

BLACKSTONE MORTGAGE TRUST, INC.

Form 10-Q

July 28, 2015

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

FORM 10-Q

(Mark One)

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

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

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

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

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

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

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

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

The number of the Registrant's outstanding shares of class A common stock, par value \$0.01 per share, as of July 21, 2015 was 93,230,131.

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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 and per share data)**

	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 104,252	\$ 51,810
Restricted cash	7,025	11,591
Loans receivable, net	10,131,323	4,428,500
Equity investments in unconsolidated subsidiaries	7,406	10,604
Accrued interest receivable, prepaid expenses, and other assets	216,055	86,016
Total Assets	\$ 10,466,061	\$ 4,588,521
Liabilities and Equity		
Accounts payable, accrued expenses, and other liabilities	\$ 83,182	\$ 61,013
Secured debt agreements	7,088,738	2,365,336
Loan participations sold	635,581	499,433
Convertible notes, net	163,073	161,853
Total Liabilities	7,970,574	3,087,635
Equity		
Class A common stock, \$0.01 par value, 200,000,000 shares authorized, 93,229,986 and 58,269,889 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	932	583
Additional paid-in capital	3,063,429	2,027,404
Accumulated other comprehensive loss	(19,332)	(15,024)
Accumulated deficit	(561,905)	(547,592)
Total Blackstone Mortgage Trust, Inc. stockholders' equity	2,483,124	1,465,371
Non-controlling interests	12,363	35,515
Total Equity	2,495,487	1,500,886
Total Liabilities and Equity	\$ 10,466,061	\$ 4,588,521

See accompanying notes to consolidated financial statements.

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Blackstone Mortgage Trust, Inc.

Consolidated Statements of Operations (Unaudited)

(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Income from loans and other investments				
Interest and related income	\$ 80,481	\$ 42,466	\$ 143,889	\$ 76,122
Less: Interest and related expenses	30,634	15,720	54,796	27,794
Income from loans and other investments, net	49,847	26,746	89,093	48,328
Other expenses				
Management and incentive fees	8,051	4,410	14,721	7,807
General and administrative expenses	15,698	15,356	23,359	18,554
Total other expenses	23,749	19,766	38,080	26,361
Unrealized gain on investments at fair value	4,714	7,163	22,190	5,824
Income from equity investments in unconsolidated subsidiaries	1,710	24,294	5,659	24,294
Income before income taxes	32,522	38,437	78,862	52,085
Income tax provision (benefit)	105	(2)	350	530
Net income	32,417	38,439	78,512	51,555
Net income attributable to non-controlling interests	(3,133)	(4,973)	(13,833)	(5,024)
Net income attributable to Blackstone Mortgage Trust, Inc.	\$ 29,284	\$ 33,466	\$ 64,679	\$ 46,531
Net income per share of common stock basic and diluted	\$ 0.36	\$ 0.70	\$ 0.93	\$ 1.08
Weighted-average shares of common stock outstanding, basic and diluted	80,940,535	47,977,813	69,820,061	43,000,242
Dividends declared per share of common stock	\$ 0.52	\$ 0.48	\$ 1.04	\$ 0.96

See accompanying notes to consolidated financial statements.

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

(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 32,417	\$ 38,439	\$ 78,512	\$ 51,555
Other comprehensive income:				
Unrealized gain (loss) on foreign currency remeasurement	15,732	1,894	(4,336)	1,930
Unrealized (loss) gain on derivative financial instruments	(3,308)		28	
Comprehensive income	44,841	40,333	74,204	53,485
Comprehensive income attributable to non-controlling interests	(3,133)	(4,973)	(13,833)	(5,024)
Comprehensive income attributable to Blackstone Mortgage Trust, Inc.	\$ 41,708	\$ 35,360	\$ 60,371	\$ 48,461

