

BLACKSTONE MORTGAGE TRUST, INC.

Form 10-Q

April 26, 2016

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

**FORM 10-Q**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016**

**OR**

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

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

**Commission File Number: 001-14788**

**Blackstone Mortgage Trust, Inc.**

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

The number of the Registrant's outstanding shares of class A common stock, par value \$0.01 per share, as of April 19, 2016 was 93,912,674.



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

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 110,622	\$ 96,450
Restricted cash	434	9,556
Loans receivable, net	9,313,763	9,077,007
Equity investments in unconsolidated subsidiaries	2,762	9,441
Other assets	127,185	184,119
<b>Total Assets</b>	<b>\$ 9,554,766</b>	<b>\$ 9,376,573</b>
<b>Liabilities and Equity</b>		
Accounts payable, accrued expenses, and other liabilities	\$ 99,684	\$ 93,679
Secured debt agreements	6,311,659	6,116,105
Loan participations sold	476,894	497,032
Convertible notes, net	164,696	164,026
<b>Total Liabilities</b>	<b>7,052,933</b>	<b>6,870,842</b>
Commitments and contingencies		
<b>Equity</b>		
Class A common stock, \$0.01 par value, 200,000,000 shares authorized, 93,912,409 and 93,702,326 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	939	937
Additional paid-in capital	3,074,975	3,070,200
Accumulated other comprehensive loss	(33,445)	(32,758)
Accumulated deficit	(547,052)	(545,791)
Total Blackstone Mortgage Trust, Inc. stockholders' equity	2,495,417	2,492,588
Non-controlling interests	6,416	13,143
<b>Total Equity</b>	<b>2,501,833</b>	<b>2,505,731</b>
<b>Total Liabilities and Equity</b>	<b>\$ 9,554,766</b>	<b>\$ 9,376,573</b>

*See accompanying notes to consolidated financial statements.*

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

(in thousands, except share and per share data)

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Income from loans and other investments</b>		
Interest and related income	\$ 123,025	\$ 63,407
Less: Interest and related expenses	45,381	24,161
<b>Income from loans and other investments, net</b>	<b>77,644</b>	<b>39,246</b>
<b>Other expenses</b>		
Management and incentive fees	13,613	6,671
General and administrative expenses	6,795	7,663
<b>Total other expenses</b>	<b>20,408</b>	<b>14,334</b>
Gain on investments at fair value	66	17,476
Income from equity investments in unconsolidated subsidiaries	138	3,950
<b>Income before income taxes</b>	<b>57,440</b>	<b>46,338</b>
<b>Income tax provision</b>	<b>241</b>	<b>245</b>
<b>Net income</b>	<b>57,199</b>	<b>46,093</b>
<b>Net income attributable to non-controlling interests</b>	<b>(152)</b>	<b>(10,700)</b>
<b>Net income attributable to Blackstone Mortgage Trust, Inc.</b>	<b>\$ 57,047</b>	<b>\$ 35,393</b>
<b>Net income per share of common stock basic and diluted</b>	<b>\$ 0.61</b>	<b>\$ 0.60</b>
<b>Weighted-average shares of common stock outstanding basic and diluted</b>	<b>94,067,769</b>	<b>58,576,025</b>
<b>Dividends declared per share of common stock</b>	<b>\$ 0.62</b>	<b>\$ 0.52</b>

*See accompanying notes to consolidated financial statements.*

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**Blackstone Mortgage Trust, Inc.**

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

**(in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Net income	\$ 57,199	\$ 46,093
Other comprehensive loss		
Unrealized gain (loss) on foreign currency remeasurement	5,979	(20,069)
Unrealized (loss) gain on derivative financial instruments	(6,666)	3,337
Other comprehensive loss	(687)	(16,732)
Comprehensive income	56,512	29,361
Comprehensive income attributable to non-controlling interests	(152)	(10,700)
Comprehensive income attributable to Blackstone Mortgage Trust, Inc.	\$ 56,360	\$ 18,661

*See accompanying notes to consolidated financial statements.*



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

(in thousands)

