BLACKSTONE MORTGAGE TRUST, INC.
Form 10-K
February 17, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

¨ **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 1-14788

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)

Registrant s telephone number, including area code: (212) 655-0220

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A common stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 x No ¨ (not required)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

The aggregate market value of the outstanding class A common stock held by non-affiliates of the registrant was approximately $1,303,564,616 as of June 30, 2014 (the last business day of the registrant s most recently completed second fiscal quarter) based on the closing sale price on the New York Stock Exchange on that date.

As of February 10, 2015, there were 58,270,028 outstanding shares of class A common stock. The class A common stock is listed on the New York Stock Exchange (trading symbol BXMT).

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this annual report on Form 10-K incorporates information by reference from the registrant s definitive proxy statement with respect to its 2015 annual meeting of stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant s fiscal year.

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PART I.

ITEM 1. BUSINESS

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

Our Company

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. 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 Real Estate Investment Trust, or 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, or the Investment Company Act. We are organized as a holding company and conduct our business primarily through our various subsidiaries. Our business is organized into two operating segments: the Loan Origination segment; and the CT Legacy Portfolio segment.

Our Manager

We are externally managed and advised by our Manager, which is responsible for administering our business activities, day-to-day operations, and providing us the services of our executive management team, investment team, and appropriate support personnel.

Our Manager is a part of Blackstone s alternative asset management business, which includes the management of real estate funds, private equity funds, hedge fund solutions, credit-oriented funds, and closed-end funds. Through its different businesses, Blackstone had total assets under management of approximately $290.4 billion as of December 31, 2014.

In connection with the performance of its duties, our Manager benefits from the resources, relationships, and expertise of the 320 investment professionals in Blackstone s global real estate group, the largest private equity real estate manager in the world with $80.9 billion of investor capital under management as of December 31, 2014. Blackstone s real estate group was co-founded in 1991 by John G. Schreiber, who currently serves as a member of our board of directors and is the chairman of our Manager s investment committee. Jonathan D. Gray, who is the global head of Blackstone s real estate group, is a member of the board of directors of Blackstone and is a member of our Manager s investment committee.

Blackstone Real Estate Debt Strategies, or BREDS, was launched in 2008 within Blackstone s global real estate group, to pursue opportunities relating to debt and preferred equity investments globally, with a focus on North America and Europe. Michael B. Nash, the chief investment officer and co-founder of BREDS, serves as the executive chairman of our board of directors and is a member of our Manager s investment committee. As of December 31, 2014, 76

dedicated BREDS professionals, including 14 investment professionals based in London, managed approximately $9.0 billion of investor capital.

Our chief executive officer, chief financial officer, and other executive officers are senior Blackstone real estate professionals. None of our Manager, our executive officers, or other personnel supplied to us by our Manager is

obligated to dedicate any specific amount of time to our business. Our Manager is subject to the supervision and oversight of our board of directors and has only such functions and authority as our board of directors delegates to it. Pursuant to a management agreement between our Manager and us, or our Management Agreement, our Manager is entitled to receive a base management fee, an incentive fee, and expense reimbursements. See Notes 10 and 15 to our consolidated financial statements and Item 13 Certain Relationships and Related Transactions, and Director Independence in this Annual Report on Form 10-K for more detail on the terms of the Management Agreement.

Our Investment Strategy

Our investment strategy is to originate loans and invest in debt and related instruments supported by institutional quality commercial real estate in attractive locations. Through our Manager, we draw on Blackstone s extensive real estate debt investment platform and its established sourcing, underwriting, and structuring capabilities in order to execute our investment strategy. In addition, we have access to Blackstone s extensive network and Blackstone s substantial real estate and other investment holdings, which provide our Manager access to market data on a scale not available to many competitors. While the majority of our capital will likely continue to be invested in North America and Europe, we expect to benefit from Blackstone s global real estate debt platform.

We directly originate, co-originate, and acquire debt instruments in conjunction with acquisitions, refinancings, and recapitalizations of commercial real estate around the world. In the case of loans we acquire, we focus on performing loans that are supported by well-capitalized properties and portfolios. We believe that the scale and flexibility of our capital, as well as our Manager s and its affiliates relationships, enables us to target opportunities with strong sponsorship and invest in large loans or other debt that is collateralized by high-quality assets and portfolios.

Our business is currently focused on originating senior, floating rate mortgage loans that are secured by a first priority mortgage on commercial real estate assets primarily in the office, lodging, residential, retail, industrial, and healthcare sectors in North America and Europe. These investments may be in the form of whole loans or may also include *pari passu* participations within mortgage loans. Although originating senior mortgage loans is our primary area of focus, we also originate subordinate loans, including subordinate mortgage interests and mezzanine loans. This focused lending strategy is designed both to provide attractive current income and protect investors capital.

As market conditions evolve over time, we expect to adapt as appropriate. We believe our current investment strategy will produce significant opportunities to make investments with attractive risk-return profiles. However, to capitalize on the investment opportunities that may be present at various other points of an economic cycle, we may expand or change our investment strategy by targeting assets such as:

- Subordinate mortgage loans: These are interests, often referred to as B Notes, in a junior portion of a mortgage loan. The interests are subordinated to the A Note or senior participation interest by virtue of a contractual arrangement.

- Mezzanine loans: These are loans (including *pari passu* participations in such loans) made to the owners of a mortgage borrower and secured by a pledge of equity interests in the mortgage borrower. These loans are structurally subordinate to any loan made directly to the mortgage borrower.

Preferred equity: These are investments subordinate to any mezzanine loan, but senior to the owners common equity.

Real estate securities: These are interests in real estate which may take the form of commercial mortgage-backed securities, or CMBS, or collateralized loan obligations, or CLOs.

Note financings: These are loans secured by other mortgage loans, subordinate mortgage interests, and mezzanine loans.

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We believe that the diversification of the portfolio of assets that we originate, our ability to aggressively manage those assets, and the flexibility of our strategy positions us to generate attractive returns for our stockholders in a variety of market conditions over the long term.

Our Portfolio

Since the re-launch of our business in May 2013, we have originated 64 loans, representing $5.9 billion of total commitments, with an average loan size of $92.2 million.

The following table details the overall statistics of our current Loan Origination segment portfolio as of December 31, 2014 and 2013 ($ in thousands):

	December 31, 2014	December 31, 2013
Number of loans	60	28
Principal balance	$ 4,462,897	$ 2,018,863
Net book value	$ 4,428,500	$ 2,000,223
Floating rate loans	100%	100%
Senior loans	98%	90%
Weighted-average origination loan-to-value	64%	65%
Weighted-average cash coupon[1]	L+4.36%	L+4.64%
Weighted-average all-in yield[1]	L+4.81%	L+5.28%
Weighted-average maximum maturity (years)[2]	3.9	4.2

(1) As of December 31, 2014, 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, 14% of our loans earned interest based on LIBOR floors, 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.

(2) 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 are subject to yield maintenance, lock-out provisions, or other prepayment restrictions and 15% are open to repayment by the borrower.

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Our loan portfolio is diversified by collateral property type and geographic location, and is comprised of senior mortgages and similar credit quality loans. The following presents the geographic distribution and types of properties securing our loan portfolio as of December 31, 2014:

For information regarding our Loan Origination segment s portfolio as of December 31, 2014, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations II. Loan Origination Portfolio and V. Loan Portfolio Details in this Annual Report on Form 10-K.

Financing Strategy

In addition to raising capital through public offerings of our equity and debt securities, our financing strategy includes secured and unsecured revolving repurchase facilities, asset-specific repurchase agreements, and the sale of senior loan participations. In addition to our current mix of financing sources, we may also access additional forms of financings including credit facilities, securitizations, resecuritizations, and public and private, secured and unsecured debt issuances by us or our subsidiaries.

The amount of leverage we employ for particular assets will depend upon our Manager s assessment of the credit, liquidity, price volatility, and other risks of those assets and the financing counterparties, the availability of particular types of financing at the time, and the financial covenants related to our credit facilities. Our decision to use leverage to finance our assets will be at the discretion of our Manager and will not be subject to the approval of our stockholders. We currently expect that our leverage will not exceed, on a debt to equity basis, a ratio of 4-to-1. We will endeavor to match the terms, currency, and indices of our assets and liabilities, including in certain instances through the use of derivatives. We will also seek to limit the risks associated with recourse borrowing.

Subject to maintaining our qualification as a REIT, we may engage in hedging transactions that seek to mitigate the effects of fluctuations in interest rates or currencies and their effects on our cash flows. These hedging transactions could take a variety of forms, including interest rate or currency swaps or cap agreements, options, futures contracts, forward rate or currency agreements or similar financial instruments.

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Floating Rate Portfolio

Our Loan Origination segment portfolio was 100% comprised of floating rate loans financed by floating rate secured debt as of December 31, 2014, resulting in a return on equity that is highly correlated to LIBOR. Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income.

Investment Guidelines

Our board of directors has approved the following investment guidelines:

- our Manager shall seek to invest our capital in a broad range of investments in, or relating to, public and/or private debt, non-controlling equity, loans and/or other interests (including mezzanine interests and/or options or derivatives) relating to real estate assets (including pools thereof), real estate companies, and/or real estate-related holdings;

- prior to the deployment of capital into investments, our Manager may cause our capital to be invested in any short-term investments in money market funds, bank accounts, overnight repurchase agreements with primary federal reserve bank dealers collateralized by direct U.S. government obligations and other instruments or investments reasonable determined by our Manager to be of high quality;

- not more than 25% of our equity, as defined in the Management Agreement with our Manager, will be invested in any individual investment without the approval of a majority of the investment risk management committee of our board of directors (it being understood, however, that for purposes of the foregoing concentration limit, in the case of any investment that is comprised (whether through a structured investment vehicle or other arrangement) of securities, instruments or assets of multiple portfolio issuers, such investment for purposes of the foregoing limitation shall be deemed to be multiple investments in such underlying securities, instruments and assets and not such particular vehicle, product or other arrangement in which they are aggregated);

- any investment in excess of $250.0 million shall require the approval of a majority of the investment risk management committee of our board of directors;

- no investment shall be made that would cause us to fail to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code; and

- no investment shall be made that would cause us or any of our subsidiaries to be regulated as an investment company under the Investment Company Act.

These investment guidelines may be amended, restated, modified, supplemented or waived pursuant to the approval of a majority of our board of directors, which must include a majority of the independent directors, without the approval of our stockholders.

Competition

We are engaged in a competitive business. In our lending and investing activities, we compete for opportunities with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by Blackstone and its affiliates), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs have raised significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for lending and investment opportunities. Some competitors may have a lower cost of funds and access to funding sources, such as the U.S. Government, that are not available to us. Many of our competitors are not subject to the operating constraints associated with REIT rule compliance or maintenance of an exclusion from regulation under the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of loans

and investments and offer more attractive pricing or other terms than we would. Furthermore, competition for originations of and investments in assets we target may lead to decreasing yields, which may further limit our ability to generate targeted returns.

In the face of this competition, we have access to our Manager s and Blackstone s professionals and their industry expertise and relationships, which we believe provide us with a competitive advantage and help us assess risks and determine appropriate pricing for potential investments. We believe these relationships will enable us to compete more effectively for attractive investment opportunities. However, we may not be able to achieve our business goals or expectations due to the competitive risks that we face. For additional information concerning these competitive risks, see Item 1A Risk Factors Risks Related to Our Lending and Investment Activities.

Employees

We do not have any employees. We are externally managed by our Manager pursuant to the Management Agreement between our Manager and us. Our executive officers serve as officers of our Manager, and are employed by an affiliate of our Manager.

Government Regulation

Our operations in the United States are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (i) regulate credit granting activities; (ii) establish maximum interest rates, finance charges and other charges; (iii) require disclosures to customers; (iv) govern secured transactions; and (v) set collection, foreclosure, repossession and claims-handling procedures and other trade practices. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans. We intend to conduct our business so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Furthermore, our international activities are also subject to applicable regulations in local jurisdictions.

In our judgment, existing statutes and regulations have not had a material adverse effect on our business. In the wake of the recent global financial crisis, legislators in the United States and in other countries have said that greater regulation of financial services firms is needed, particularly in areas such as risk management, leverage, and disclosure. While we expect that additional new regulations in these areas will be adopted in the future, it is not possible at this time to forecast the exact nature of any future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon our future business, financial condition, or results of operations or prospects.

Taxation of the Company

We made an election to be taxed as a REIT, effective January 1, 2003, under the Internal Revenue Code, for U.S. federal income tax purposes. We generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we are subject to certain U.S. federal excise taxes and

state and local taxes on our income and assets. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income taxes at regular corporate rates, including any applicable alternative minimum tax, and will not be able to qualify as a REIT for the subsequent four full taxable years.