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	Additional	Accumulated	Other	Accumulated	Stockholders	Non-controlling	Total	
	A	Common	Paid-In	Comprehensive	Income (Loss)	Deficit	Equity	Interests	Equity
	Common	Stock	Capital	Income (Loss)	Deficit	Equity	Equity	Interests	Equity
Balance at December 31, 2013	\$ 295	\$ 1,252,986	\$	798	\$ (536,170)	\$	717,909	\$ 38,841	\$ 756,750
Shares of class A common stock issued, net	191	510,654					510,845		510,845
Restricted class A common stock earned	(2)	4,029					4,027		4,027
Dividends reinvested		97			(97)				
Deferred directors compensation		188					188		188
Other comprehensive income				1,930			1,930		1,930
Net income					46,531		46,531	5,024	51,555
Dividends declared on common stock					(42,122)		(42,122)		(42,122)
Distributions to non-controlling interests								(1,148)	(1,148)
Balance at June 30, 2014	\$ 484	\$ 1,767,954	\$	2,728	\$ (531,858)	\$	1,239,308	\$ 42,717	\$ 1,282,025
Balance at December 31, 2014	\$ 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	1,029,208					1,029,557		1,029,557
Restricted class A common stock earned		6,504					6,504		6,504
Dividends reinvested		125			(118)		7		7
Deferred directors compensation		188					188		188
Other comprehensive loss				(4,308)			(4,308)		(4,308)
Net income					64,679		64,679	13,833	78,512
Dividends declared on common stock					(78,874)		(78,874)		(78,874)
Distributions to non-controlling interests								(36,985)	(36,985)

Balance at June 30, 2015 \$ 932 \$ 3,063,429 \$ (19,332) \$ (561,905) \$ 2,483,124 \$ 12,363 \$ 2,495,487

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 78,512	\$ 51,555
Adjustments to reconcile net income to net cash provided by operating activities		
Unrealized gain on investments at fair value	(22,190)	(5,824)
Income from equity investments in unconsolidated subsidiaries	(5,659)	(24,294)
Non-cash compensation expense	11,184	4,769
Distributions of income from unconsolidated subsidiaries	5,007	14,125
Amortization of deferred interest on loans	(12,198)	(7,702)
Amortization of deferred financing costs and premiums/discount on debt obligations	7,955	4,103
Changes in assets and liabilities, net		
Accrued interest receivable, prepaid expenses, and other assets	(56,703)	(5,236)
Accounts payable, accrued expenses, and other liabilities	443	2,513
Net cash provided by operating activities	6,351	34,009
Cash flows from investing activities		
Originations and fundings of loans receivable	(6,430,243)	(1,740,977)
Origination and exit fees received on loans receivable	16,373	21,751
Principal collections and proceeds from the sale of loans receivable and other assets	686,037	271,884
Decrease (increase) in restricted cash	4,566	(1,296)
Net cash used in investing activities	(5,723,267)	(1,448,638)
Cash flows from financing activities		
Borrowings under secured debt agreements	6,241,975	1,835,136
Repayments under secured debt agreements	(1,520,790)	(1,167,507)
Repayment of other liabilities		(20,794)
Proceeds from sales of loan participations	256,000	368,850
Repayment of loan participations	(124,164)	
Payment of deferred financing costs	(17,712)	(10,510)
Payments under derivative financial instruments	1,062	
Purchase of and distributions to non-controlling interests	(36,985)	(1,148)
Proceeds from issuance of class A common stock	1,029,557	510,845
Dividends paid on class A common stock	(60,695)	(32,129)
Net cash provided by financing activities	5,768,248	1,482,743

Net increase in cash and cash equivalents	51,332	68,114
Cash and cash equivalents at beginning of period	51,810	52,342
Effects of currency translation on cash and cash equivalents	1,110	
Cash and cash equivalents at end of period	\$ 104,252	\$ 120,456
Supplemental disclosure of cash flows information		
Payments of interest	\$ (43,558)	\$ (21,522)
Payments of income taxes	\$ (126)	\$ (1,159)
Supplemental disclosure of non-cash investing and financing activities		
Dividends declared, not paid	\$ (48,480)	\$ (23,322)
Participations sold, net	\$ 131,836	\$ 368,850

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 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.

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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 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 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 three months ended June 30, 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 principal balance 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.