<b>Blackstone Mortgage Trust, Inc.</b>							
	<b>Class A Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Accumulated Comprehensive Loss</b>	<b>Other Accumulated Deficit</b>	<b>Stockholders' Equity</b>	<b>Non-controlling Interests</b>	<b>Total Equity</b>
<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	2				2		2
Restricted class A common stock earned		3,202			3,202		3,202
Dividends reinvested		60		(57)	3		3
Deferred directors compensation		94			94		94
Other comprehensive loss			(16,732)		(16,732)		(16,732)
Net income				35,393	35,393	10,700	46,093
Dividends declared on common stock				(30,398)	(30,398)		(30,398)
Distributions to non-controlling interests						(452)	(452)
<b>Balance at March 31, 2015</b>	\$ 585	\$ 2,030,760	\$ (31,756)	\$ (542,654)	\$ 1,456,935	\$ 45,763	\$ 1,502,698
<b>Balance at December 31, 2015</b>	\$ 937	\$ 3,070,200	\$ (32,758)	\$ (545,791)	\$ 2,492,588	\$ 13,143	\$ 2,505,731
Shares of class A common stock issued, net	2				2		2
Restricted class A common stock		4,593			4,593		4,593

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earned							
Dividends reinvested	88	(82)	6			6	
Deferred directors compensation	94		94				94
Other comprehensive loss		(687)	(687)				(687)
Net income		57,047	57,047	152			57,199
Dividends declared on common stock		(58,226)	(58,226)				(58,226)
Distributions to non-controlling interests				(6,879)			(6,879)
<b>Balance at March 31, 2016</b>	\$ 939	\$ 3,074,975	\$ (33,445)	\$ (547,052)	\$ 2,495,417	\$ 6,416	\$ 2,501,833

*See accompanying notes to consolidated financial statements.*

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

	<b>Three Months Ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 57,199	\$ 46,093
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on investments at fair value	(66)	(17,476)
Income from equity investments in unconsolidated subsidiaries	(138)	(3,950)
Non-cash compensation expense	4,852	6,104
Distributions of income from unconsolidated subsidiaries	6,837	
Amortization of deferred interest on loans	(8,954)	(5,717)
Amortization of deferred financing costs and premiums/discount on debt obligations	4,053	3,519
Changes in assets and liabilities, net		
Other assets	4,254	2,021
Accounts payable, accrued expenses, and other liabilities	(2,256)	1,819
Net cash provided by operating activities	65,781	32,413
<b>Cash flows from investing activities</b>		
Originations and fundings of loans receivable	(586,066)	(903,152)
Principal collections and proceeds from loans receivable and other assets	420,513	348,153
Origination and exit fees received on loans receivable	10,424	6,078
Decrease (increase) in restricted cash	9,122	(15,299)
Net cash used in investing activities	(146,007)	(564,220)
<b>Cash flows from financing activities</b>		
Borrowings under secured debt agreements	629,897	688,142
Repayments under secured debt agreements	(466,536)	(387,555)
Proceeds from sales of loan participations		256,000
Repayment of loan participations	(9,600)	(28,164)
Payment of deferred financing costs	(5,260)	(3,053)
Receipts under derivative financial instruments	8,218	4,141
Distributions to non-controlling interests	(6,879)	(452)
Net proceeds from issuance of class A common stock	6	3
Dividends paid on class A common stock	(58,097)	(30,300)
Net cash provided by financing activities	91,749	498,762
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>11,523</b>	<b>(33,045)</b>

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Cash and cash equivalents at beginning of period	96,450	51,810
Effects of currency translation on cash and cash equivalents	2,649	(291)
Cash and cash equivalents at end of period	\$ 110,622	\$ 18,474
<b>Supplemental disclosure of cash flows information</b>		
Payments of interest	\$ (38,121)	\$ (18,996)
Payments of income taxes	\$ (151)	\$ (129)
<b>Supplemental disclosure of non-cash investing and financing activities</b>		
Dividends declared, not paid	\$ (58,226)	\$ (30,398)
Principal payments held by servicer	\$ 75,378	\$ 108

*See accompanying notes to consolidated financial statements.*

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**Blackstone Mortgage Trust, Inc.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. ORGANIZATION**

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

Blackstone Mortgage Trust is a real estate finance company that originates 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 exclusion from registration under the Investment Company Act of 1940, as amended. We are organized as a holding company and conduct our business primarily through our various subsidiaries.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements, including the notes thereto, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments, consisting of only normal recurring items, so that the consolidated financial statements are presented fairly and that estimates made in preparing its consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 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 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 both March 31, 2016 and December 31, 2015, we did not consolidate any VIEs.

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**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 deferred and recognized as a component of interest income, however expenses related to loans we acquire are included in general and administrative expenses as incurred.