Furthermore, we have formed several taxable REIT subsidiaries, or TRS. Any TRS we own will pay federal, state, and local income tax on its net taxable income. See Item 1A Risk Factors Risks Related to our REIT Status and Certain Other Tax Items for additional tax status information.

Website Access to Reports

We maintain a website at *www.bxmt.com*. We are providing the address to our website solely for the information of investors. The information on our website is not a part of, nor is it incorporated by reference into this report. Through our website, we make available, free of charge, our annual proxy statement, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish them to, the Securities and Exchange Commission, or the SEC. The SEC maintains a website that contains these reports at *www.sec.gov*.

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ITEM 1A. RISK FACTORS

FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Exchange Act, which involve certain known and unknown risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments. These forward-looking statements are generally identified by their use of such terms and phrases as intend, goal, estimate, expect, project, projections, plans, seeks, anticipates, should, could, may, designed believe, and scheduled and similar expressions. Our actual results or outcomes may differ materially from those anticipated. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. We assume no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Our actual results may differ significantly from any results expressed or implied by these forward-looking statements. Some, but not all, of the factors that might cause such a difference include, but are not limited to:

- the general political, economic, and competitive conditions in the United States and foreign jurisdictions where we invest;
- the level and volatility of prevailing interest rates and credit spreads;
- adverse changes in the real estate and real estate capital markets;
- difficulty in obtaining financing or raising capital;
- the deterioration of performance and thereby credit quality of property securing our investments, borrowers and, in general, the risks associated with the ownership and operation of real estate that may cause cash flow deterioration to us and potentially principal losses on our investments;
- a compression of the yield on our investments and an increase in the cost of our liabilities, as well as the level of leverage available to us;
- adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation, or otherwise;
- events, contemplated or otherwise, such as acts of God including hurricanes, earthquakes, and other natural disasters, acts of war and/or terrorism and others that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investments;

- the cost of operating our business, including, but not limited to, the cost of operating a real estate investment platform and the cost of operating as a publicly-traded company;

- authoritative generally accepted accounting principles, or GAAP, or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, or FASB, the SEC, the Internal Revenue Service, or IRS, the New York Stock Exchange, or NYSE, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business; and

- other factors, including those items discussed in the risk factors set forth below.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We caution you not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements. Moreover, unless we

are required by law to update these statements, we will not necessarily update or revise any forward-looking statements included or incorporated by reference in this Annual Report after the date hereof, either to conform them to actual results or to changes in our expectations.

Risks Related to Our Lending and Investment Activities

Our loans and investments expose us to risks associated with debt-oriented real estate investments generally.

We seek to invest primarily in debt instruments relating to real estate-related businesses, assets, or interests. Any deterioration of real estate fundamentals generally, and in North America and Europe in particular, could negatively impact our performance by making it more difficult for entities in which we have an investment, or Borrower Entities, to satisfy their debt payment obligations, increasing the default risk applicable to Borrower Entities, and/or making it relatively more difficult for us to generate attractive risk-adjusted returns. Changes in general economic conditions will affect the creditworthiness of Borrower Entities and may include economic and/or market fluctuations, changes in environmental, zoning and other laws, casualty or condemnation losses, regulatory limitations on rents, decreases in property values, changes in the appeal of properties to tenants, changes in supply and demand, fluctuations in real estate fundamentals (including average occupancy and room rates for hotel properties), energy supply shortages, various uninsured or uninsurable risks, natural disasters, changes in government regulations (such as rent control), changes in real property tax rates and operating expenses, changes in interest rates, changes in the availability of debt financing and/or mortgage funds which may render the sale or refinancing of properties difficult or impracticable, increased mortgage defaults, increases in borrowing rates, negative developments in the economy that depress travel activity, demand and/or real estate values generally and other factors that are beyond our control. The value of securities of companies that service the real estate business sector may also be affected by such risks.

We cannot predict the degree to which economic conditions generally, and the conditions for real estate debt investing in particular, will improve or decline. Declines in the performance of the U.S. and global economies or in the real estate debt markets could have a material adverse effect on our business, financial condition, and results of operations. In addition, while improved real estate fundamentals have resulted in increased investment opportunities for us, market conditions relating to real estate debt investments have evolved since the global financial crisis, which has resulted in a modification to certain loan structures and/or market terms. Any such changes in loan structures and/or market terms may make it relatively more difficult for us to monitor and evaluate our loans and investments.

Commercial real estate-related investments that are secured, directly or indirectly, by real property are subject to delinquency, foreclosure and loss, which could result in losses to us.

Commercial real estate debt instruments (e.g., mortgages, mezzanine loans and preferred equity) that are secured by commercial property are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower s ability to repay the loan may be impaired. Net operating income of an income-producing property can be affected by, among other things:

- tenant mix and tenant bankruptcies;

success of tenant businesses;

property management decisions, including with respect to capital improvements, particularly in older building structures;

property location and condition;

competition from other properties offering the same or similar services;

- changes in laws that increase operating expenses or limit rents that may be charged;
- any need to address environmental contamination at the property;
- changes in national, regional, or local economic conditions and/or specific industry segments;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- changes in interest rates and in the state of the debt and equity capital markets, including diminished availability or lack of debt financing for commercial real estate;
- changes in real estate tax rates and other operating expenses;
- changes in governmental rules, regulations and fiscal policies, including environmental legislation;
- acts of God, terrorism, social unrest and civil disturbances, which may decrease the availability of or increase the cost of insurance or result in uninsured losses; and
- adverse changes in zoning laws.

In addition, we are exposed to the risk of judicial proceedings with our borrowers and entities we invest in, including bankruptcy or other litigation, as a strategy to avoid foreclosure or enforcement of other rights by us as a lender or investor. In the event that any of the properties or entities underlying or collateralizing our loans or investments experiences any of the foregoing events or occurrences, the value of, and return on, such investments could be reduced, which would adversely affect our results of operations and financial condition.

Fluctuations in interest rates and credit spreads could reduce our ability to generate income on our loans and other investments, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.

Our primary interest rate exposures relate to the yield on our loans and other investments and the financing cost of our debt, as well as our interest rate swaps that we may utilize for hedging purposes. Changes in interest rates and credit spreads may affect our net income from loans and other investments, which is the difference between the interest and related income we earn on our interest-earning investments and the interest and related expense we incur in financing these investments. Interest rate and credit spread fluctuations resulting in our interest and related expense exceeding interest and related income would result in operating losses for us. Changes in the level of interest rates and credit spreads also may affect our ability to make loans or investments, the value of our loans and investments and our ability to realize gains from the disposition of assets. Increases in interest rates and credit spreads may also negatively

affect demand for loans and could result in higher borrower default rates.

Our operating results depend, in part, on differences between the income earned on our investments, net of credit losses, and our financing costs. The yields we earn on our assets and our borrowing costs tend to move in the same direction in response to changes in interest rates. However, one can rise or fall faster than the other, causing our net interest margin to expand or contract. In addition, we could experience a compression of the yield on our investments and our financing costs. Although we seek to match the terms of our liabilities to the expected lives of loans that we acquire or originate, circumstances may arise in which our liabilities are shorter in duration than our assets, resulting in their adjusting faster in response to changes in interest rates. For any period during which our investments are not match-funded, the income earned on such investments may respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates, particularly short-term interest rates, may immediately and significantly decrease our results of operations and cash flows and the market value of our investments. In addition, unless we enter into hedging or similar transactions with respect to the portion of our assets that we fund using our balance sheet, returns we achieve on such assets will generally increase as interest rates for those assets rise and decrease as interest rates for those assets decline.

Prepayment rates may adversely affect the value of our portfolio of assets.

In periods of declining interest rates and/or credit spreads, prepayment rates on loans generally increase. If general interest rates or credit spreads decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid. In addition, the value of our assets may be affected by prepayment rates on loans. If we originate or acquire mortgage-related securities or a pool of mortgage securities, we anticipate that the underlying mortgages will prepay at a projected rate generating an expected yield. If we purchase assets at a premium to par value, when borrowers prepay their loans faster than expected, the corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their loans slower than expected, the decrease in corresponding prepayments on the mortgage-related securities may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. In addition, as a result of the risk of prepayment, the market value of the prepaid assets may benefit less than other fixed income securities from declining interest rates.

Prepayment rates on loans may be affected by a number of factors including, but not limited to, the then-current level of interest rates and credit spreads, the availability of mortgage credit, the relative economic vitality of the area in which the related properties are located, the servicing of the loans, possible changes in tax laws, other opportunities for investment, and other economic, social, geographic, demographic and legal factors and other factors beyond our control. Consequently, such prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment or other such risks.

The lack of liquidity in certain of our target assets may adversely affect our business.

The illiquidity of certain of our target assets may make it difficult for us to sell such investments if the need or desire arises. Certain target assets such as mortgages, B Notes, mezzanine and other loans (including participations) and preferred equity, in particular, are relatively illiquid investments due to their short life, their potential unsuitability for securitization and the greater difficulty of recovery in the event of a borrower s default. In addition, certain of our investments may become less liquid after our investment as a result of periods of delinquencies or defaults or turbulent market conditions, which may make it more difficult for us to dispose of such assets at advantageous times or in a timely manner. Moreover, many of the loans and securities we invest in will not be registered under the relevant securities laws, resulting in prohibitions against their transfer, sale, pledge or their disposition except in transactions that are exempt from registration requirements or are otherwise in accordance with such laws. As a result, we expect many of our investments will be illiquid, and if we are required to liquidate all or a portion of our portfolio quickly, for example as a result of margin calls, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment to the extent that we or our Manager (and/or its affiliates) has or could be attributed as having material, non-public information regarding the borrower entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

Any distressed loans or investments we make, or loans and investments that later become distressed, may subject us to losses and other risks relating to bankruptcy proceedings.

While our loans and investments focus primarily on performing real estate related interests, our loans and investments may also include making distressed investments from time to time (e.g., investments in defaulted, out-of-favor or distressed bank loans and debt securities) or may involve investments that become non-performing following our

acquisition thereof. Certain of our investments may include properties that typically are highly leveraged, with significant burdens on cash flow and, therefore, involve a high degree of financial risk. During an economic downturn or recession, loans or securities of financially or operationally troubled borrowers or issuers are more likely to go into default than loans or securities of other borrowers or issuers. Loans or securities of financially or operationally troubled issuers are less liquid and more volatile than loans or securities

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of borrowers or issuers not experiencing such difficulties. The market prices of such securities are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected. Investment in the loans or securities of financially or operationally troubled borrowers or issuers involves a high degree of credit and market risk.

In certain limited cases (e.g., in connection with a workout, restructuring and/or foreclosing proceedings involving one or more of our investments), the success of our investment strategy will depend, in part, on our ability to effectuate loan modifications and/or restructure and improve the operations of our borrower entities. The activity of identifying and implementing successful restructuring programs and operating improvements entails a high degree of uncertainty. There can be no assurance that we will be able to identify and implement successful restructuring programs and improvements with respect to any distressed loans or investments we may have from time to time.

These financial difficulties may never be overcome and may cause borrower entities to become subject to bankruptcy or other similar administrative proceedings. There is a possibility that we may incur substantial or total losses on our investments and in certain circumstances, become subject to certain additional potential liabilities that may exceed the value of our original investment therein. For example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In any reorganization or liquidation proceeding relating to our investments, we may lose our entire investment, may be required to accept cash or securities with a value less than our original investment and/or may be required to accept different terms, including payment over an extended period of time. In addition, under certain circumstances, payments to us may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, bankruptcy laws and similar laws applicable to administrative proceedings may delay our ability to realize on collateral for loan positions held by us, may adversely affect the economic terms and priority of such loans through doctrines such as equitable subordination or may result in a restructuring of the debt through principles such as the cramdown provisions of the bankruptcy laws.

We may not have control over certain of our loans and investments.

Our ability to manage our portfolio of loans and investments may be limited by the form in which they are made. In certain situations, we may:

- acquire investments subject to rights of senior classes and servicers under intercreditor or servicing agreements;
- acquire only a minority and/or a non-controlling participation in an underlying investment;
- co-invest with others through partnerships, joint ventures or other entities, thereby acquiring non-controlling interests; or
- rely on independent third party management or servicing with respect to the management of an asset.

Therefore, we may not be able to exercise control over all aspects of our loans or investments. Such financial assets may involve risks not present in investments where senior creditors, junior creditors, servicers or third parties controlling investors are not involved. Our rights to control the process following a borrower default may be subject to the rights of senior or junior creditors or servicers whose interests may not be aligned with ours. A partner or co-venturer may have financial difficulties resulting in a negative impact on such asset, may have economic or business interests or goals that are inconsistent with ours, or may be in a position to take action contrary to our investment objectives. In addition, we may, in certain circumstances, be liable for the actions of our partners or co-venturers.

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B Notes, mezzanine loans, and other investments that are subordinated or otherwise junior in an issuer s capital structure and that involve privately negotiated structures will expose us to greater risk of loss.

