a result of movements in market interest rates.

*Risk of Non-Performance*

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

requirement for our borrower to purchase an interest rate cap contract.

### **Credit Risks**

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

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

**Table of Contents****Capital Market Risks**

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

**Counterparty Risk**

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

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

**Currency Risk**

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

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

	<b>September 30, 2015</b>		
Foreign currency assets	£ 658,959	389,293	C\$ 856,848
Foreign currency liabilities	(475,714)	(260,191)	(685,510)
Foreign currency contracts - notional	(96,900)	(50,000)	(162,000)
Net exposure to exchange rate fluctuations	£ 86,345	79,102	C\$ 9,338

We estimate that a 10% appreciation of the United States Dollar relative to the British Pound Sterling and the Euro would result in a decline in our net assets in U.S. Dollar terms of \$27.8 million and \$14.5 million, respectively, as of September 30, 2015. Substantially all of our net asset exposure to the Canadian Dollar has been hedged with foreign currency forward contracts.

**ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

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

**Table of Contents**

**Changes in Internal Controls over Financial Reporting**

There have been no significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period covered by this quarterly report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may be involved in various claims and legal actions arising in the ordinary course of business. As of September 30, 2015, we were not involved in any material legal proceedings.

**ITEM 1A. RISK FACTORS**

There have been no material changes to the risk factors previously disclosed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as updated by the information disclosed under Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

*Section 13(r) Disclosure*

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

**Table of Contents**

**ITEM 6. EXHIBITS**

10.1	Letter Agreement, dated as of July 15, 2015 detailing certain amendments to the Purchase and Sale Agreement, dated as of April 10, 2015, by and among General Electric Capital Corporation and the other parties thereto.
10.2	Amendment No. 1 to Third Amended and Restated Master Repurchase and Securities Contract, dated as of July 10, 2015 by and among Parlex 5 Ken Finco, LLC, Parlex 5 Ken UK Finco, LLC, Parlex 5 Ken CAD Finco, LLC, Parlex 5 Ken Ont Finco, LLC, Parlex 5 Ken Eur Finco, LLC and Wells Fargo Bank, National Association.
31.1	Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1 +	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2 +	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Section 13(r) Disclosure
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

+ This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act ) or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended (the Securities Act ), or the Exchange Act. The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.



Table of Contents

**SIGNATURES**

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

BLACKSTONE MORTGAGE TRUST, INC.

October 27, 2015  
Date

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

October 27, 2015  
Date

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

October 27, 2015  
Date

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