**Cash and Cash Equivalents**

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

**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.



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**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, or the GE portfolio, for a total purchase price of \$4.7 billion. We allocated the aggregate purchase price between each loan based on its fair value relative to the overall portfolio, which allocation resulted in purchase discounts or premiums determined on an asset-by-asset basis. Each loan 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. Amounts are reclassified out of accumulated other comprehensive income (loss) and into net income 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.

**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.

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**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**Convertible Notes**

The Debt with Conversion and Other Options Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or 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 as a reduction in the net book value of the related liability on our consolidated balance sheets include issuance and other costs related to our debt obligations. These costs are amortized as interest expense using the effective interest method over the life of the related obligations.

**Fair Value of Financial Instruments**

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

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

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

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

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

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

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

Certain of our other assets are reported at fair value either (i) on a recurring basis, as of each quarter-end, or (ii) on a nonrecurring basis, as a result of impairment or other events. Our assets that are recorded at fair value are discussed further in Note 14. We generally value our assets recorded at fair value by either (i) discounting expected cash flows based on assumptions regarding the collection of principal and interest and estimated market rates, or (ii) obtaining assessments from third-party dealers. For collateral-dependent loans that are identified as impaired, we measure impairment by comparing our Manager's estimation of fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations may require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager.

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**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

We are also required by GAAP to disclose fair value information about financial instruments, 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 based on discounted cash flow methodology taking into consideration factors, including capitalization rates, discount rates, leasing, occupancy rates, availability and cost of financing, exit plan, sponsorship, actions of other lenders, and indications of market value from other market participants.

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.

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

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

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

**Income Taxes**

Our financial results generally do not reflect provisions for current or deferred income taxes on our REIT taxable income. We believe that we operate in a manner that will continue to allow us to be taxed as a REIT and, as a result, we generally do not expect to pay substantial corporate level taxes other than those payable by our taxable REIT subsidiaries. If we were to fail to meet these requirements, we may be subject to federal, state, and local income tax on current and past income, and penalties. Refer to Note 12 for additional information.

### **Stock-Based Compensation**

Our stock-based compensation consists of awards issued to our Manager and certain 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 13 for additional information.

### **Earnings per Share**

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

Diluted earnings per share, or Diluted EPS, is determined using the treasury stock method, and is based on the net earnings allocable to our class A common stock, including restricted class A common stock and deferred stock units, divided by the weighted-average number of shares of class A common stock, including restricted class A common stock and deferred stock units. Refer to Note 10 for additional discussion of earnings per share.

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**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

**Foreign Currency**

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

**Underwriting Commissions and Offering Costs**

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

**Recent Accounting Pronouncements**

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), or ASU 2016-09. ASU 2016-09 requires all income tax effects of share-based payment awards to be recognized in the income statement when the awards vest or are settled. ASU 2016-09 also allows an employer to repurchase more of an employee's shares for tax withholding purposes than is permitted under current guidance without triggering liability accounting. Finally, ASU 2016-09 allows a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. We do not anticipate that the adoption of ASU 2016-09 will have a 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.

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





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

During the three months ended March 31, 2016, we originated \$861.3 million of loans, and funded \$586.1 million under new and existing loans.

The following table details overall statistics for our loans receivable portfolio as of March 31, 2016 (\$ in thousands):

	<b>Floating Rate</b>	<b>Fixed Rate</b>	<b>Total</b>
Number of loans	96	30	126
Principal balance	\$ 7,397,918	\$ 1,948,329	\$ 9,346,247
Net book value	\$ 7,362,047	\$ 1,951,716	\$ 9,313,763
Unfunded loan commitments <sup>(1)</sup>	\$ 962,425	\$ 2,715	\$ 965,140
Weighted-average cash coupon <sup>(2)</sup>	L+4.08%	5.64%	4.82%
Weighted-average all-in yield <sup>(2)</sup>	L+4.51%	5.73%	5.18%
Weighted-average maximum maturity (years) <sup>(3)</sup>	3.2	2.2	3.0

- (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 March 31, 2016, our floating rate loans were indexed to various benchmark rates, with 83% of floating rate loans indexed to USD LIBOR. In addition, \$146.9 million of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 1.80%, as of March 31, 2016. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, purchase discounts, and accrual of both extension and exit fees. Cash coupon and all-in yield 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 March 31, 2016, 63% of our loans were subject to yield maintenance or other prepayment restrictions and 37% were open to repayment by the borrower without penalty.