We may from time to time originate or acquire B Notes, mezzanine loans and other investments that are subordinated or otherwise junior in an issuer s capital structure (such as preferred equity) and that involve privately negotiated structures. To the extent we invest in subordinated debt or mezzanine tranches of an entity s capital structure, such investments and our remedies with respect thereto, including the ability to foreclose on any collateral securing such investments, will be subject to the rights of holders of more senior tranches in the issuer s capital structure and, to the extent applicable, contractual intercreditor and/or participation agreement provisions. Significant losses related to such loans or investments could adversely affect our results of operations and financial condition.

As the terms of such loans and investments are subject to contractual relationships among lenders, co-lending agents and others, they can vary significantly in their structural characteristics and other risks. For example, the rights of holders of B Notes to control the process following a borrower default may vary from transaction to transaction. Further, B Notes typically are secured by a single property and accordingly reflect the risks associated with significant concentration.

Like B Notes, mezzanine loans are by their nature structurally subordinated to more senior property-level financings. If a borrower defaults on our mezzanine loan or on debt senior to our loan, or if the borrower is in bankruptcy, our mezzanine loan will be satisfied only after the property-level debt and other senior debt is paid in full. As a result, a partial loss in the value of the underlying collateral can result in a total loss of the value of the mezzanine loan. In addition, even if we are able to foreclose on the underlying collateral following a default on a mezzanine loan, we would be substituted for the defaulting borrower and, to the extent income generated on the underlying property is insufficient to meet outstanding debt obligations on the property, may need to commit substantial additional capital and/or deliver a replacement guarantee by a credit worthy entity, which could include us, to stabilize the property and prevent additional defaults to lenders with existing liens on the property.

Loans on properties in transition will involve a greater risk of loss than conventional mortgage loans.

We may invest in transitional loans to borrowers who are typically seeking short-term capital to be used in an acquisition or rehabilitation of a property. The typical borrower under a transitional loan has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to improve according to the borrower s projections, or if the borrower fails to improve the quality of the asset s management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the transitional loan, and we bear the risk that we may not recover some or all of our investment.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a transitional loan. Transitional loans therefore are subject to risks of a borrower s inability to obtain permanent financing to repay the transitional loan. In the event of any default under transitional loans that may be held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the transitional loan. To the extent we suffer such losses with respect to these transitional loans, it could adversely affect our results of operations and financial condition.

Risks of cost overruns and noncompletion of renovations of properties in transition may result in significant losses.

The renovation, refurbishment or expansion of a property by a borrower involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs

exceeding original estimates, possibly making a project uneconomical, environmental risks, delays in legal

and other approvals (e.g., for condominiums) and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment on a timely basis or at all, which could result in significant losses.

There are increased risks involved with our construction lending activities.

We have in the past and may in the future invest in loans which fund the construction of commercial properties. Construction lending generally is considered to involve a higher degree of risk of non-payment and loss than other types of lending due to a variety of factors, including the difficulties in estimating construction costs and anticipating construction delays and, generally, the dependency on timely, successful completion and the lease-up and commencement of operations post-completion. In addition, since such loans generally entail greater risk than mortgage loans on income-producing property, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with such loans. Further, as the lender under a construction loan, we may be obligated to fund all or a significant portion of the loan at one or more future dates. We may not have the funds available at such future date(s) to meet our funding obligations under the loan. In that event, we would likely be in breach of the loan unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all.

If a borrower fails to complete the construction of a project or experiences cost overruns, there could be adverse consequences associated with the loan, including a loss of the value of the property securing the loan, a borrower claim against us for failure to perform under the loan documents if we choose to stop funding, increased costs to the borrower that the borrower is unable to pay, a bankruptcy filing by the borrower, and abandonment by the borrower of the collateral for the loan.

Loans or investments involving international real estate-related assets are subject to special risks that we may not manage effectively, which would have a material adverse effect on our results of operations and our ability to make distributions to our stockholders.

We invest a material portion of our capital in assets outside the United States and may increase the percentage of our investments outside the United States if our Manager deems such investments appropriate in its discretion. To the extent that we invest in non-domestic real estate-related assets, we may be subject to certain risks associated with international investments generally, including, among others:

- currency exchange matters, including fluctuations in currency exchange rates and costs associated with conversion of investment principal and income from one currency into another;

- less developed or efficient financial markets than in the United States, which may lead to potential price volatility and relative illiquidity;

- the burdens of complying with international regulatory requirements and prohibitions that differ between jurisdictions;

changes in laws or clarifications to existing laws that could impact our tax treaty positions, which could adversely impact the returns on our investments;

a less developed legal or regulatory environment, differences in the legal and regulatory environment or enhanced legal and regulatory compliance;

political hostility to investments by foreign investors;

higher rates of inflation;

higher transaction costs;

greater difficulty enforcing contractual obligations;

fewer investor protections;

certain economic and political risks, including potential exchange control regulations and restrictions on our non-U.S. investments and repatriation of profits on investments or of capital invested, the risks of political, economic or social instability, the possibility of expropriation or confiscatory taxation and adverse economic and political developments; and

potentially adverse tax consequences.

If any of the foregoing risks were to materialize, they could adversely affect our results of operations and financial condition.

The ongoing Eurozone financial crisis may have an adverse effect on investments in Europe and could result in the exit of one or more member states from the Eurozone or a breakup of the Eurozone entirely, which creates uncertainty and could affect our investments directly.

A portion of our investments consists of assets secured by European collateral. The ongoing situation relating to the sovereign debt of several countries, including Greece, Ireland, Italy, Spain and Portugal, together with the risk of contagion to other more financially stable countries, has also raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Any further deterioration in the global or Eurozone economy could have a significant adverse effect on our activities and the value of any European collateral.

In addition, we currently hold assets and may acquire additional assets that are denominated in British pounds sterling and in Euros. Further deterioration in the Eurozone economy could have a material adverse effect on the value of our investment in such assets and amplify the currency risks faced by us.

If any country were to leave the Eurozone, or if the Eurozone were to break up entirely, the treatment of debt obligations previously denominated in Euros is uncertain. A number of issues would be raised, such as whether obligations that are expressed to be payable in Euros would be re-denominated into a new currency. The answer to this and other questions is uncertain and would depend on the way in which the break-up occurred and also on the nature of the transaction; the law governing it; which courts have jurisdiction in relation to it; the place of payment; and the place of incorporation of the payor. If we were to hold any investments in Euros at the time of any Eurozone exits or break-up, this uncertainty and potential re-denomination could have a material adverse effect on the value of our investments and the income from them.

Transactions denominated in foreign currencies subject us to foreign currency risks.

We hold assets denominated in British pounds sterling, Euros, and Canadian dollars, and may acquire assets denominated in other foreign currencies, which exposes us to foreign currency risk. As a result, a change in foreign currency exchange rates may have an adverse impact on the valuation of our assets, as well as our income and distributions. Any such changes in foreign currency exchange rates may impact the measurement of such assets or income for the purposes of our REIT tests and may affect the amounts available for payment of dividends on our class A common stock.

Our success depends on the availability of attractive investments and our Manager s ability to identify, structure, consummate, leverage, manage and realize returns on our investments.

Our operating results are dependent upon the availability of, as well as our Manager s ability to identify, structure, consummate, leverage, manage and realize returns on our investments. In general, the availability of favorable investment opportunities and, consequently, our returns, will be affected by the level and volatility of interest rates

and credit spreads, conditions in the financial markets, general economic conditions, the demand for investment opportunities in our target assets and the supply of capital for such investment opportunities. We cannot make any assurances that our Manager will be successful in identifying and consummating investments that satisfy our rate of return objectives or that such investments, once made, will perform as anticipated.

Real estate valuation is inherently subjective and uncertain.

The valuation of real estate and therefore the valuation of any underlying security relating to loans made by us is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. In addition, where we invest in construction loans, initial valuations will assume completion of the project. As a result, the valuations of the real estate assets against which we will make loans are subject to a large degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets.

We operate in a competitive market for lending and investment opportunities which has recently intensified, and competition may limit our ability to originate or acquire desirable loans and investments in assets we target and could also affect the yields of these assets and have a material adverse effect on our business, financial condition, and results of operation.

We operate in a competitive market for lending and investment opportunities, which recently has intensified. Our profitability depends, in large part, on our ability to originate or acquire our target assets on attractive terms. In originating or acquiring our target assets, we compete with a variety of institutional lenders and investors, including other REITs, specialty finance companies, public and private funds (including other funds managed by affiliates of Blackstone), commercial and investment banks, commercial finance and insurance companies and other financial institutions. Several other REITs have raised, or are expected to raise, significant amounts of capital, and may have investment objectives that overlap with ours, which may create additional competition for lending and investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that are not available to us, such as the U.S. Government. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exclusion from regulation under the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, offer more attractive pricing or other terms and establish more relationships than us. Furthermore, competition for originations of and investments in our target assets may lead to the yields of such assets decreasing, which may further limit our ability to generate satisfactory returns. Also, as a result of this competition, desirable loans and investments in our target assets may be limited in the future and we may not be able to take advantage of attractive lending and investment opportunities from time to time, thereby limiting our ability to identify and originate loans or make investments that are consistent with our investment objectives. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

Our loans and investments may be concentrated in terms of geography, asset types, and sponsors.

We are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. Therefore, our investments in our target assets may at times be concentrated in certain property types that are subject to higher risk of default or foreclosure, or secured by properties concentrated in a limited number of geographic locations.

To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our investments within a short time period, it could adversely affect our results of operations and financial condition.

The due diligence process that our Manager undertakes in regard to investment opportunities may not reveal all facts that may be relevant in connection with an investment and if our Manager incorrectly evaluates the risks of

our investments, we may experience losses.

Before making investments for us, our Manager will conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances relevant to each potential investment. When conducting due

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diligence, our Manager may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of potential investment. Relying on the resources available to it, our Manager will evaluate our potential investments based on criteria it deems appropriate for the relevant investment. Our Manager s loss estimates may not prove accurate, as actual results may vary from estimates. If our Manager underestimates the asset-level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

Insurance on loans and real estate securities collateral may not cover all losses.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, which may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might result in insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under these circumstances, the insurance proceeds received with respect to a property relating one of our investments might not be adequate to restore our economic position with respect to our investment. Any uninsured loss could result in the corresponding nonperformance of or loss on our investment related to such property.

The impact of any future terrorist attacks and the availability of affordable terrorism insurance expose us to certain risks.

Terrorist attacks, the anticipation of any such attacks, and the consequences of any military or other response by the United States and its allies may have an adverse impact on the U.S. financial markets and the economy in general. We cannot predict the severity of the effect that any such future events would have on the U.S. financial markets, the economy or our business. Any future terrorist attacks could adversely affect the credit quality of some of our loans and investments. Some of our loans and investments will be more susceptible to such adverse effects than others, particularly those secured by properties in major cities or properties that are prominent landmarks or public attractions. We may suffer losses as a result of the adverse impact of any future terrorist attacks and these losses may adversely impact our results of operations.

In addition, the enactment of the Terrorism Risk Insurance Act of 2002, or TRIA, and the subsequent enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2015, which extended TRIA through the end of 2020, requires insurers to make terrorism insurance available under their property and casualty insurance policies and provides federal compensation to insurers for insured losses. However, this legislation does not regulate the pricing of such insurance and there is no assurance that this legislation will be extended beyond 2020. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market s overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties that we invest in are unable to obtain affordable insurance coverage, the value of those investments could decline and in the event of an uninsured loss, we could lose all or a portion of our investment.

We may need to foreclose on certain of the loans we originate or acquire, which could result in losses that harm our results of operations and financial condition.

We may find it necessary or desirable to foreclose on certain of the loans we originate or acquire, and the foreclosure process may be lengthy and expensive. Whether or not we have participated in the negotiation of the terms of any such loans, we cannot assure you as to the adequacy of the protection of the terms of the applicable loan, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable

security interests. Furthermore, claims may be asserted by lenders or borrowers that might interfere with enforcement of our rights. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against us, including, without limitation, lender liability claims and defenses, even when the assertions may have no basis in fact, in an effort to prolong the foreclosure action and seek to

force the lender into a modification of the loan or a favorable buy-out of the borrower s position in the loan. In some states, foreclosure actions can take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process and potentially results in a reduction or discharge of a borrower s debt. Foreclosure may create a negative public perception of the related property, resulting in a diminution of its value. Even if we are successful in foreclosing on a loan, the liquidation proceeds upon sale of the underlying real estate may not be sufficient to recover our cost basis in the loan, resulting in a loss to us. Furthermore, any costs or delays involved in the foreclosure of the loan or a liquidation of the underlying property will further reduce the net proceeds and, thus, increase any such loss.

Liability relating to environmental matters may impact the value of properties that we may acquire upon foreclosure of the properties underlying our investments.

