BLACKSTONE MORTGAGE TRUST, INC.
Form 10-Q
October 23, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO __________

Commission File Number: 001-14788

Blackstone Mortgage Trust, Inc.

(Exact name of Registrant as specified in its charter)

Maryland	**94-6181186**

(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

345 Park Avenue, 42nd Floor

New York, New York 10154

(Address of principal executive offices)(Zip Code)

(212) 655-0220

(Registrant s telephone number, including area code)

N/A

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

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

The number of the Registrant s outstanding shares of class A common stock, par value $0.01 per share, outstanding as of October 16, 2018 was 119,669,604.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Blackstone Mortgage Trust, Inc.

Consolidated Balance Sheets (Unaudited)

(in thousands, except share data)

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

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

See accompanying notes to consolidated financial statements.

Table of Contents

Blackstone Mortgage Trust, Inc.

Consolidated Statements of Operations (Unaudited)

(in thousands, except share and per share data)

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

See accompanying notes to consolidated financial statements.

Table of Contents

Blackstone Mortgage Trust, Inc.

Consolidated Statements of Comprehensive Income (Unaudited)

(in thousands)

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

See accompanying notes to consolidated financial statements.

4

Table of Contents

Blackstone Mortgage Trust, Inc.

Consolidated Statements of Changes in Equity (Unaudited)

(in thousands)

	Blackstone Mortgage Trust, Inc.						
	Class A Common Stock	**Additional Paid-In Capital**	**Accumulated Other Comprehensive (Loss) Income**	**Accumulated Deficit**	**Stockholders' Equity**	**Non-controlling Interests**	**Total Equity**
Balance at December 31, 2016	$ 945	$ 3,089,997	$ (56,202)	$ (541,137)	$ 2,493,603	$	$ 2,493,603
Shares of class A common stock issued, net	3				3		3
Restricted class A common stock earned		17,493			17,493		17,493
Issuance of convertible notes		964			964		964
Dividends reinvested		327		(296)	31		31
Deferred directors compensation		313			313		313
Other comprehensive income			23,840		23,840		23,840
Net income				159,741	159,741	88	159,829
Dividends declared on common stock				(176,374)	(176,374)		(176,374)
Contributions to non-controlling interests						6,090	6,090
Balance at September 30, 2017	$ 948	$ 3,109,094	$ (32,362)	$ (558,066)	$ 2,519,614	$ 6,178	$ 2,525,792
Balance at December 31, 2017	$ 1,079	$ 3,506,861	$ (29,706)	$ (567,168)	$ 2,911,066	$ 6,340	$ 2,917,406

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

See accompanying notes to consolidated financial statements.

Blackstone Mortgage Trust, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

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

continued

See accompanying notes to consolidated financial statements.

Table of Contents

Blackstone Mortgage Trust, Inc.

Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

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

See accompanying notes to consolidated financial statements.

7

Table of Contents

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. ORGANIZATION

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

Blackstone Mortgage Trust is a real estate finance company that originates senior loans collateralized by commercial real estate in North America, Europe, and Australia. Our investment objective is to preserve and protect shareholder capital while producing attractive risk-adjusted returns primarily through dividends generated from current income from our loan portfolio. We are externally managed by BXMT Advisors L.L.C., or our Manager, a subsidiary of The Blackstone Group L.P., or Blackstone, and are a real estate investment trust, or REIT, traded on the New York Stock Exchange, or NYSE, under the symbol BXMT. Our principal executive offices are located at 345 Park Avenue, 42nd Floor, New York, New York 10154. We were incorporated in Maryland in 1998, when we reorganized from a California common law business trust into a Maryland corporation.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The consolidated financial statements, including the notes thereto, are unaudited and exclude some of the disclosures required in audited financial statements. Management believes it has made all necessary adjustments, consisting of only normal recurring items, so that the consolidated financial statements are presented fairly and that estimates made in preparing its consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The accompanying unaudited consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission, or the SEC.

Basis of Presentation

The accompanying consolidated financial statements include, on a consolidated basis, our accounts, the accounts of our wholly-owned subsidiaries, majority-owned subsidiaries, and variable interest entities, or VIEs, of which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

Principles of Consolidation

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

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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may ultimately differ from those estimates.