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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 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 impairment by comparing our Manager's estimation of fair value of the underlying collateral, less costs to sell, to the

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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.

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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.

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

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

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 prospectively. 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. The purchase price for this GE portfolio was \$4.7 billion and we assumed \$202.1 million of unfunded commitments.

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

	Floating Rate Loans	Fixed Rate Loans	Total
Number of loans	101	37	138
Principal balance	\$ 8,009,046	\$ 2,160,563	\$ 10,169,609
Net book value	\$ 7,969,227	\$ 2,162,096	\$ 10,131,323
Unfunded loan commitments ⁽¹⁾	\$ 786,419	\$ 4,735	\$ 791,154
Weighted-average cash coupon ⁽²⁾	L+4.21%	5.33%	4.72%
Weighted-average all-in yield ⁽²⁾	L+4.59%	5.54%	5.06%
Weighted-average maximum maturity (years) ⁽³⁾	3.5	2.9	3.4

(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 June 30, 2015, our floating rate loans were indexed to various benchmark rates, with 80% of floating rate loans indexed to USD LIBOR. In addition, \$1.2 billion of our floating rate loans earned interest based on floors that are above the applicable index, with an average floor of 0.59%, as of June 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

rates for weighted-average calculation.

- (3) Maximum maturity assumes all extension options are exercised by the borrower, however our loans may be repaid prior to such date. As of June 30, 2015, 69% of our loans were subject to yield maintenance or other prepayment restrictions and 31% 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):

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

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

	Principal Balance	Deferred Fees / Other Items⁽¹⁾	Net Book Value
December 31, 2014	\$ 4,462,897	\$ (34,397)	\$ 4,428,500
Loan purchases and fundings	6,430,243		6,430,243
Loan repayments and sales	(723,922)		(723,922)
Unrealized gain (loss) on foreign currency translation	391	286	677
Deferred fees and other items ⁽¹⁾		(16,373)	(16,373)
Amortization of fees and other items ⁽¹⁾		12,198	12,198
June 30, 2015	\$ 10,169,609	\$ (38,286)	\$ 10,131,323

(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):

Asset Type	June 30, 2015		December 31, 2014	
	Net Book Value	Percentage	Net Book Value	Percentage
Senior loans ⁽¹⁾	\$ 9,977,017	98%	\$ 4,340,586	98%
Subordinate loans ⁽²⁾	154,306	2	87,914	2
	\$ 10,131,323	100%	\$ 4,428,500	100%

Property Type	Net Book		Net Book	
	Value	Percentage	Value	Percentage
Office	\$ 4,088,256	40%	\$ 1,878,605	42%
Hotel	2,231,682	22	1,267,486	29
Manufactured housing	1,415,800	14		
Retail	773,034	8	270,812	6
Multifamily	472,867	5	426,094	10
Condominium	352,152	3	315,686	7
Other	797,532	8	269,817	6
	\$ 10,131,323	100%	\$ 4,428,500	100%

Geographic Location	Net Book		Net Book	
	Value	Percentage	Value	Percentage
<u>United States</u>				
Northeast	\$ 2,275,132	22%	\$ 1,383,258	31%
Southeast	1,952,500	19	657,484	15
West	1,293,416	13	628,275	14
Southwest	1,266,544	13	405,741	9
Midwest	607,835	6	335,406	8
Northwest	398,951	4	138,796	3
Subtotal	7,794,378	77	3,548,960	80

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<u>International</u>				
United Kingdom	1,159,450	11	622,692	14
Canada	806,010	8	137,024	3
Germany	230,565	2		
Spain	79,875	1	86,289	2
Netherlands	61,045	1	33,535	1
Subtotal	2,336,945	23	879,540	20
Total	\$ 10,131,323	100%	\$ 4,428,500	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):

Risk Rating	June 30, 2015			December 31, 2014		
	Number of Loans	Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value
1	9	\$ 970,624	\$ 963,451	5	\$ 209,961	\$ 209,112
2	87	6,626,108	6,601,541	44	3,339,972	3,313,906
3	42	2,572,877	2,566,331	11	912,964	905,482
4 - 5						
	138	\$ 10,169,609	\$ 10,131,323	60	\$ 4,462,897	\$ 4,428,500

We do not have any loan impairments, nonaccrual loans, or loans in maturity default as of June 30, 2015 or December 31, 2014.

4. EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

As of June 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 ⁽¹⁾	1,809

Total as of June 30, 2015 \$ 7,406

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

Our carried interest in CTOPI entitles us to earn promote revenue in an amount equal to 17.7% of the fund's profits, after a 9% preferred return and 100% return of capital to the CTOPI partners. As of June 30, 2015, we had been allocated \$7.4 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. During the six months ended June 30, 2015, we recognized \$5.7 million of promote income from CTOPI in respect of our carried interest and recorded such amount as income in our consolidated statement of operations. This carried interest was either received in cash, or was earned and available in cash at CTOPI pending future distribution as of June 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 June 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 six months ended June 30, 2015, we accrued \$2.5 million under the CTOPI incentive plan, which amount was recognized as a component of general and administrative expenses in our consolidated statement of operations.

5. SECURED DEBT AGREEMENTS

As of June 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):

	Secured Debt Agreements Borrowings Outstanding	
	June 30, 2015	December 31, 2014
Revolving repurchase facilities	\$ 2,636,822	\$ 2,040,783
GE portfolio acquisition facility	4,038,165	
Asset-specific repurchase agreements	413,751	324,553
	\$ 7,088,738	\$ 2,365,336

Revolving Repurchase Facilities

During the six months ended June 30, 2015, we increased the maximum facility size of three of our revolving repurchase facilities, providing an additional \$762.5 million of credit capacity. The following table details our revolving repurchase facilities as of June 30, 2015 (\$ in thousands):

Lender	Maximum Facility Size⁽¹⁾	Collateral Assets⁽²⁾	Repurchase Borrowings		
			Potential	Outstanding	Available⁽³⁾
Bank of America	\$ 750,000	\$ 815,125	\$ 642,169	\$ 606,535	\$ 35,634
JP Morgan ⁽⁴⁾	753,348	832,222	653,830	566,063	87,767
Wells Fargo	1,000,000	887,926	689,679	549,858	139,821
MetLife	750,000	556,409	433,445	364,153	69,292

Citibank	500,000	575,506	439,239	362,562	76,677
Morgan Stanley ⁽⁵⁾	393,450	243,383	190,850	187,651	3,199
	\$ 4,146,798	\$ 3,910,571	\$ 3,049,212	\$ 2,636,822	\$ 412,390

- (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 and a £153.0 million (\$240.8 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 (\$393.5 million) facility.

The weighted-average outstanding balance of our revolving repurchase facilities was \$2.2 billion for the six months ended June 30, 2015. As of June 30, 2015, we had aggregate borrowings of \$2.6 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 2.05% per annum. As of June 30, 2015, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.7 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**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)**

The following table outlines the key terms of our revolving repurchase facilities:

Lender	Rate⁽¹⁾⁽²⁾	Guarantee⁽¹⁾⁽³⁾	Advance Rate⁽¹⁾	Margin Call⁽⁴⁾	Term/Maturity
Bank of America	L+1.69%	50%	79.5%	Collateral marks only	May 21, 2019 ⁽⁵⁾
JP Morgan	L+1.81%	25%	80.3%	Collateral marks only	Term matched ⁽⁶⁾⁽⁷⁾
Wells Fargo	L+1.80%	25%	79.2%	Collateral marks only	Term matched ⁽⁶⁾
MetLife	L+1.80%	50%	77.9%	Collateral marks only	February 24, 2021 ⁽⁸⁾
Citibank	L+1.93%	25%	76.7%	Collateral marks only	Term matched ⁽⁶⁾
Morgan Stanley	L+2.34%	25%	78.4%	Collateral marks only	March 3, 2017

- (1) Represents a weighted-average based on collateral assets pledged and borrowings outstanding as of June 30, 2015.
- (2) Represents weighted-average cash coupon on borrowings outstanding as of June 30, 2015. As of June 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.