To the extent we foreclose on properties with respect to which we have extended loans, we may be subject to environmental liabilities arising from such foreclosed properties. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

If we foreclose on any properties underlying our investments, the presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could adversely affect our results of operations and financial condition.

We may be subject to lender liability claims, and if we are held liable under such claims, we could be subject to losses.

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed lender liability. Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or stockholders. We cannot assure prospective investors that such claims will not arise or that we will not be subject to significant liability if a claim of this type did arise.

Any investments we make in CMBS, CLOs, CDOs and other similar structured finance investments would pose additional risks, including the risks of the securitization process and the risk that any special servicer may take actions that could adversely affect our interests.

We may from time to time invest in CMBS, CLOs, CDOs and other similar securities, which are subordinated classes of securities in a structure of securities secured by a pool of mortgages or loans. Accordingly, such securities are the first or among the first to bear the loss upon a restructuring or liquidation of the underlying collateral and the last to receive payment of interest and principal. Thus, there is generally only a nominal amount of equity or other debt securities junior to such positions, if any, issued in such structures. The estimated fair values of such subordinated interests tend to be much more sensitive to adverse economic downturns and underlying borrower developments than more senior securities. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality CMBS, CLOs or CDOs because the ability of borrowers to make principal and interest payments on the mortgages or loans underlying such securities may be impaired, as has occurred throughout the recent economic recession and weak recovery.

Subordinate interests such as CLOs, CDOs and similar structured finance investments generally are not actively traded and are relatively illiquid investments and volatility in CLO and CDO trading markets may cause the

value of these investments to decline. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral value is available to satisfy interest and principal payments and any other fees in connection with the trust or other conduit arrangement for such securities, we may incur significant losses.

With respect to the CMBS, CLOs and CDOs in which we may invest, control over the related underlying loans will be exercised through a special servicer or collateral manager designated by a directing certificateholder or a controlling class representative, or otherwise pursuant to the related securitization documents. We may acquire classes of CMBS, CLOs or CDOs, for which we may not have the right to appoint the directing certificateholder or otherwise direct the special servicing or collateral management. With respect to the management and servicing of those loans, the related special servicer or collateral manager may take actions that could adversely affect our interests.

Any credit ratings assigned to our investments will be subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.

Some of our investments may be rated by rating agencies such as Moody s Investors Service, Fitch Ratings, Standard & Poor s, DBRS, Inc., Realpoint LLC or Kroll Bond Rating Agency. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value and liquidity of our investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us.

Investments in non-conforming and non-investment grade rated loans or securities involve increased risk of loss.

Many of our investments may not conform to conventional loan standards applied by traditional lenders and either will not be rated (as is typically the case for private loans) or will be rated as non-investment grade by the rating agencies. Private loans often are not rated by credit rating agencies. Non-investment grade ratings typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers credit history, the underlying properties cash flow or other factors. As a result, these investments should be expected to have a higher risk of default and loss than investment-grade rated assets. Any loss we incur may be significant and may adversely affect our results of operations and financial condition. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

Some of our investments and investment opportunities may be in synthetic form.

Synthetic investments are contracts between parties whereby payments are exchanged based upon the performance of another security or asset, or reference asset. In addition to the risks associated with the performance of the reference asset, these synthetic interests carry the risk of the counterparty not performing its contractual obligations. Market standards, GAAP accounting methodology, regulatory oversight and compliance requirements, tax and other regulations related to these investments are evolving, and we cannot be certain that their evolution will not adversely impact the value or sustainability of these investments. Furthermore, our ability to invest in synthetic investments, other than through taxable REIT subsidiaries, may be severely limited by the REIT qualification requirements because synthetic investment contracts generally are not qualifying assets and do not produce qualifying income for purposes of the REIT asset and income tests.

We may invest in derivative instruments, which would subject us to increased risk of loss.

Subject to maintaining our qualification as a REIT, we may invest in derivative instruments. Derivative instruments, especially when purchased in large amounts, may not be liquid in all circumstances, so that in volatile markets we may not be able to close out a position without incurring a loss. The prices of derivative instruments, including swaps, futures, forwards and options, are highly volatile and such instruments may subject us to significant losses. The value of such derivatives also depends upon the price of the underlying instrument or commodity. Such derivatives and other customized instruments also are subject to the risk of non-performance by the relevant counterparty. In addition, actual or implied daily limits on price fluctuations and speculative position limits on the exchanges or over-the-counter markets in which we may conduct our transactions in derivative instruments may prevent prompt liquidation of positions, subjecting us to the potential of greater losses. Derivative instruments that may be purchased or sold by us may include instruments that are traded over-the-counter and not on an exchange. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which we can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between bid and asked prices for derivative instruments that are traded over-the-counter and not on an exchange. Such over-the-counter derivatives are also subject to types and levels of investor protections or governmental regulation that may differ from exchange traded instruments.

In addition, we may invest in derivative instruments that are neither presently contemplated nor currently available, but which may be developed in the future, to the extent such opportunities are both consistent with our investment objectives and legally permissible. Any such investments may expose us to unique and presently indeterminate risks, the impact of which may not be capable of determination until such instruments are developed and/or we determine to make such an investment.

We may experience a decline in the fair value of our assets.

A decline in the fair value of our assets may require us to recognize an other-than-temporary impairment against such assets under GAAP if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the original acquisition cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale. If we experience a decline in the fair value of our assets, it could adversely affect our results of operations and financial condition.

Some of our portfolio investments may be recorded at fair value and, as a result, there will be uncertainty as to the value of these investments.

Some of our portfolio investments may be in the form of positions or securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We will value these investments quarterly at fair value, which may include unobservable inputs. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Our results of operations and financial condition could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Risks Related to Our Financing and Hedging

We may incur a significant amount of debt, which may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.

We currently have outstanding indebtedness and, subject to market conditions and availability, we may incur a significant amount of additional debt through repurchase agreements, bank credit facilities (including term loans and revolving facilities), warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. We may also issue additional debt or equity securities to fund our growth. The percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders, the type of asset we are funding, whether the financing is recourse or non-recourse, debt restrictions contained in those financing arrangements and the lenders and rating agencies estimate of the stability of our investment portfolio s cash flow. We may significantly increase the amount of leverage we utilize at any time without approval of our board of directors. In addition, we may leverage individual assets at substantially higher levels. Incurring substantial debt could subject us to many risks that, if realized, would materially and adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal of and interest on our debt, which is likely to result in (a) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision), which we then may be unable to repay from internal funds or to refinance on favorable terms, or at all, (b) our inability to borrow undrawn amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements, which would result in a decrease in our liquidity, and/or (c) the loss of some or all of our collateral assets to foreclosure or sale;

- our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase in an amount sufficient to offset the higher financing costs;

- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, future business opportunities, stockholder distributions or other purposes; and

- we may not be able to refinance any debt that matures prior to the maturity (or realization) of an underlying investment it was used to finance on favorable terms or at all.

There can be no assurance that a leveraging strategy will be successful and may subject us to increased risk of loss and could adversely affect our results of operations and financial condition.

Our master repurchase agreements impose, and additional lending facilities may impose, restrictive covenants, which would restrict our flexibility to determine our operating policies and investment strategy.

We borrow funds under master repurchase agreements with various counterparties. The documents that govern these master repurchase agreements and the related guarantees contain, and additional lending facilities may contain, customary affirmative and negative covenants, including financial covenants applicable to us that may restrict our

flexibility to determine our operating policies and investment strategy. In particular, our master repurchase agreements require us to maintain a certain amount of cash or set aside assets sufficient to maintain a specified liquidity position that would allow us to satisfy our collateral obligations. As a result, we may not be able to leverage our assets as fully as we would otherwise choose, which could reduce our return on assets. If we are unable to meet these collateral obligations, our financial condition and prospects could deteriorate rapidly. In addition, lenders may require that our Manager or one or more of our Manager s executives continue to serve in such capacity. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights in our other debt facilities. Further, this could also make it difficult for us to satisfy the requirements necessary to maintain our qualification as a REIT for U.S. federal income tax purposes.

Our master repurchase agreements require, and bank credit facilities, repurchase agreements or other financing that we may use in the future to finance our assets may require, us to provide additional collateral or pay down debt.

Our master repurchase agreements with various counterparties, any bank credit facilities (including term loans and revolving facilities), and additional repurchase agreements or other financing we may enter into in the future, would involve the risk that the market value of the assets pledged or sold by us to the provider of the financing may decline in value, in which case the lender or counterparty may require us to provide additional collateral or lead to margin calls that may require us to repay all or a portion of the funds advanced. We may not have the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources including by selling assets at a time when we might not otherwise choose to do so, which we may not be able to achieve on favorable terms or at all. Posting additional margin would reduce our cash available to make other, higher yielding investments (thereby decreasing our return on equity). If we cannot meet these requirements, the lender or counterparty could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from it, which could materially and adversely affect our financial condition and ability to implement our investment strategy. In the case of repurchase transactions, if the value of the underlying security has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will likely incur a loss on our repurchase transactions. In addition, if a lender or counterparty files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to financing and increase our cost of capital.

Our use of leverage may create a mismatch with the duration and index of the investments that we are financing.

We intend to structure our leverage such that we minimize the difference between the term of our investments and the leverage we use to finance such investments. In the event that our leverage is for a shorter term than the financed investment, we may not be able to extend or find appropriate replacement leverage and that would have an adverse impact on our liquidity and our returns. In the event that our leverage is for a longer term than the financed investment, we may not be able to repay such leverage or replace the financed investment with an optimal substitute or at all, which will negatively impact our desired leveraged returns.

We attempt to structure our leverage such that we minimize the difference between the index of our investments and the index of our leverage financing floating rate investments with floating rate leverage and fixed rate investments with fixed rate leverage. If such a product is not available to us from our lenders on reasonable terms, we may use hedging instruments to effectively create such a match. For example, in the case of fixed rate investments, we may finance such an investment with floating rate leverage, but effectively convert all or a portion of the attendant leverage to fixed rate using hedging strategies.

Our attempts to mitigate such risk are subject to factors outside of our control, such as the availability to us of favorable financing and hedging options, which is subject to a variety of factors, of which duration and term matching are only two. A duration mismatch may occur when borrowers prepay their loans faster or slower than expected. The risks of a duration mismatch are also magnified by the potential for the extension of loans in order to maximize the likelihood and magnitude of their recovery value in the event the loans experience credit or performance challenges. Employment of this asset management practice would effectively extend the duration of our investments, while our liabilities may have set maturity dates.

Interest rate fluctuations could increase our financing costs, which could lead to a significant decrease in our results of operations, cash flows and the market value of our investments.

To the extent that our financing costs will be determined by reference to floating rates, such as LIBOR or a Treasury index, the amount of such costs will depend on the level and movement of interest rates. In a period of rising interest rates, our interest expense on floating rate debt would increase, while any additional interest

income we earn on our floating rate investments may be subject to caps and may not compensate for such increase in interest expense. At the same time, the interest income we earn on our fixed rate investments would not change, the duration and weighted average life of our fixed rate investments would increase and the market value of our fixed rate investments would decrease. Similarly, in a period of declining interest rates, our interest income on floating rate investments would decrease, while any decrease in the interest we are charged on our floating rate debt may be subject to floors and may not compensate for such decrease in interest income and interest we are charged on our fixed rate debt would not change. Any such scenario could adversely affect our results of operations and financial condition.

Our loans and investments may be subject to fluctuations in interest rates that may not be adequately protected, or protected at all, by our hedging strategies.

Our investments may include loans with either floating interest rates or fixed interest rates. Floating rate investments earn interest at rates that adjust from time to time (typically monthly) based upon an index (typically one-month LIBOR). These floating rate loans are insulated from changes in value specifically due to changes in interest rates; however, the coupons they earn fluctuate based upon interest rates (again, typically one-month LIBOR) and, in a declining and/or low interest rate environment, these loans will earn lower rates of interest and this will impact our operating performance. Fixed interest rate investments, however, do not have adjusting interest rates and the relative value of the fixed cash flows from these investments will decrease as prevailing interest rates rise or increase as prevailing interest rates fall, causing potentially significant changes in value. We may employ various hedging strategies to limit the effects of changes in interest rates (and in some cases credit spreads), including engaging in interest rate swaps, caps, floors and other interest rate derivative products. We believe that no strategy can completely insulate us from the risks associated with interest rate changes and there is a risk that such strategies may provide no protection at all and potentially compound the impact of changes in interest rates. Hedging transactions involve certain additional risks such as counterparty risk, leverage risk, the legal enforceability of hedging contracts, the early repayment of hedged transactions and the risk that unanticipated and significant changes in interest rates may cause a significant loss of basis in the contract and a change in current period expense. We cannot make assurances that we will be able to enter into hedging transactions or that such hedging transactions will adequately protect us against the foregoing risks.