Revenue Recognition

Interest income from our loans receivable portfolio and debt securities is recognized over the life of each investment using the effective interest method and is recorded on the accrual basis. Recognition of fees, premiums, and discounts associated with these investments is deferred and recorded over the term of the loan or debt security as an adjustment to yield. Income accrual is generally suspended for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of our Manager, recovery of income and principal becomes doubtful. Income is then recorded on the basis of cash received until accrual is resumed when the loan becomes contractually current and performance is demonstrated to be resumed. In addition, for loans we originate, the related origination expenses are deferred and recognized as a component of interest income, however expenses related to loans we acquire are included in general and administrative expenses as incurred.

Cash, Cash Equivalents, and Restricted Cash

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

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

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

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

Loans Receivable and Provision for Loan Losses

We originate and purchase commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. We are required to periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due to us pursuant to the contractual terms of the loan. If a loan is determined to be impaired, we write down the loan through a charge to the provision for loan losses. Impairment of these loans, which are collateral dependent, is measured by comparing the estimated fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager. Actual losses, if any, could ultimately differ from these estimates.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

1 - **Very Low Risk**

2 - **Low Risk**

3 - **Medium Risk**

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

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

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

Debt Securities Held-to-Maturity

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

If, based on current information and events, there is an adverse change in cash flows expected to be collected from the cash flows previously projected for one of our debt securities, an other-than-temporary impairment is deemed to have occurred. A change in expected cash flows is considered adverse if the present value of the revised cash flows (taking into consideration both the timing and amount of cash flows expected to be collected), discounted using the debt security s current yield, is less than the present value of the previously estimated remaining cash flows. If an other-than-temporary impairment is considered to have occurred, the debt security is written down to fair value. The total other-than-temporary impairment is bifurcated into (i) the amount related to expected credit losses, and (ii) the amount related to fair value adjustments in excess of expected credit losses. The other-than-temporary impairment related to expected credit losses is calculated by comparing the amortized cost basis of the security to the present value of cash flows expected to be collected, discounted at the security s current yield, and is recognized in earnings in the consolidated statement of operations. The remaining other-than-temporary impairment that is not related to expected credit losses is recognized in other comprehensive income (loss). A portion of other-than-temporary impairments recognized through earnings is accreted back to the amortized cost basis of the security through interest income, while amounts recognized through other comprehensive income (loss) are amortized over the life of the security with no impact on earnings.

Derivative Financial Instruments

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

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

On a quarterly basis, we also formally assess whether the derivative we designated in each hedging relationship is expected to be, and has been, highly effective in offsetting changes in the value or cash flows of the hedged items. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued and the changes in fair value of the instrument are included in net income prospectively. Changes in

Table of Contents

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

Secured Debt Agreements

Where applicable, we record investments financed with repurchase agreements as separate assets and the related borrowings under any repurchase agreements are recorded as separate liabilities on our consolidated balance sheets. Interest income earned on the investments and interest expense incurred on the repurchase agreements are reported separately on our consolidated statements of operations.

Senior Loan Participations

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

Convertible Notes

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

Deferred Financing Costs

The deferred financing costs that are included as a reduction in the net book value of the related liability on our consolidated balance sheets include issuance and other costs related to our debt obligations. These costs are amortized as interest expense using the effective interest method over the life of the related obligations.

Fair Value of Financial Instruments

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

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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

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

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

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

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

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

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

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

Cash and cash equivalents: The carrying amount of cash and cash equivalents approximates fair value.

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

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

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

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

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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

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

Convertible notes, net: Each series of the convertible notes is actively traded and their fair values were obtained using quoted market prices.

Income Taxes

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

Stock-Based Compensation

Our stock-based compensation consists of awards issued to our Manager and certain individuals employed by an affiliate of our Manager that vest over the life of the awards, as well as deferred stock units issued to certain members of our board of directors. Stock-based compensation expense is recognized for these awards in net income on a variable basis over the applicable vesting period of the awards, based on the value of our class A common stock. Refer to Note 13 for additional information.