The following table details overall statistics for our loans receivable portfolio as of December 31, 2015 (\$ in thousands):

	<b>Floating Rate</b>	<b>Fixed Rate</b>	<b>Total</b>
Number of loans	92	33	125
Principal balance	\$ 7,098,180	\$ 2,010,181	\$ 9,108,361
Net book value	\$ 7,064,279	\$ 2,012,728	\$ 9,077,007

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Unfunded loan commitments <sup>(1)</sup>	\$	696,276	\$	4,382	\$	700,658
Weighted-average cash coupon <sup>(2)</sup>		L+4.09%		5.63%		4.84%
Weighted-average all-in yield <sup>(2)</sup>		L+4.49%		5.78%		5.18%
Weighted-average maximum maturity (years) <sup>(3)</sup>		3.3		2.6		3.1

- (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, 2015, our floating rate loans were indexed to various benchmark rates, with 84% of floating rate loans indexed to USD LIBOR. In addition, \$147.9 million of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 1.80%, as of December 31, 2015. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs, purchase discounts, and accrual of both extension and exit fees. Cash coupon and all-in yield for the total portfolio assume applicable floating benchmark 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 December 31, 2015, 64% of our loans were subject to yield maintenance or other prepayment restrictions and 36% were open to repayment by the borrower without penalty.

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

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, 2015	\$ 9,108,361	\$ (31,354)	\$ 9,077,007
Loan originations and fundings	586,066		586,066
Loan repayments	(375,374)		(375,374)
Unrealized gain on foreign currency translation	27,194	340	27,534
Deferred fees and other items <sup>(1)</sup>		(10,424)	(10,424)
Amortization of fees and other items <sup>(1)</sup>		8,954	8,954
March 31, 2016	\$ 9,346,247	\$ (32,484)	\$ 9,313,763

(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>March 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Net Book Value</b>	<b>Percentage</b>	<b>Net Book Value</b>	<b>Percentage</b>
Senior loans <sup>(1)</sup>	\$ 9,076,146	97%	\$ 8,847,044	97%
Subordinate loans <sup>(2)</sup>	237,617	3	229,963	3
	\$ 9,313,763	100%	\$ 9,077,007	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	\$ 4,164,413	45%	\$ 4,039,521	45%
Hotel	1,871,777	20	1,903,544	21
Manufactured housing	1,349,509	14	1,361,572	15
Retail	802,471	9	684,944	8
Multifamily	551,701	6	580,112	6
Condominium	205,800	2	127,434	1
Other	368,092	4	379,880	4
	\$ 9,313,763	100%	\$ 9,077,007	100%

<b>Geographic Location</b>	<b>Net Book</b>		<b>Net Book</b>	
	<b>Value</b>	<b>Percentage</b>	<b>Value</b>	<b>Percentage</b>
<b><u>United States</u></b>				
Northeast	\$ 2,190,170	23%	\$ 2,260,392	25%
Southeast	1,802,381	18	1,836,766	20
West	1,354,256	15	1,125,238	12
Southwest	953,204	10	1,035,839	11
Midwest	703,285	8	616,964	7
Northwest	350,545	4	390,307	4
Subtotal	7,353,841	78	7,265,506	79
<b><u>International</u></b>				
United Kingdom	982,404	11	888,998	10

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Canada	604,343	6	561,023	6
Germany	242,200	3	235,294	3
Spain	69,180	1	66,661	1
Netherlands	61,795	1	59,525	1
Subtotal	1,959,922	22	1,811,501	21
Total	\$ 9,313,763	100%	\$ 9,077,007	100%

- (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):

<b>Risk Rating</b>	<b>March 31, 2016</b>			<b>December 31, 2015</b>		
	<b>Number of Loans</b>	<b>Principal Balance</b>	<b>Net Book Value</b>	<b>Number of Loans</b>	<b>Principal Balance</b>	<b>Net Book Value</b>
1	13	\$ 915,990	\$ 911,350	12	\$ 925,443	\$ 919,991
2	72	5,743,148	5,729,541	77	5,948,922	5,929,447
3	40	2,633,081	2,619,223	35	2,120,713	2,114,531
4	1	54,028	53,649	1	113,283	113,038
5						
	126	\$ 9,346,247	\$ 9,313,763	125	\$ 9,108,361	\$ 9,077,007

We did not have any impaired loans, nonaccrual loans, or loans in maturity default as of March 31, 2016 or December 31, 2015. During the third quarter of 2015, one of the loans in our portfolio experienced a maturity default as a result of not meeting certain loan covenants. During the fourth quarter of 2015 and the first quarter of 2016, the loan was modified to include, among other changes: a redetermination of asset release pricing; an additional borrower contribution of capital; and an extension of the maturity date to August 31, 2016. During the three months ended March 31, 2016, two of the assets collateralizing the \$113.3 million loan were sold and the loan was partially repaid by \$59.3 million, resulting in a net book value of \$53.6 million as of March 31, 2016. As of March 31, 2016 and December 31, 2015, the borrower was current with all terms of the loan and we expect to collect all contractual amounts due thereunder.