Accounting for derivatives under GAAP is extremely complicated. Any failure by us to account for our derivatives properly in accordance with GAAP on our consolidated financial statements could adversely affect our earnings. In particular, cash flow hedges which are not perfectly correlated (and appropriately designated and/or documented as such) with variable rate financing will impact our reported income as gains and losses on the ineffective portion of such hedges.

We depend on repurchase agreements and may depend on bank credit facilities, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements and other sources of financing to execute our business plan, and our inability to access funding could have a material adverse effect on our results of operations, financial condition and business.

Our ability to fund our investments may be impacted by our ability to secure bank credit facilities (including term loans and revolving facilities), warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements and additional repurchase agreements on acceptable terms. We may also rely on short-term financing that would be especially exposed to changes in availability. Our access to sources of financing will depend upon a number of factors, over which we have little or no control, including:

general economic or market conditions;

the market s view of the quality of our assets;

the market s perception of our growth potential;

our current and potential future earnings and cash distributions; and

the market price of the shares of our class A common stock.

We will need to periodically access the capital markets to raise cash to fund new investments. Unfavorable economic or capital market conditions, such as the severe dislocation in the capital and credit markets that existed during the recent economic recession, may increase our funding costs, limit our access to the capital markets or could result in a decision by our potential lenders not to extend credit. An inability to successfully access the capital markets could limit our ability to grow our business and fully execute our business strategy and could decrease our earnings and liquidity. In addition, any dislocation or weakness in the capital and credit markets, such as the dislocation that existed during the recent economic recession, could adversely affect our lenders and could cause one or more of our lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing. In addition, as regulatory capital requirements imposed on our lenders are increased, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price. No assurance can be given that we will be able to obtain any additional financing on favorable terms or at all.

Any warehouse facilities that we may obtain in the future may limit our ability to originate or acquire assets, and we may incur losses if the collateral is liquidated.

We may utilize, if available, warehouse facilities pursuant to which we would accumulate loans in anticipation of a securitization or other financing, which assets would be pledged as collateral for such facilities until the securitization or other transaction is consummated. In order to borrow funds to originate or acquire assets under any future warehouse facilities, we expect that our lenders thereunder would have the right to review the potential assets for which we are seeking financing. We may be unable to obtain the consent of a lender to originate or acquire assets that we believe would be beneficial to us and we may be unable to obtain alternate financing for such assets. In addition, no assurance can be given that a securitization or other financing would be consummated with respect to the assets being warehoused. If the securitization or other financing is not consummated, the lender could demand repayment of the facility, and in the event that we were unable to timely repay, could liquidate the warehoused collateral and we would then have to pay any amount by which the original purchase price of the collateral assets exceeds its sale price, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the securitization or other financing is consummated, if any of the warehoused collateral is sold before the completion, we would have to bear any resulting loss on the sale.

We may use securitizations to finance our loans and investments, which may expose us to risks that could result in losses.

We may, to the extent consistent with the REIT requirements, seek to securitize certain of our portfolio investments to generate cash for funding new investments. This would involve creating a special-purpose vehicle, contributing a pool of our assets to the entity, and selling interests in the entity on a non-recourse basis to purchasers (whom we would expect to be willing to accept a lower interest rate to invest in investment-grade loan pools). We would expect to retain all or a portion of the equity in the securitized pool of portfolio investments. We may use short-term facilities to finance the acquisition of securities until a sufficient quantity of securities had been accumulated, at which time we would refinance these facilities through a securitization, such as a CMBS, or issuance of CLOs, or the private placement of loan participations or other long-term financing. If we were to employ this strategy, we would be subject to the risk that we would not be able to acquire, during the period that our short-term facilities are available, a sufficient amount of eligible securities to maximize the efficiency of a CMBS, CLO or private placement issuance. We also would be subject to the risk that we would not be able to obtain short-term credit facilities or would not be

able to renew any short-term credit facilities after they expire should we find it necessary to extend our short-term credit facilities to allow more time to seek and acquire the necessary eligible securities for a long-term financing. The inability to consummate securitizations of our portfolio to finance our investments on a long-term basis could require us to seek other forms of potentially

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less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to grow our business. Additionally, the securitization of our portfolio might magnify our exposure to losses because any equity interest we retain in the issuing entity would be subordinate to the notes issued to investors and we would, therefore, absorb all of the losses sustained with respect to a securitized pool of assets before the owners of the notes experience any losses. The inability to securitize our portfolio may hurt our performance and our ability to grow our business. At the same time, the securitization of our portfolio investments might expose us to losses, as the residual portfolio investments in which we do not sell interests will tend to be riskier and more likely to generate losses.

We may be subject to losses arising from current and future guarantees of debt and contingent obligations of our subsidiaries or joint venture or co-investment partners.

We currently guarantee certain obligations of our subsidiaries under the various master repurchase agreements that provide for significant aggregate borrowings and we may in the future guarantee the performance of additional subsidiaries obligations, including, but not limited to, additional repurchase agreements, derivative agreements and unsecured indebtedness. In the future we may also agree to guarantee indebtedness incurred by a joint venture or co-investment partner. Such a guarantee may be on a joint and several basis with such joint venture or co-investment partner, in which case we may be liable in the event such partner defaults on its guarantee obligation. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations and there is no assurance that we will have sufficient capital to cover any such losses.

We are subject to counterparty risk associated with our debt obligations.

Our counterparties for critical financial relationships may include both domestic and international financial institutions. Many of them have been severely impacted by the recent credit market turmoil and have been experiencing financial pressures. In the past, certain of our counterparties have filed for bankruptcy, leading to financial losses for us.

Hedging may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

Subject to maintaining our qualification as a REIT, we may pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates and fluctuations in currencies. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and other changing market conditions. Interest rate and currency hedging may fail to protect or could adversely affect us because, among other things:

- interest, currency and/or credit hedging can be expensive and may result in us receiving less interest income;
- available interest or currency rate hedges may not correspond directly with the interest rate or currency risk for which protection is sought;
- due to a credit loss, prepayment or asset sale, the duration of the hedge may not match the duration of the related asset or liability;

the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Internal Revenue Code or that are done through a taxable REIT subsidiary, or TRS) to offset interest rate losses is limited by U.S. federal income tax provisions governing REITs;

the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;

- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay;
- we may fail to recalculate, readjust and execute hedges in an efficient manner; and
- legal, tax and regulatory changes could occur and may adversely affect our ability to pursue our hedging strategies and/or increase the costs of implementing such strategies.

Any hedging activity in which we engage may materially and adversely affect our results of operations and cash flows. Therefore, while we may enter into such transactions seeking to reduce risks, unanticipated changes in interest rates, credit spreads or currencies may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

In addition, some hedging instruments involve additional risk because they are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, we cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses. In addition, certain regulatory requirements with respect to derivatives, including record keeping, financial responsibility or segregation of customer funds and positions are still under development and could impact our hedging transactions and how we and our counterparty must manage such transactions.

We are subject to counterparty risk associated with our hedging activities.

We are subject to credit risk with respect to the counterparties to derivative contracts (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments). If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, we may experience significant delays in obtaining any recovery under the derivative contract in a dissolution, assignment for the benefit of creditors, liquidation, winding-up, bankruptcy, or other analogous proceeding. In the event of the insolvency of a counterparty to a derivative transaction, the derivative transaction would typically be terminated at its fair market value. If we are owed this fair market value in the termination of the derivative transaction and its claim is unsecured, we will be treated as a general creditor of such counterparty, and will not have any claim with respect to the underlying security. We may obtain only a limited recovery or may obtain no recovery in such circumstances. In addition, the business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in its default, which may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Counterparty risk with respect to certain exchange-traded and over-the-counter derivatives may be further complicated by recently enacted U.S. financial reform legislation.

We may enter into hedging transactions that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, part of our investment strategy may involve entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due with

respect to an early termination would generally be equal to the unrealized loss of such open transaction positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely affect our results of operations and financial condition.

We may fail to qualify for, or choose not to elect, hedge accounting treatment.

We intend to record derivative and hedging transactions in accordance with Topic 815 of the Financial Accounting Standards Board s Accounting Standard Codification, or Topic 815. Under these standards, we may fail to qualify for, or choose not to elect, hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the Topic 815 definition of a derivative (such as short sales), we fail to satisfy Topic 815 hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for, or choose not to elect, hedge accounting treatment, our operating results may suffer because losses on the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item.

If we enter into certain hedging transactions or otherwise invest in certain derivative instruments, failure to obtain and maintain an exemption from being regulated as a commodity pool operator could subject us to additional regulation and compliance requirements which could materially adversely affect our business and financial condition.

Rules under the Dodd-Frank Act Wall Street Reform and Consumer Protection Act of 2010, or Dodd-Frank Act, establish a comprehensive new regulatory framework for derivative contracts commonly referred to as swaps. Under this regulatory framework, mortgage real estate investment trusts, or mREITs, that trade in commodity interest positions (including swaps) are considered commodity pools and the operators of such mREITs would be considered commodity pool operators, or CPOs. Absent relief, a CPO must register with the U.S. Commodity Futures Trading Commission, or CFTC, and become a member of the National Futures Association, or NFA, which requires compliance with NFA s rules and renders such CPO subject to regulation by the CFTC, including with respect to disclosure, reporting, recordkeeping and business conduct. We may from time to time, directly or indirectly, invest in instruments that meet the definition of swap under the new rules which may subject us to oversight by the CFTC. Our board of directors has appointed our Manager to act as our CPO in the event we are deemed a commodity pool.

In the event that we invest in commodity interests, absent relief, our Manager would be required to register as a CPO. Our Manager may therefore seek and rely on no-action relief from registration with the CFTC or claim an exemption from registration as a CPO with the CFTC, including pursuant to CFTC Rule 4.13(a)(3). CFTC Rule 4.13(a)(3) requires that, among other things, the pool s trading in commodity interest positions (including both hedging and speculative positions, and positions in security futures) is limited so that either (i) no more than 5% of the liquidation value of the pool s portfolio is used as initial margin, premiums and required minimum security deposits to establish such positions, or (ii) the aggregate net notional value of the pool s trading in such positions does not exceed 100% of the pool s liquidation value. Therefore, unlike a registered CPO, we will not be required to provide prospective investors with a CFTC compliant disclosure document, nor will we be required to provide investors with periodic account statements or certified annual reports that satisfy the requirements of CFTC rules applicable to registered CPOs, in connection with any offerings of shares.

As an alternative to the exemption from registration, our Manager may register as a CPO with the CFTC and avail itself of certain disclosure, reporting and record-keeping relief under CFTC Rule 4.7.

The CFTC has substantial enforcement power with respect to violations of the laws over which it has jurisdiction, including their anti-fraud and anti-manipulation provisions. Among other things, the CFTC may suspend or revoke the registration of a person who fails to comply, prohibit such a person from trading or doing business with registered entities, impose civil money penalties, require restitution and seek fines or imprisonment for criminal violations. Additionally, a private right of action exists against those who violate the laws over which the CFTC has jurisdiction or who willfully aid, abet, counsel, induce or procure a violation of those laws. In the event we fail to receive interpretive relief from the CFTC on this matter, are unable to claim an exemption from registration and fail to comply

with the regulatory requirements of these new rules, we may be unable to use certain types of hedging instruments or we may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could adversely affect our results of operations and financial condition.

Risks Related to Our Relationship with Our Manager and its Affiliates

We depend on our Manager and its personnel for our success. We may not find a suitable replacement for our Manager if the Management Agreement is terminated, or if key personnel leave the employment of our Manager or Blackstone or otherwise become unavailable to us.

We are externally managed and advised by our Manager, an affiliate of Blackstone. We have no employees and all of our officers are employees of Blackstone or its affiliates. We are completely reliant on our Manager, which has significant discretion as to the implementation of our investment and operating policies and strategies.

Our success will depend to a significant extent upon the efforts, experience, diligence, skill, and network of business contacts of the executive officers and key personnel of our Manager and its affiliates. Our Manager is managed by senior professionals of Blackstone. These individuals will evaluate, negotiate, execute and monitor our investments and advise us regarding maintenance of our REIT status and exclusion from regulation under the Investment Company Act; therefore, our success will depend on their continued service with our Manager and its affiliates. The departure of one or more of the executive officers or key personnel from our Manager and its affiliates could have a material adverse effect on our performance.

In addition, we can offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager s officers and key personnel. The initial term of the Management Agreement only extends until December 19, 2015. Thereafter, the Management Agreement will be renewable for one-year terms; provided, however, that our Manager may terminate the Management Agreement annually upon 180 days prior notice. If the Management Agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan. Furthermore, we may incur certain costs in connection with a termination of the Management Agreement.

The personnel of our Manager, as our external manager, are not required to dedicate a specific portion of their time to the management of our business.