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 \$4.2 billion of financing secured by the portfolio. Of this amount, an aggregate of \$4.0 billion was advanced at closings that were completed in stages during the quarter, and an additional \$162.0 million is 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 June 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 June 30, 2015, we had outstanding asset-specific borrowings of \$3.8 billion under the GE portfolio acquisition facility.

Sequential Pay Advance

The GE portfolio acquisition facility also includes a sequential pay advance feature that provides \$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 June 30, 2015, we had outstanding sequential pay advance borrowings of \$236.7 million under the GE portfolio acquisition facility.

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****Asset-Specific Repurchase Agreements**

During the six months ended June 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):

	June 30, 2015		December 31, 2014	
	Repurchase Agreements	Collateral Assets	Repurchase Agreements	Collateral Assets
Number of loans	4	5	3	4
Principal balance	\$ 413,751	\$ 548,837	\$ 324,553	\$ 429,197
Weighted-average cash coupon ⁽¹⁾	L+2.75%	L+5.21%	L+2.68%	L+5.07%
Weighted-average cost / all-in yield ⁽¹⁾	L+3.19%	L+5.70%	L+3.16%	L+5.53%

(1) As of June 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. 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 \$375.5 million for the six months ended June 30, 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 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 June 30, 2015 plus 75% of the net cash proceeds of future equity issuances subsequent to June 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 June 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 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.

During the six months ended June 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):

	June 30, 2015		December 31, 2014	
	Participations Sold	Underlying Loans	Participations Sold	Underlying Loans
Number of loans	4	4	4	4
Principal balance	\$ 635,581	\$ 786,511	\$ 499,433	\$ 635,701
Weighted-average cash coupon ⁽¹⁾	L+2.39%	L+4.03%	L+2.51%	L+4.10%
Weighted-average all-in cost / yield ⁽¹⁾	L+2.64%	L+4.26%	L+2.71%	L+4.71%

- (1) As of June 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. In addition to cash coupon, all-in cost / yield includes the amortization of deferred origination fees / financing costs.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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 June 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 June 30, 2015, the conversion option value was zero based on the price of our class A common stock of \$27.82. 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 six months ended June 30, 2015, we incurred total interest on our convertible notes of \$5.8 million, of which \$4.5 million related to cash coupon and \$1.3 million related to the amortization of discount and certain issuance costs. During the six months ended June 30, 2014, we incurred total interest on our convertible notes of \$5.7 million, of which \$4.5 million related to cash coupon and \$1.2 million related to the amortization of discount and certain issuance costs. As of June 30, 2015, the Convertible Notes were carried on our consolidated balance sheet at \$163.1 million, net of an unamortized discount of \$9.4 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

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. In addition, 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. We enter into derivative financial instruments to protect the value or fix the amount of certain obligations in terms of the U.S. Dollar.

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.

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 earnings. During the six months ended June 30, 2015, such derivatives were used to hedge the variable cash flows associated

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

with floating rate debt. The ineffective portion of the change in fair value of such derivatives is recognized directly in earnings. During the six months ended June 30, 2015, we recorded no hedge ineffectiveness in our consolidated statement of operations.

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 June 30, 2015, we estimate that an additional \$131,000 will be reclassified from other comprehensive income as an increase to interest expense.

As of June 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):

Interest Rate Derivatives	Number of Instruments	Notional Amount	Strike	Index	Wtd. Avg. Maturity (Years)
Interest Rate Caps	26	\$ 1,097,632	2%	USD LIBOR	1.8
Interest Rate Caps	11	C\$ 550,589	2%	CDOR	1.7
Interest Rate Caps	1	152,710	2%	EURIBOR	1.5
Interest Rate Caps	1	£ 15,142	2%	GBP LIBOR	1.8

Net Investment Hedges of Foreign Currency Risk

We have made investments in foreign entities which expose us to fluctuations between the U.S. Dollar and the foreign currency of the 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 during the current period.