**4. EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES**

As of March 31, 2016, 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):

	<b>CTOPI</b>
	<b>Carried Interest</b>
Total as of December 31, 2015	\$ 9,441
Distributions	(6,837)
Income allocation <sup>(1)</sup>	158
Total as of March 31, 2016	\$ 2,762

- (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 March 31, 2016, we had been allocated \$2.8 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 \$138,000 and \$3.9 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 months ended March 31, 2016 and 2015, respectively. This carried interest was either received in cash, or was earned and available in cash at CTOPI pending future distribution as of each respective balance sheet date.

**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 March 31, 2016, 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 months ended March 31, 2016 and 2015, we recognized \$170,000 and \$1.8 million, respectively, under the CTOPI incentive plan, which amounts were recognized as a component of general and administrative expenses in our consolidated statement of operations.

**5. OTHER ASSETS**

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

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Principal and interest payments held by servicer <sup>(1)</sup>	\$ 77,145	\$ 123,160
Accrued interest receivable	36,901	37,161
Real estate debt and equity investments, at fair value <sup>(2)</sup>	11,826	14,220
Prepaid expenses	828	890
Prepaid taxes	485	525
Other		8,163
<b>Total</b>	<b>\$ 127,185</b>	<b>\$ 184,119</b>

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

(2) Real estate debt and equity investments consists of assets held by CT Legacy Partners and are measured at fair value.

**6. SECURED DEBT AGREEMENTS**

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



	<b>Secured Debt Agreements Borrowings Outstanding</b>	
	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Revolving repurchase facilities	\$ 3,252,405	\$ 2,858,714
GE portfolio acquisition facility	2,919,946	3,161,291
Asset-specific financings	157,034	111,746
Total secured debt agreements	\$ 6,329,385	\$ 6,131,751
Deferred financing costs <sup>(1)</sup>	(17,726)	(15,646)
Net book value of secured debt	\$ 6,311,659	\$ 6,116,105

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

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

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

<b>Lender</b>	<b>Maximum Facility Size<sup>(1)</sup></b>	<b>Collateral Assets<sup>(2)</sup></b>	<b>March 31, 2016</b>		
			<b>Repurchase Borrowings</b>		
			<b>Potential<sup>(3)</sup></b>	<b>Outstanding</b>	<b>Available<sup>(3)</sup></b>
Wells Fargo <sup>(4)</sup>	\$ 1,172,000	\$ 1,286,632	\$ 1,005,043	\$ 871,485	\$ 133,558
Bank of America	750,000	847,304	666,275	618,944	47,331
JP Morgan <sup>(5)</sup>	762,500	796,344	638,390	564,605	73,785
MetLife	695,945	767,290	594,369	466,107	128,262
Citibank <sup>(6)</sup>	537,500	590,281	455,716	377,251	78,465
Morgan Stanley <sup>(7)</sup>	359,450	387,317	301,005	298,082	2,923
Société Générale <sup>(8)</sup>	453,520	69,914	55,931	55,931	
	\$ 4,730,915	\$ 4,745,082	\$ 3,716,729	\$ 3,252,405	\$ 464,324

<b>Lender</b>	<b>Maximum Facility Size<sup>(1)</sup></b>	<b>Collateral Assets<sup>(2)</sup></b>	<b>December 31, 2015</b>		
			<b>Repurchase Borrowings</b>		
			<b>Potential<sup>(3)</sup></b>	<b>Outstanding</b>	<b>Available<sup>(3)</sup></b>
Wells Fargo <sup>(4)</sup>	\$ 1,172,000	\$ 1,044,860	\$ 817,562	\$ 685,485	\$ 132,077
Bank of America	750,000	840,884	665,861	618,944	46,917
JP Morgan <sup>(5)</sup>	787,047	864,630	689,705	596,533	93,172
MetLife	750,000	593,273	462,849	324,587	138,262
Citibank <sup>(6)</sup>	537,500	604,781	461,532	370,194	91,338
Morgan Stanley <sup>(7)</sup>	370,400	273,280	212,050	209,038	3,012
Société Générale <sup>(8)</sup>	437,320	67,416	53,933	53,933	
	\$ 4,804,267	\$ 4,289,124	\$ 3,363,492	\$ 2,858,714	\$ 504,778

(1) Maximum facility size represents the largest amount of borrowings available under a given facility once sufficient collateral assets have been approved by the lender and pledged by us.