Earnings per Share

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

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

Foreign Currency

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

Underwriting Commissions and Offering Costs

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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

Recent Accounting Pronouncements

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

In June 2016, the FASB issued ASU 2016-13 Financial Instruments Credit Losses Measurement of Credit Losses on Financial Instruments (Topic 326), or ASU 2016-13. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 will replace the incurred loss model under existing guidance with an expected loss model for instruments measured at amortized cost, and require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and is to be adopted through a cumulative-effect adjustment to retained earnings as of January 1, 2020. While we are currently evaluating the impact ASU 2016-13 will have on our consolidated financial statements, we expect that the adoption will result in an increased amount of provisions for potential loan losses as well as the recognition of such provisions earlier in the lending cycle. We currently do not have any provision for loan losses in our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09. ASU 2014-09 broadly amends the accounting guidance for revenue recognition. ASU 2014-09 is effective for the first interim or annual period beginning after December 15, 2017, and is to be applied retrospectively. We adopted ASU 2014-09 in the first quarter of 2018 and it did not have a material impact on our consolidated financial statements.

Table of Contents

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

3. LOANS RECEIVABLE, NET

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

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

(1) Unfunded commitments will primarily be funded to finance our borrowers construction or development of real estate-related assets, capital improvements of existing assets, or lease-related expenditures. These commitments will generally be funded over the term of each loan, subject in certain cases to an expiration date.

(2) Our floating rate loans are indexed to various benchmark rates, with 83% and 92% of our floating rate loans by principal balance indexed to USD LIBOR as of September 30, 2018 and December 31, 2017, respectively. In addition to cash coupon, all-in yield includes the amortization of deferred origination and extension fees, loan origination costs, and purchase discounts, as well as the accrual of exit fees. Cash coupon and all-in yield assume applicable floating benchmark rates for weighted-average calculation.

(3) Maximum maturity assumes all extension options are exercised by the borrower, however our loans may be repaid prior to such date. As of September 30, 2018, 86% of our loans by principal balance were subject to yield maintenance or other prepayment restrictions and 14% were open to repayment by the borrower without penalty. As of December 31, 2017, 75% of our loans were subject to yield maintenance or other prepayment restrictions and 25% were open to repayment by the borrower without penalty.

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

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

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

Table of Contents

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

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

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

Total	112	$ 12,176,516	$ 12,726,831	100%

(1) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. See Note 2 for further discussion. Total loan exposure encompasses the entire loan we originated and financed, including $466.7 million of such non-consolidated senior interests as of September 30, 2018.

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

Table of Contents

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

Geographic Location	**Number of Loans**	**Net Book Value**	**Total Loan Exposure(1)**	**Percentage of Portfolio**
United States				
Northeast	26	$ 2,857,948	$ 2,871,219	26%
West	29	2,672,069	2,816,276	24
Southeast	17	2,007,202	2,470,992	22
Midwest	9	856,559	862,578	8
Southwest	10	380,204	380,120	3
Northwest	2	283,381	286,221	3
Subtotal	93	9,057,363	9,687,406	86
International				
United Kingdom	6	440,317	794,789	7
Canada	7	415,893	412,343	4
Belgium	1	73,779	74,431	1
Germany	1	12,237	67,399	1
Netherlands	2	57,143	57,240	1
Subtotal	17	999,369	1,406,202	14
Total	110	$ 10,056,732	$ 11,093,608	100%

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

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

Loan Risk Ratings

As further described in Note 2, our Manager evaluates our loan portfolio on a quarterly basis. In conjunction with our quarterly loan portfolio review, our Manager assesses the risk factors of each loan, and assigns a risk rating based on several factors. Factors considered in the assessment include, but are not limited to, risk of loss, current LTV, debt yield, collateral performance, structure, exit plan, and sponsorship. Loans are rated 1 (less risk) through 5 (greater risk), which ratings are defined in Note 2.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

The following table allocates the principal balance and net book value of our loans receivable based on our internal risk ratings ($ in thousands):

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

(1) In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our consolidated financial statements. See Note 2 for further discussion. Total loan exposure encompasses the entire loan we originated and financed, including $466.7 million and $985.4 million of such non-consolidated senior interests as of September 30, 2018 and December 31, 2017, respectively.

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

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

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

Multifamily Joint Venture

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

Table of Contents

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

4. OTHER ASSETS AND LIABILITIES

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

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

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

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

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

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

Secured debt repayments pending servicer remittance[1]		
Total	$ 123,366	$ 140,826

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

19

Table of Contents

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

5. SECURED DEBT AGREEMENTS, NET

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

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

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

Credit Facilities

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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

(Unaudited)

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

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