Neither our Manager nor any other Blackstone affiliate is obligated to dedicate any specific personnel exclusively to us, nor are they or their personnel obligated to dedicate any specific portion of their time to the management of our business. As a result, we cannot provide any assurances regarding the amount of time our Manager or its affiliates will dedicate to the management of our business and our Manager may have conflicts in allocating its time, resources and services among our business and any other investment vehicles and accounts our Manager (or its personnel) may manage. Each of our officers is also an employee of our Manager or another Blackstone affiliate, who has now or may be expected to have significant responsibilities for other investment vehicles currently managed by Blackstone and its affiliates. Consequently, we may not receive the level of support and assistance that we otherwise might receive if we were internally managed. Our Manager and its affiliates are not restricted from entering into other investment advisory relationships or from engaging in other business activities.

Our Manager manages our portfolio pursuant to very broad investment guidelines and is not required to seek the approval of our board of directors for each investment, financing, asset allocation or hedging decision made by it, which may result in our making riskier loans and investments and which could adversely affect our results of operations and financial condition.

Our Manager is authorized to follow very broad investment guidelines that provide it with broad discretion in investment, financing, asset allocation and hedging decisions. Our board of directors will periodically review our investment guidelines and our investment portfolio but will not, and will not be required to, review and approve in

advance all of our proposed investments or the Manager s financing, asset allocation or hedging decisions. In addition, in conducting periodic reviews, our directors may rely primarily on information provided to them by our Manager or its affiliates. Subject to maintaining our REIT qualification and our exclusion from regulation under the Investment Company Act, our Manager has significant latitude within the broad investment guidelines

in determining the types of investments it makes for us, and how such investments are financing or hedged, which could result in investment returns that are substantially below expectations or that result in losses, which could adversely affect our results of operations and financial condition.

Our Manager s fee structure may not create proper incentives or may induce our Manager and its affiliates to make certain investments, including speculative investments, which increase the risk of our investment portfolio.

We pay our Manager base management fees regardless of the performance of our portfolio. Our Manager s entitlement to base management fees, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. Because the base management fees are also based in part on our outstanding equity, our Manager may also be incentivized to advance strategies that increase our equity, and there may be circumstances where increasing our equity will not optimize the returns for our stockholders. Consequently, we may be required to pay our Manager base management fees in a particular period despite experiencing a net loss or a decline in the value of our portfolio during that period.

In addition, our Manager has the ability to earn incentive fees each quarter based on our earnings, which may create an incentive for our Manager to invest in assets with higher yield potential, which are generally riskier or more speculative, or sell an asset prematurely for a gain, in an effort to increase our short-term net income and thereby increase the incentive fees to which it is entitled. If our interests and those of our Manager are not aligned, the execution of our business plan and our results of operations could be adversely affected, which could adversely affect our results of operations and financial condition.

We may compete with existing and future private and public investment vehicles established and/or managed by Blackstone or its affiliates, which may present various conflicts of interest that restrict our ability to pursue certain investment opportunities or take other actions that are beneficial to our business and result in decisions that are not in the best interests of our stockholders.

We are subject to conflicts of interest arising out of our relationship with Blackstone, including our Manager and its affiliates. Blackstone has appointed two nominees to serve on our board of directors (one of whom serves as executive chairman of our board of directors), and Stephen D. Plavin, our chief executive officer and a member of our board, Paul D. Quinlan, our chief financial officer, and our other executive officers are also executives of Blackstone and/or one or more of its affiliates, and we are managed by our Manager, a Blackstone affiliate. There is no guarantee that the policies and procedures adopted by us, the terms and conditions of the Management Agreement or the policies and procedures adopted by our Manager, Blackstone and their affiliates, will enable us to identify, adequately address or mitigate these conflicts of interest.

Some examples of conflicts of interest that may arise by virtue of our relationship with our Manager and Blackstone include:

Broad and Wide-Ranging Activities. Our Manager, Blackstone and their affiliates engage in a broad spectrum of activities, including a broad range of activities relating to investments in the real estate industry, and have invested or committed billions of dollars in capital through various investment funds, managed accounts and other vehicles affiliated with Blackstone. In the ordinary course of their business activities, our Manager, Blackstone and their affiliates may engage in activities where the interests of certain divisions of Blackstone and its affiliates, including our Manager, or the interests of their clients may conflict with the interests of our stockholders. Certain of these divisions and entities affiliated with our Manager have or may

have an investment strategy similar to our investment strategy and therefore may compete with us. In particular, Blackstone Real Estate Debt Strategies, or BREDS, part of Blackstone s real estate investment business, seeks to invest in a broad range of real estate-related debt investments via several different investment funds, managed accounts and other vehicles.

Blackstone s Policies and Procedures. Specified policies and procedures implemented by Blackstone and its affiliates, including our Manager, to mitigate potential conflicts of interest and address certain regulatory requirements and contractual restrictions may reduce the advantages across Blackstone s and its affiliates various businesses that Blackstone expects to draw on for purposes of pursuing attractive investment opportunities. Because Blackstone has many different asset management, advisory and other businesses, it is subject to a number of actual and potential conflicts of interest, greater regulatory oversight and more legal and contractual restrictions than that to which it would otherwise be subject if it had just one line of business. In addressing these conflicts and regulatory, legal and contractual requirements across its various businesses, Blackstone has implemented certain policies and procedures (e.g., information walls) that may reduce the benefits that Blackstone expects to utilize for purposes of identifying and managing its investments. For example, Blackstone may come into possession of material non-public information with respect to companies in which our Manager may be considering making an investment in companies that are Blackstone s and its affiliates advisory clients. As a consequence, that information, which could be of benefit to our Manager, might become restricted to those other businesses and otherwise be unavailable to our Manager, and could also restrict our Manager s activities. Additionally, the terms of confidentiality or other agreements with or related to companies in which any investment vehicle of Blackstone has or has considered making an investment or which is otherwise an advisory client of Blackstone and its affiliates may restrict or otherwise limit the ability of Blackstone or its affiliates, including our Manager, to engage in businesses or activities competitive with such companies.

Allocation of Investment Opportunities. Certain inherent conflicts of interest arise from the fact that Blackstone and its affiliates, including our Manager, will provide investment management and other services both to us and to any other person or entity, whether or not the investment objectives or policies of any such other person or entity are similar to ours, including, without limitation, the sponsoring, closing and/or managing of any investment funds, vehicles, accounts, products and/or other similar arrangements sponsored, advised, and/or managed by Blackstone or its affiliates, whether currently in existence or subsequently established (in each case, including any related successor funds, alternative vehicles, supplemental capital vehicles, co-investment vehicles and other entities formed in connection with Blackstone or its affiliates side-by-side or additional general partner investments with respect thereto), which we refer to as the Blackstone Funds. The respective investment guidelines and programs of our business and the Blackstone Funds may or may not overlap, in whole or in part, and if there is any such overlap investment opportunities will be allocated between us and the Blackstone Funds in a manner that may result in fewer investment opportunities being allocated to us than would have otherwise been the case in the absence of such Blackstone Funds. In particular, while the primary investment strategies of Blackstone Mortgage Trust and Blackstone s latest flagship successor real estate debt fund, Blackstone Real Estate Debt Strategies II, L.P., or BREDS II, are materially different in that Blackstone Mortgage Trust will generally seek to invest primarily in senior mortgage loans and other similar interests and BREDS II will generally seek to invest primarily in junior mortgage debt (e.g., B Notes) and mezzanine debt, a significant portion of the capital of BREDS II may nonetheless be invested in investments that would also be appropriate for Blackstone Mortgage Trust. Our Manager, Blackstone or their affiliates may also give advice to the Blackstone Funds that may differ from advice given to us even though their investment objectives may be the same or similar to ours.

While our Manager will seek to manage potential conflicts of interest in a fair and reasonable manner in accordance with the investment allocation policy and procedures of our Manager and/or its affiliates with respect to the allocation of investment opportunities among us and one or more Blackstone Funds (as the same may be amended, updated or revised from time to time without prior notice from our Manager or our consent), which we refer to as the Allocation Policy, and as required pursuant to the Management Agreement, the portfolio strategies employed by our Manager,

Blackstone or their affiliates in managing the Blackstone Funds could conflict with the strategies employed by our Manager in managing our business and may adversely affect the marketability, exit strategy, prices and availability of the securities and instruments in which we invest. Conversely, participation in specific

investment opportunities may be appropriate, at times, for both us and the Blackstone Funds. Our Manager has an investment allocation policy in place which provides that investment opportunities falling within the shared investment objectives of our business and the Blackstone Funds will generally be allocated on a basis that our Manager and applicable Blackstone affiliates determine to be fair and reasonable in accordance with the Allocation Policy, subject to legal, tax, regulatory, accounting and other considerations and taking into account a variety of factors. Our Manager is entitled to amend the Allocation Policy at any time without prior notice or our consent.

Investments in Different Levels or Classes of an Issuer s Securities. From time to time, we and the Blackstone Funds may make investments at different levels of an issuer s or borrower s capital structure (e.g., an investment by a Blackstone Fund in an equity or mezzanine interest with respect to the same portfolio entity in which we own a debt interest or vice versa) or otherwise in different classes of the same issuer s securities. We may make investments that are senior or junior to, or have rights and interests different from or adverse to, the investments made by the Blackstone Funds. Such investments may conflict with the interests of such Blackstone Funds in related investments, and the potential for any such conflicts of interests may be heightened in the event of a default or restructuring of any such investments. Our Management Agreement requires our Manager to keep our board of directors reasonably informed on a periodic basis in connection with the foregoing, including with respect to transactions that involve investments at different levels of an issuer s or borrower s capital structure, as to which our Manager has agreed to provide our board of directors with quarterly updates. We currently hold mortgage and mezzanine loans and other investments in which Blackstone affiliates have interests in the collateral securing or backing such investments. While Blackstone will seek to resolve any such conflicts in a fair and equitable manner in accordance with the Allocation Policy and its prevailing policies and procedures with respect to conflicts resolution among the Blackstone Funds generally, such transactions are not required to be presented to our board of directors for approval, and there can be no assurance that any conflicts will be resolved in our favor.

Pursuit of Differing Strategies. At times, the investment professionals employed by our Manager or its affiliates and other investment vehicles affiliated with our Manager and/or Blackstone may determine that an investment opportunity may be appropriate for only some of the accounts, clients, entities, funds and/or investment companies for which he or she exercises investment responsibility, or may decide that certain of the accounts, clients, entities, funds and/or investment companies should take differing positions with respect to a particular security. In these cases, the investment professionals may place separate transactions for one or more accounts, clients, entities, funds and/or investment companies which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other accounts, clients, entities, funds and/or investment companies. For example, an investment professional may determine that it would be in the interest of another account to sell a security that we hold long, potentially resulting in a decrease in the market value of the security held by us.

Variation in Financial and Other Benefits. A conflict of interest arises where the financial or other benefits available to our Manager or its affiliates differ among the accounts, clients, entities, funds and/or investment companies that it manages. If the amount or structure of the base management fee, incentive fee and/or our Manager s compensation differs among accounts, clients, entities, funds and/or investment companies (such as where certain funds or accounts pay higher base management fees, incentive fees, performance-based management fees or other fees), our Manager might be motivated to help certain accounts, clients, entities,

funds and/or investment companies over others. Similarly, the desire to maintain assets under management or to enhance our Manager s performance record or to derive other rewards, financial or otherwise, could influence our Manager in affording preferential treatment to those accounts, clients, entities, funds and/or investment companies that could most significantly benefit our Manager. Our Manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such accounts, clients, entities, funds and/or investment companies. Additionally, our Manager might be

motivated to favor accounts, clients, entities, funds and/or investment companies in which it has an ownership interest or in which Blackstone and/or its affiliates have ownership interests. Conversely, if an investment professional at our Manager or its affiliates does not personally hold an investment in the fund but holds investments in other Blackstone affiliated vehicles, such investment professional s conflicts of interest with respect to us may be more acute.

Investment Banking, Underwriting Advisory and Other Relationships. As part of its regular business, Blackstone provides a broad range of investment banking, underwriting, advisory, and other services. In the regular course of its investment banking and advisory businesses, Blackstone represents potential purchasers, sellers and other involved parties, including corporations, financial buyers, management, stockholders and institutions, with respect to transactions that could give rise to investments that are suitable for us. Blackstone will be under no obligation to decline any such engagements in order to make an investment opportunity available to us. In connection with its investment banking, advisory and other businesses, Blackstone may come into possession of information that limits its ability to engage in potential transactions. Our activities may be constrained as a result of the inability of Blackstone personnel to use such information. For example, employees of Blackstone not serving as employees of our Manager or its affiliates may be prohibited by law or contract from sharing information with members of our Manager s investment team. Additionally, there may be circumstances in which one or more of certain individuals associated with Blackstone will be precluded from providing services to our Manager because of certain confidential information available to those individuals or to other parts of Blackstone. In certain sell-side assignments, the seller may permit Blackstone to act as a participant in such transaction, which would raise conflicts of interest inherent in such a situation. In addition, in connection with selling investments by way of a public offering, a Blackstone broker-dealer may act as the managing underwriter or a member of the underwriting syndicate on a firm commitment basis and purchase securities on that basis. Blackstone may retain any commissions, remuneration, or other profits and receive compensation from such underwriting activities, which have the potential to create conflicts of interest. Blackstone may also participate in underwriting syndicates from time to time with respect to us or portfolio companies of Blackstone Funds, or may otherwise be involved in the private placement of debt or equity securities issued by us or such portfolio companies, or otherwise in arranging financings with respect thereto. Subject to applicable law, Blackstone may receive underwriting fees, placement commissions, or other compensation with respect to such activities, which are not required to be shared with us or our stockholders. Where Blackstone serves as underwriter with respect to a portfolio company s securities, we or the applicable Blackstone fund holding such securities may be subject to a lock-up period following the offering under applicable regulations during which time our ability to sell any securities that we continue to hold is restricted. This may prejudice our ability to dispose of such securities at an opportune time.