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

(3)

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

- (4) As of both March 31, 2016 and December 31, 2015, the Wells Fargo maximum facility size was composed of a general \$1.0 billion facility size and \$172.0 million of additional capacity related solely to a specific asset with a repurchase date of July 30, 2016.
- (5) As of March 31, 2016, the JP Morgan maximum facility size was composed of a general \$500.0 million facility size, under which U.S. Dollars and British Pound Sterling borrowings are contemplated, and \$262.5 million of additional capacity related solely to a specific asset with a repurchase date of January 9, 2018. As of December 31, 2015, the JP Morgan maximum facility was composed of general \$250.0 million facility size plus a general £153.0 million (\$226.7 million) facility size provided under a related agreement that contemplated U.S. Dollars and British Pound Sterling borrowings and, \$262.5 million of additional capacity related solely to a specific asset with a repurchase date of January 9, 2018, and additional capacity of £32.3 million (\$47.8 million) on the £153.0 million facility.
- (6) As of both March 31, 2016 and December 31, 2015, the Citibank maximum facility size was composed of a general \$500.0 million facility size and \$37.5 million of additional capacity related solely to a specific asset with a repurchase date of October 9, 2017.
- (7) The Morgan Stanley maximum facility size represents a £250.0 million facility size which was translated to \$359.5 million as of March 31, 2016, and \$370.4 million as of December 31, 2015.
- (8) The Société Générale maximum facility size represents a 400.0 million facility size which was translated to \$453.5 million as of March 31, 2016, and \$437.3 million as of December 31, 2015.

The weighted-average outstanding balance of our revolving repurchase facilities was \$3.1 billion for the three months ended March 31, 2016. As of March 31, 2016, we had aggregate borrowings of \$3.3 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 2.03% per annum, and a weighted-average advance rate of 79.2%. As of March 31, 2016, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.3 years.

**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 \$2.8 billion for the three months ended December 31, 2015. As of December 31, 2015, we had aggregated borrowings of \$2.9 billion outstanding under our revolving repurchase facilities, with a weighted-average cash coupon of LIBOR plus 1.82% per annum, a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.04% per annum, and a weighted-average advance rate of 79.1%. As of December 31, 2015, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.4 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.

During the three months ended March 31, 2016, we extended the maturity date of our \$750.0 million revolving repurchase facility with Bank of America to May 21, 2021 (inclusive of two one-year extension options which may be exercised at our sole discretion).

The following table outlines the key terms of our revolving repurchase facilities as of March 31, 2016:

<b>Lender</b>	<b>Rate<sup>(1)</sup></b>	<b>Guarantee<sup>(2)</sup></b>	<b>Advance Rate<sup>(3)</sup></b>	<b>Margin Call<sup>(4)</sup></b>	<b>Currency</b>	<b>Term/Maturity</b>
Wells Fargo	L+1.78%	25%	79.5%	Collateral marks only	\$	Term matched <sup>(5)</sup>
Bank of America	L+1.69%	50%	79.5%	Collateral marks only	\$	May 21, 2021 <sup>(6)</sup>
JP Morgan	L+1.80%	25%	80.4%	Collateral marks only	\$ / £	January 7, 2018
MetLife	L+1.76%	50%	78.5%	Collateral marks only	\$	February 24, 2021 <sup>(7)</sup>
Citibank	L+1.92%	25%	77.7%	Collateral marks only	\$	Term matched <sup>(5)</sup>
Morgan Stanley	L+2.35%	25%	79.1%	Collateral marks only	£ /	March 3, 2017
Société Générale	L+1.60%	25%	80.0%	Collateral marks only	£ /	Term matched <sup>(5)</sup>

(1) Represents weighted-average cash coupon based on borrowings outstanding. In instances where our borrowings are denominated in currencies other than the U.S. Dollar, interest accrues at a rate equivalent to a margin plus a base rate other than 1-month USD LIBOR, such as 3-month GBP LIBOR, 3-month EURIBOR, or 3-month CDOR.