As of June 30, 2015, we had the following outstanding foreign exchange derivatives that were designated as net investment hedges of foreign currency risk (notional amount in thousands):

Foreign Currency Derivatives	Number of Instruments	Notional Amount
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Sell CAD Forward	2	C\$ 204,261
Sell GBP Forward	2	£ 64,000
Sell EUR Forward	2	51,000

Table of Contents**Blackstone Mortgage Trust, Inc.****Notes to Consolidated Financial Statements (continued)****(Unaudited)****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 earnings. During both the three and six months ended June 30, 2015, we recorded losses of \$11,000 related to non-designated hedges.

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

Interest Rate Derivatives	Number of Instruments	Notional Amount
Interest Rate Caps	2	\$ 42,240
Interest Rate Caps	1	£ 619

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

	Fair Value of Derivatives in an Asset Position as of⁽¹⁾		Fair Value of Derivatives in a Liability Position as of⁽²⁾	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:				
Interest rate caps	\$ 919	\$	\$	\$
Foreign exchange contracts	1,672	1,138	2,506	
Total derivatives designated as hedging instruments	\$ 2,591	\$ 1,138	\$ 2,506	\$

(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.

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

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

	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) ⁽¹⁾		Location of Gain (Loss) Reclassified from Accumulated	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)
	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015	OCI into Income (Effective Portion)	Three Months Ended June 30, 2015
Derivatives in Hedging Relationships				Six Months Ended June 30, 2015
Cash Flow Hedges				
Interest rate caps	\$ 823	\$ 823	Interest Expense	\$ \$
Net Investment Hedges				
Foreign exchange contracts	2,485	(851)	Gain (Loss) on Sale of Subsidiary	
Total	\$ 3,308	\$ (28)		\$ \$

(1) During the six months ended June 30, 2015, we received net cash settlements of \$2.8 million on our foreign currency forward contracts. Those amounts are included as a component of Other Comprehensive Income on our consolidated balance sheet.

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 June 30, 2015, we were in a net asset position of \$921,964 with one of our derivative counterparties and a net liability position of \$1.3 million with another of our derivative counterparties.

9. EQUITY

Stock and Stock Equivalents

Authorized Capital

As of June 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 do not have any shares of preferred stock issued and outstanding as of June 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.

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

The following table details our issuance of class A common stock during the six months ended June 30, 2015 (\$ in thousands, except share and per share data):

	Class A Common Stock Offerings			2015 Total / Wtd. Avg.
	April 2015	May 2015 ⁽³⁾	June 2015	
Shares issued	23,000,000	280,025	11,500,000	34,780,025
Share issue price ⁽¹⁾	\$ 29.75	\$ 29.97	\$ 29.42	\$ 29.64
Net proceeds ⁽²⁾	\$ 683,727	\$ 7,895	\$ 337,935	\$ 1,029,557

- (1) Represents price per share paid by the underwriters or sales agents, as applicable, after underwriting or sales discounts and commissions.
- (2) Net proceeds represents proceeds received from the underwriters less applicable transaction costs.
- (3) Issuance represents 280,025 shares issued over a five-day period in May 2015 under our at-the-market program, with a weighted average issue price of \$29.97, and generating net proceeds of \$7.9 million after allocable expenses.

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.

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

Common Stock Outstanding ⁽¹⁾	Six Months Ended June 30,	
	2015	2014
Beginning balance	58,388,808	29,602,884
Issuance of class A common stock	34,780,298	18,975,001
Issuance of restricted class A common stock, net	179,799	
Issuance of deferred stock units	10,665	10,009
Ending balance	93,359,570	48,587,894

(1) Deferred stock units held by members of our board of directors totalled 129,584 and 106,188 as of June 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 six months ended June 30, 2015, we issued 273 shares of class A common stock under the dividend reinvestment component and did not issue shares under the direct stock purchase plan component. As of June 30, 2015, a total of 9,999,721 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. During the six months ended June 30, 2015, we sold 280,025 shares of class A common stock under the ATM Agreements, with net proceeds totaling \$7.9 million. As of June 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.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

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