Blackstone has long-term relationships with a significant number of corporations and their senior management. In determining whether to invest in a particular transaction on our behalf, our Manager may consider those relationships (subject to its obligations under the Management Agreement), which may result in certain transactions that our Manager will not undertake on our behalf in view of such relationships.

Blackstone and its affiliates may represent creditors or debtors in proceedings under Chapter 11 of the Bankruptcy Code or prior to such filings. From time to time Blackstone and its affiliates may serve as advisor to creditor or equity committees. This involvement, for which Blackstone and its affiliates may be compensated, may limit or preclude the flexibility that we may otherwise have to participate in restructurings.

Service Providers. Certain of our service providers (including lenders, brokers, attorneys, and investment banking firms) may be sources of investment opportunities, counterparties therein or advisors with respect thereto. This may influence our Manager in deciding whether to select such a service provider. In addition, in instances where multiple Blackstone businesses may be exploring a potential individual investment, certain of these service providers may choose to be engaged by other Blackstone affiliates rather than us.

Material, Non-Public Information. We, directly or through Blackstone, our Manager or certain of their respective affiliates may come into possession of material non-public information with respect to an issuer in which we have invested or may invest. Should this occur, our Manager may be restricted from buying or selling securities, derivatives or loans of the issuer on our behalf until such time as the information becomes public or is no longer deemed material. Disclosure of such information to the personnel responsible for management of our business may be on a need-to-know basis only, and we may not be free to act upon any such information. Therefore, we and/or our Manager may not have access to material non-public information in the possession of Blackstone which might be relevant to an investment decision to be made by our Manager on our behalf, and our Manager may initiate a transaction or purchase or sell an investment which, if such information had been known to it, may not have been undertaken. Due to these restrictions, our Manager may not be able to initiate a transaction on our behalf that it otherwise might have initiated and may not be able to purchase or sell an investment that it otherwise might have purchased or sold, which could negatively affect our operations.

Possible Future Activities. Our Manager and its affiliates may expand the range of services that they provide over time. Except as and to the extent expressly provided in the Management Agreement, our Manager and its affiliates will not be restricted in the scope of its business or in the performance of any such services (whether now offered or undertaken in the future) even if such activities could give rise to conflicts of interest, and whether or not such conflicts are described herein. Our Manager, Blackstone and their affiliates continue to develop relationships with a significant number of companies, financial sponsors and their senior managers, including relationships with clients who may hold or may have held investments similar to those intended to be made by us. These clients may themselves represent appropriate investment opportunities for us or may compete with us for investment opportunities.

Transactions with Blackstone Funds. From time to time, we may enter into purchase and sale transactions with Blackstone Funds. Such transactions will be conducted in accordance with, and subject to, the terms and conditions of the Management Agreement (including the requirement that sales to or acquisitions of investments from Blackstone, any Blackstone Fund or any of their affiliates be approved in advance by a majority of our independent directors) and our code of business conduct and ethics and applicable laws and regulations.

Loan Refinancings. We may from time to time seek to participate in investments relating to the refinancing of loans held by the Blackstone Funds (including the BREDS funds). While it is expected that our participation in connection with such refinancing transactions will be at arms length and on market/contract terms, such transactions may give rise to potential or actual conflicts of interest.

Other Affiliate Transactions. Our Manager may on our behalf acquire debt issued by a borrower in which a separate equity or another debt investment has been made by Blackstone or its other affiliates, including the BREDS funds. In connection with investments in which we participate alongside other Blackstone Funds (including the BREDS funds), we may from time to time share certain rights with such other Blackstone Funds relating to such investments for legal, tax, regulatory or other similar reasons, including, in certain instances, certain control-related rights with respect to jointly-held investments. When making any such investments, there may be conflicting interests. There can be no assurance that the return on our investment will be equivalent to or better than the returns obtained by Blackstone or its other affiliates.

Further conflicts could arise once we and Blackstone or its affiliates have made their respective investments. For example, if a company goes into bankruptcy or reorganization, becomes insolvent or otherwise experiences financial distress or is unable to meet its payment obligations or comply with covenants relating to securities held by us or by the Blackstone or its affiliates, Blackstone or its affiliates may have an interest that conflicts with our interests or Blackstone or its affiliates may have information regarding the company that we do not have access to. If additional financing is necessary as a result of financial or other difficulties, it may not be in our best

interests to provide such additional financing. If Blackstone or its affiliates were to lose their respective investments as a result of such difficulties, the ability of our Manager to recommend actions in our best interests might be impaired.

Termination of the Management Agreement would be costly.

Termination of the Management Agreement without cause will be difficult and costly. Our independent directors will review our Manager s performance annually and, following the initial three-year term, the Management Agreement may be terminated each year upon the affirmative vote of at least two-thirds of our independent directors, based upon a determination that (i) our Manager s performance is unsatisfactory and materially detrimental to us or (ii) the base management fee and incentive fee payable to our Manager are not fair (provided that in this instance, our Manager will be afforded the opportunity to renegotiate the management fee and incentive fees prior to termination). We are required to provide our Manager with 180 days prior notice of any such termination. Additionally, upon such a termination, or if we materially breach the Management Agreement and our Manager terminates the Management Agreement, the Management Agreement provides that we will pay our Manager a termination fee equal to three times the sum of the average annual base management fee and the average annual incentive fee earned during the 24-month period immediately preceding the date of termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination. These provisions increase the cost to us of terminating the Management Agreement and adversely affect our ability to terminate our Manager without cause.

Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Our Manager s liability is limited under the Management Agreement and we have agreed to indemnify our Manager against certain liabilities.

Pursuant to the Management Agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the Management Agreement, our Manager and its affiliates and their respective directors, officers, employees and stockholders are not liable to us, our directors, our stockholders or any subsidiary of ours, or their directors, officers, employees or stockholders for any acts or omissions performed in accordance with and pursuant to the Management Agreement, except by reason of acts or omissions constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the Management Agreement. We have agreed to indemnify our Manager and its affiliates and their respective directors, officers, employees and stockholders with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts or omissions of our Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed or not performed in good faith in accordance with and pursuant to the Management Agreement. As a result, we could experience poor performance or losses for which our Manager would not be liable.

We do not own the Blackstone name, but we may use it as part of our corporate name pursuant to a trademark license agreement with an affiliate of Blackstone. Use of the name by other parties or the termination of our trademark license agreement may harm our business.

We have entered into a trademark license agreement, or Trademark License Agreement, with an affiliate of Blackstone pursuant to which it has granted us a fully paid-up, royalty-free, non-exclusive, non-transferable license to use the name Blackstone Mortgage Trust, Inc. and the ticker symbol BXMT . Under this agreement, we have a right to use this name for so long as our Manager (or another affiliate of Blackstone TM L.L.C., or Licensor) serves as our Manager (or another managing entity) and the Manager remains an affiliate of the Licensor under the Trademark License Agreement. The Trademark License Agreement may also be earlier terminated by either party as a result of certain breaches or for convenience upon 90 days prior written notice; provided that upon notification of such

termination by us, the Licensor may elect to effect termination of the

Trademark License Agreement immediately at any time after 30 days from the date of such notification. The Licensor and its affiliates, such as Blackstone, will retain the right to continue using the Blackstone name. We will further be unable to preclude the Licensor from licensing or transferring the ownership of the Blackstone name to third parties, some of whom may compete with us. Consequently, we will be unable to prevent any damage to goodwill that may occur as a result of the activities of the Licensor, Blackstone or others. Furthermore, in the event that the Trademark License Agreement is terminated, we will be required to, among other things, change our name and NYSE ticker symbol. Any of these events could disrupt our recognition in the market place, damage any goodwill we may have generated and otherwise harm our business.

Risks Related to Our Company

Our investment strategy or guidelines, asset allocation and financing strategy may be changed without stockholder consent.

Our Manager is authorized to follow broad investment guidelines that have been approved by our board of directors. Those investment guidelines, as well as our financing strategy or hedging policies with respect to investments, originations, acquisitions, growth, operations, indebtedness, capitalization and distributions, may be changed at any time without the consent of our stockholders. This could result in an investment portfolio with a different risk profile. A change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those described in this report. These changes could adversely affect our results of operations and financial condition.

We must manage our portfolio so that we do not become an investment company that is subject to regulation under the Investment Company Act.

We conduct our operations so that we avail ourselves of the statutory exclusion provided in Section 3(c)(5)(C) for companies engaged primarily in investment in mortgages and other liens on or interests in real estate. In order to qualify for this exclusion, we must maintain, on the basis of positions taken by the SEC s Division of Investment Management, or the Division, in interpretive and no-action letters, a minimum of 55% of the value of our total assets in mortgage loans and other related assets that are considered mortgages and other liens on and interests in real estate, which we refer to as Qualifying Interests, and a minimum of 80% in Qualifying Interests and real estate-related assets. In the absence of SEC or Division guidance that supports the treatment of other investments as Qualifying Interests, we will treat those other investments appropriately as real estate-related assets or miscellaneous assets depending on the circumstances.

The SEC staff has commenced an advance notice rulemaking initiative, indicating that it is reconsidering its interpretive policy under Section 3(c)(5)(C) and whether to advance rulemaking to define the basis for the exclusion. We cannot predict the outcome of this reconsideration or potential rulemaking initiative and its impact on our ability to rely on the exclusion. To the extent that the SEC or its staff provides more specific guidance regarding any of the matters bearing upon the requirements of Section 3(c)(5)(C) of the Investment Company Act, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC or its staff could further inhibit our ability to pursue the strategies we have chosen.

Because registration as an investment company would significantly affect our ability to engage in certain transactions or be structured in the manner we currently are, we intend to conduct our business so that we will continue to satisfy the requirements to avoid regulation as an investment company. If we do not meet these requirements, we could be forced to alter our investment portfolios by selling or otherwise disposing of a substantial portion of the assets that do

not satisfy the applicable requirements or by acquiring a significant position in assets that are Qualifying Interests. In the past, when required due to the mix of assets in our balance sheet portfolio, and in connection with our reliance on the Section 3(c)(5)(C) exclusion, we have purchased agency residential mortgage-backed securities that represent the entire beneficial interests in the underlying pools of whole residential mortgage loans, which are treated as Qualifying Interests based on Division positions. Such

investments may not represent an optimum use of capital when compared to the available investments we and our subsidiaries target pursuant to our investment strategy. These investments present additional risks to us, and these risks are compounded by our inexperience with such investments. We continue to analyze our investments and may acquire other pools of whole loan residential mortgage-backed securities when and if required for compliance purposes. Altering our portfolio in this manner may have an adverse effect on our investments if we are forced to dispose of or acquire assets in an unfavorable market, and may adversely affect our stock price.

If it were established that we were an unregistered investment company, there would be a risk that we would be subject to monetary penalties and injunctive relief in an action brought by the SEC, that we would be unable to enforce contracts with third parties, that third parties could seek to obtain rescission of transactions undertaken during the period it was established that we were an unregistered investment company, and that we would be subject to limitations on corporate leverage that would have an adverse impact on our investment returns. In order to comply with provisions that allow us to avoid the consequences of registration under the Investment Company Act, we may need to forego otherwise attractive opportunities and limit the manner in which we conduct our operations. Thus, compliance with the requirements of the Investment Company Act may hinder our ability to operate solely on the basis of maximizing profits.

Rapid changes in the values of our other real estate-related investments may make it more difficult for us to maintain our qualification as a REIT or exclusion from regulation under the Investment Company Act.

If the market value or income potential of real estate-related investments declines as a result of increased interest rates, prepayment rates or other factors, we may need to increase our real estate investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exclusion from the Investment Company Act regulation. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets that we may own. We may have to make investment decisions that we otherwise would not make absent the REIT and Investment Company Act considerations.

Changes in laws or regulations governing our operations, changes in the interpretation thereof or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us or otherwise adversely affect our business.