(2) Other than amounts guaranteed based on specific collateral asset types, borrowings under our revolving repurchase facilities are non-recourse to us.

- (3) Represents weighted-average advance rate based on the outstanding principal balance of the collateral assets pledged.
- (4) Margin call provisions under our revolving repurchase facilities do not permit valuation adjustments based on capital markets events, and are limited to collateral-specific credit marks.
- (5) 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.
- (6) Includes two one-year extension options which may be exercised at our sole discretion.
- (7) Includes five one-year extension options which may be exercised at our sole discretion.

**GE Portfolio Acquisition Facility**

During the second quarter of 2015, concurrently with our acquisition of the GE portfolio, we entered into an agreement with Wells Fargo to provide us with secured financing for the acquired portfolio. As of March 31, 2016, this facility provided for \$3.1 billion of financing, of which \$2.9 billion was outstanding and an additional \$133.9 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 March 31, 2016, 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. We had outstanding asset-specific borrowings of \$2.9 billion and \$3.1 billion under the GE portfolio acquisition facility as of March 31, 2016 and December 31, 2015, respectively.

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

The GE portfolio acquisition facility also included 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. As of March 31, 2016, the sequential pay advance borrowings under the GE portfolio acquisition facility had been fully repaid. As of December 31, 2015, we had outstanding sequential pay advance borrowings of \$40.7 million. Borrowings under the sequential pay advance accrued interest at a rate equal to the sum of (i) 30-day LIBOR plus (ii) a margin of 3.10%. The sequential pay advance was denominated in U.S. Dollars and was repaid from collateral loan principal repayments, after repayment of the related asset-specific borrowing. The sequential pay advances each had a maturity date that was one year from the date of funding, and we had guaranteed 100% of outstanding borrowings of the sequential pay advance.

**Asset-Specific Financings**

During the three months ended March 31, 2016, we entered into two asset-specific financings providing an additional \$232.4 million of credit capacity. The following table details statistics for our asset-specific financings (\$ in thousands):

	<b>March 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Financing Agreements</b>	<b>Collateral Assets</b>	<b>Financing Agreements</b>	<b>Collateral Assets</b>
Number of loans	4	4	2	2
Principal balance <sup>(1)</sup>	\$ 157,034	\$ 214,941	\$ 111,746	\$ 154,192
Book value	\$ 154,751	\$ 211,292	\$ 111,061	\$ 153,542
Weighted-average cash coupon <sup>(2)</sup>	L+2.70%	L+5.22%	L+2.52%	L+5.27%
Weighted-average cost / all-in yield <sup>(2)</sup>	L+3.12%	L+5.84%	L+2.88%	L+5.83%

(1) With the exception of \$13.2 million related to one asset-specific financing, we do not guarantee the obligations under these agreements.

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

The weighted-average outstanding balance of our asset-specific financings was \$141.4 million for the three months ended March 31, 2016 and \$224.8 million for the three months ended December 31, 2015.

## **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 March 31, 2016; (iii) cash liquidity shall not be less than the greater of (x) \$10.0 million or (y) 5% of our recourse indebtedness; and (iv) our indebtedness shall not exceed 83.33% of our total assets. As of March 31, 2016 and December 31, 2015, we were in compliance with these covenants.

## **Subsequent Events**

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

On April 22, 2016, we increased the maximum facility size of our revolving repurchase facility with MetLife by \$304.1 million to \$1.0 billion and extended the maturity date (inclusive of five one-year extension options, exercisable at our option) to April 22, 2022.

**Table of Contents****Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****7. 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 obligation to pay principal and interest on these liabilities is solely based on the performance of the related loan obligation, except in one instance where we entered into a related guarantee agreement for £24.0 million which was translated to \$34.5 million as of March 31, 2016. The gross presentation of loan participations sold does not impact stockholders' equity or net income.

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

	<b>March 31, 2016</b>		<b>December 31, 2015</b>	
	<b>Participations Sold<sup>(1)</sup></b>	<b>Underlying Loans</b>	<b>Participations Sold<sup>(1)</sup></b>	<b>Underlying Loans</b>
Number of loans	3	3	3	3
Principal balance <sup>(2)</sup>	\$ 478,661	\$ 583,589	\$ 498,992	\$ 608,554
Book value <sup>(2)</sup>	\$ 476,894	\$ 579,742	\$ 497,032	\$ 604,321
Weighted-average cash coupon <sup>(3)</sup>	L+2.38%	L+3.93%	L+2.38%	L+3.93%
Weighted-average cost / all-in yield <sup>(3)</sup>	L+2.49%	L+4.16%	L+2.49%	L+4.15%

- (1) During the three months ended March 31, 2016 and 2015, we recorded \$3.6 million and \$4.3 million, respectively, of interest expense related to our loan participations sold, of which \$3.5 million and \$4.0 million, respectively, was paid in cash.
- (2) The difference between principal balance and book value of loan participations sold is due to deferred financing costs of \$1.8 million and \$2.0 million as of March 31, 2016 and December 31, 2015, respectively.
- (3) 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, cost / all-in yield includes the amortization of deferred origination fees / financing costs.

**8. CONVERTIBLE NOTES, NET**

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



The Convertible Notes are convertible at the holders' option into shares of our class A common stock, only under specific circumstances, prior to the close of business on August 31, 2018, at the applicable conversion rate in effect on the conversion date. Thereafter, the Convertible Notes are convertible at the option of the holder at any time until the second scheduled trading day immediately preceding the maturity date. The Convertible Notes were not convertible as of March 31, 2016. The conversion rate was initially set to equal 34.8943 shares of class A common stock per \$1,000 principal amount of Convertible Notes, which was equivalent to an initial conversion price of \$28.66 per share of class A common stock, subject to adjustment upon the occurrence of certain events. In the fourth quarter of 2015, as a result of exceeding the cumulative dividend threshold as defined in the Convertible Notes Supplemental Indenture, the conversion rate was adjusted to 35.2653 shares of Class A common stock per \$1,000 principal amount of Convertible Notes, which is equivalent to a conversion price of \$28.36 per share of class A common stock. We may not redeem the Convertible Notes prior to maturity. As of March 31, 2016, the conversion option value was zero based on the price of our class A common stock of \$26.86. In addition, we have 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.

Upon issuance of the Convertible Notes, we recorded a \$9.1 million discount based on the implied value of the conversion option and an assumed effective interest rate of 6.50%, as well as \$4.1 million of initial issuance costs. Including the amortization of this discount and the issuance costs, our total cost of the Convertible Notes is 7.16% per annum. During the three months ended March 31, 2016, we incurred total interest on our convertible notes of \$3.0 million, of which \$2.3 million related to cash coupon and \$670,000 related to the amortization of discount and certain issuance costs. During the three months ended March 31, 2015, we incurred total interest on our convertible notes of \$2.9 million, of which \$2.3 million related to cash coupon and \$630,000 related to the amortization of discount and certain issuance costs.

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**Blackstone Mortgage Trust, Inc.**

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

**(Unaudited)**

As of March 31, 2016, the Convertible Notes were carried on our consolidated balance sheet at \$164.7 million, net of an unamortized discount of \$7.5 million and deferred financing costs of \$281,000. As of December 31, 2015, the Convertible Notes were carried on our consolidated balance sheet at \$164.0 million, net of an unamortized discount of \$8.2 million and deferred financing costs of \$305,000. Accrued interest payable for the Convertible Notes was \$3.0 million and \$755,000 as of March 31, 2016 and December 31, 2015, respectively. Refer to Note 2 for additional discussion of our accounting policies for the Convertible Notes.

**9. DERIVATIVE FINANCIAL INSTRUMENTS**

**Risk Management Objective of Using Derivatives**

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

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

The sole objective of our use of derivative financial instruments is to minimize the risks and/or costs associated with the situations described above. We do not intend to utilize derivatives for speculative or other purposes. The use of derivative financial instruments involves certain risks, including the risk that the counterparties to these contractual arrangements do not perform as agreed. To mitigate this risk, we only enter into derivative financial instruments with counterparties that have appropriate credit ratings and are major financial institutions with which we and our affiliates may also have other financial relationships. We do not anticipate that any of the counterparties will fail to meet their obligations.

**Net Investment Hedges of Foreign Currency Risk**

We have made investments in foreign currencies 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 subsidiaries whose functional currencies are not the U.S. Dollar. 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 statements of operations. For derivatives that are not designated as hedging instruments, gains or losses are recognized in our consolidated statements 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):

	March 31, 2016		December 31, 2015
Foreign Currency Derivatives	Number of Instruments	Notional Amount	