The laws and regulations governing our operations, as well as their interpretation, may change from time to time, and new laws and regulations may be enacted. Accordingly, any change in these laws or regulations, changes in their interpretation, or newly enacted laws or regulations and any failure by us to comply with these laws or regulations, could require changes to certain of our business practices, negatively impact our operations, cash flow or financial condition, impose additional costs on us or otherwise adversely affect our business. Furthermore, if regulatory capital requirements whether under the Dodd-Frank Act, Basel III, or other regulatory action are imposed on private lenders that provide us with funds, or were to be imposed on us, they or we may be required to limit, or increase the cost of, financing they provide to us or that we provide to others. Among other things, this could potentially increase our financing costs, reduce our ability to originate or acquire loans and reduce our liquidity or require us to sell assets at an inopportune time or price.

Over the last several years, there also has been an increase in regulatory attention to the extension of credit outside of the traditional banking sector, raising the possibility that some portion of the non-bank financial sector will be subject to new regulation. While it cannot be known at this time whether any regulation will be implemented or what form it will take, increased regulation of non-bank credit extension could negatively impact our operations, cash flows or

financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business.

In addition, the Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA, expands the scope of U.S. sanctions against Iran and Section 219 of the ITRA amended the Exchange Act to require companies subject to

SEC reporting obligations under Section 13 of the Exchange Act to disclose in their periodic reports specified dealings or transactions involving Iran or other individuals and entities targeted by certain sanctions promulgated by the Office of Foreign Assets Control of the U.S. Department of the Treasury, or Treasury, engaged in by the reporting company or any of its affiliates during the period covered by the relevant periodic report. In some cases, ITRA requires companies to disclose these types of transactions even if they were permissible under U.S. law. Travelport Limited , which may be considered an affiliate of Blackstone, and therefore our affiliate, has publicly filed and/or provided to Blackstone the disclosures reproduced on Exhibit 99.1 of this report, which disclosures are hereby incorporated by reference herein. We have not independently verified or participated in the preparation of these disclosures. We are required to separately file with the SEC a notice that such activities have been disclosed in our reports, and the SEC is required to post those notices of disclosure on its website and send the report to the U.S. President and certain U.S. Congressional committees. The U.S. President thereafter is required to initiate an investigation and, within 180 days of initiating such an investigation, to determine whether sanctions should be imposed. Disclosure of such activity, even if such activity is not subject to sanctions under applicable law, and any sanctions actually imposed on us or our affiliates as a result of these activities, could harm our reputation and have a negative impact on our business.

Actions of the U.S. government, including the U.S. Congress, Federal Reserve Board, Treasury and other governmental and regulatory bodies, to stabilize or reform the financial markets, or market response to those actions, may not achieve the intended effect and may adversely affect our business.

In July 2010, President Obama signed into law the Dodd-Frank Act, which imposes significant investment restrictions and capital requirements on banking entities and other organizations that are significant to U.S. financial stability. For instance, the so-called Volcker Rule provisions of the Dodd-Frank Act impose significant restrictions on the proprietary trading activities of banking entities and on their ability to sponsor or invest in private equity and hedge funds. It also subjects nonbank financial companies that have been designated as systemically important by the Financial Stability Oversight Council to increased capital requirements and quantitative limits for engaging in such activities, as well as consolidated supervision by the Federal Reserve Board. The Dodd-Frank Act also seeks to reform the asset-backed securitization market (including the mortgage-backed securities market) by requiring the retention of a portion of the credit risk inherent in the pool of securitized assets and by imposing additional registration and disclosure requirements. In October 2014, five federal banking and housing agencies and the SEC issued final credit risk retention rules, which generally require sponsors of asset-backed securities to retain at least 5% of the credit risk relating to the assets that underlie such asset-backed securities. These rules, which generally become effective in December 2016 with respect to new securitization transactions backed by mortgage loans other than residential mortgage loans, could restrict credit availability and could negatively affect the terms and availability of credit to fund our investments. While the full impact of the Dodd-Frank Act cannot be fully assessed, the Dodd-Frank Act s extensive requirements may have a significant effect on the financial markets and may affect the availability or terms of financing from our lender counterparties and the availability or terms of mortgage-backed securities, which may, in turn, have an adverse effect on our business.

In addition, the Federal Reserve Board, Treasury and other governmental and regulatory bodies have taken or are taking other actions to address the global financial crisis. We cannot predict whether or when such actions may occur or what effect, if any, such actions could have on our business, results of operations and financial condition.

Operational risks may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our and Blackstone s financial, accounting, communications and other data processing systems. Such systems may fail to operate properly or become disabled as a result of tampering or a breach of the network security systems or otherwise. In addition, such systems are from time to time subject to cyberattacks. Breaches of our network security systems could involve attacks that are intended to obtain unauthorized access to our proprietary

information, destroy data or disable, degrade or sabotage our systems, often through the

introduction of computer viruses, cyberattacks and other means and could originate from a wide variety of sources, including unknown third parties outside the firm. Although Blackstone takes various measures to ensure the integrity of such systems, there can be no assurance that these measures will provide protection. If such systems are compromised, do not operate properly or are disabled, we could suffer financial loss, a disruption of our businesses, liability to investors, regulatory intervention or reputational damage.

In addition, we are highly dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level. Such a failure to accommodate growth, or an increase in costs related to such information systems, could have a material adverse effect on us.

Furthermore, we depend on our headquarters in New York City, where most of our personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Blackstone s disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Finally, we rely on third party service providers for certain aspects of our business, including for certain information systems, technology and administration. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of our operations and could affect our reputation and hence adversely affect our business.

Under the agreements that govern the Blackstone Transactions, we have retained responsibility for certain liabilities of our historical investment management and special servicing business, which could be substantial.

Under the purchase and sale agreement, dated September 27, 2012, or Purchase Agreement, by and between us and Huskies Acquisition, LLC, or Huskies Acquisition, an affiliate of Blackstone, relating to our December 19, 2012 disposition of our investment management and special servicing business, including CTIMCO, and related private investment fund co-investments, we are required to indemnify Huskies Acquisition and its affiliates for all pre-closing liabilities relating to our prior ownership, management and operation of our historical investment management and special servicing business. The Purchase Agreement does not limit the duration of our obligations to Huskies Acquisition or its affiliates with respect to these indemnities. In the event that the amount of these liabilities were to exceed our expectations, we could be responsible to Huskies Acquisition and its affiliates for substantial indemnification obligations, which could adversely affect our results of operations and financial condition. In addition, claims for indemnification could result in conflicts with our Manager.

Accounting rules for certain of our transactions are highly complex and involve significant judgment and assumptions. Changes in accounting interpretations or assumptions could impact our ability to timely prepare consolidated financial statements.

Accounting rules for transfers of financial assets, securitization transactions, consolidation of variable interest entities, and other aspects of our operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to our stockholders. Changes in accounting interpretations or assumptions could impact our consolidated financial statements and our ability to timely prepare our consolidated financial statements. Our inability to timely prepare our consolidated financial statements in the future would likely have a significant adverse effect on our stock price.

Risks Related to our REIT Status and Certain Other Tax Items

If we do not maintain our qualification as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability. Our taxable REIT subsidiaries are subject to income tax.

We expect to continue to operate so as to qualify as a REIT under the Internal Revenue Code. However, qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which only a limited number of judicial or administrative interpretations exist. Notwithstanding the availability of cure provisions in the Internal Revenue Code, various compliance requirements could be failed and could jeopardize our REIT status. Furthermore, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- we would be taxed as a regular domestic corporation, which under current laws, among other things, means being unable to deduct distributions to stockholders in computing taxable income and being subject to federal income tax on our taxable income at regular corporate income tax rates;

- any resulting tax liability could be substantial and could have a material adverse effect on our book value;

- unless we were entitled to relief under applicable statutory provisions, we would be required to pay taxes, and thus, our cash available for distribution to stockholders would be reduced for each of the years during which we did not qualify as a REIT and for which we had taxable income; and

- we generally would not be eligible to requalify as a REIT for the subsequent four full taxable years.

REITs, in certain circumstances, may incur tax liabilities that would reduce our cash available for distribution to our stockholders.

Even if we qualify and maintain our status as a REIT, we may become subject to U.S. federal income taxes and related state and local taxes. For example, net income from the sale of properties that are dealer properties sold by a REIT (a prohibited transaction under the Internal Revenue Code) will be subject to a 100% tax. We may not make sufficient distributions to avoid excise taxes applicable to REITs. Similarly, if we were to fail an income test (and did not lose our REIT status because such failure was due to reasonable cause and not willful neglect) we would be subject to tax on the income that does not meet the income test requirements. We also may decide to retain net capital gain we earn from the sale or other disposition of our investments and pay income tax directly on such income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of such tax liability unless they file U.S. federal income tax returns and thereon seek a refund of such tax. We also may be subject to state and local taxes on our income or property, including franchise, payroll, mortgage recording and transfer taxes, either directly or at the level of the other companies through which we indirectly own our assets, such as our TRSs, which are subject to full U.S. federal, state, local and foreign corporate-level income taxes. Any taxes we pay directly or indirectly will reduce our cash available for distribution to our stockholders.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities and limit our expansion opportunities.

In order to qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, our sources of income, the nature of our investments in commercial real estate and related assets, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

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Complying with REIT requirements may force us to liquidate or restructure otherwise attractive investments.

In order to qualify as a REIT, we must also ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets. The remainder of our investments in securities cannot include more than 10% of the outstanding voting securities of any one issuer or 10% of the total value of the outstanding securities of any one issuer unless we and such issuer jointly elect for such issuer to be treated as a taxable REIT subsidiary under the Internal Revenue Code. The total value of all of our investments in taxable REIT subsidiaries cannot exceed 25% of the value of our total assets. In addition, no more than 5% of the value of our assets can consist of the securities of any one issuer other than a taxable REIT subsidiary. If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Internal Revenue Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute gross income for purposes of the 75% or 95% gross income tests that we must satisfy in order to maintain our qualification as a REIT. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of these gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a domestic TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

Complying with REIT requirements may force us to borrow to make distributions to stockholders.

From time to time, our taxable income may be greater than our cash flow available for distribution to stockholders. If we do not have other funds available in these situations, we may be unable to distribute substantially all of our taxable income as required by the REIT provisions of the Internal Revenue Code. Thus, we could be required to borrow funds, sell a portion of our assets at disadvantageous prices or find another alternative. These options could increase our costs or reduce our equity.

Our charter does not permit any individual (including certain entities treated as individuals for this purpose) to own more than 9.9% of our class A common stock or of our capital stock, and attempts to acquire our class A common stock or any of our capital stock in excess of this 9.9% limit would not be effective without a prior exemption from those prohibitions by our board of directors.

For us to qualify as a REIT under the Internal Revenue Code, not more than 50% of the value of our outstanding stock may be owned directly or indirectly, by five or fewer individuals (including certain entities treated as individuals for this purpose) during the last half of a taxable year. For the purpose of preserving our qualification as a REIT for federal income tax purposes, among other purposes, our charter prohibits beneficial or constructive ownership by any individual (including certain entities treated as individuals for this purpose) of more than a certain percentage, currently 9.9%, by value or number of shares, whichever is more restrictive, of the outstanding shares of our class A common stock or our capital stock, which we refer to as the ownership limit. The constructive ownership rules under the Internal Revenue Code and our charter are complex and may cause shares of the outstanding class A common stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual.

As a result, the acquisition of less than 9.9% of our outstanding class A common stock or our capital stock by an individual or entity could cause an individual to own constructively in excess of 9.9% of our outstanding class A common stock or our capital stock, respectively, and

thus violate the ownership limit. There can be no assurance that our board of directors, as permitted in the charter, will increase, or will not decrease, this ownership limit in the future. Any attempt to own or transfer shares of our class A common stock in excess of the ownership limit without the consent of our board of directors either will result in the shares being transferred by operation of the charter to a charitable trust, and the person who attempted to acquire such excess shares will not have any rights in such excess shares, or in the transfer being void.

The ownership limit may have the effect of precluding a change in control of us by a third party, even if such change in control would be in the best interests of our stockholders or would result in receipt of a premium to the price of our class A common stock (and even if such change in control would not reasonably jeopardize our REIT status). The exemptions to the ownership limit granted to date may limit our board of directors power to increase the ownership limit or grant further exemptions in the future.

We may choose to make distributions in our own stock, in which case you may be required to pay income taxes without receiving any cash dividends.

In connection with our qualification as a REIT, we are required to annually distribute to our stockholders at least 90% of our REIT taxable income (which does not equal net income, as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. In order to satisfy this requirement, we may make distributions that are payable in cash and/or shares of our class A common stock (which could account for up to 90% of the aggregate amount of such distributions) at the election of each stockholder. Taxable stockholders receiving such distributions will be required to include the full amount of such distributions as ordinary dividend income to the extent of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. As a result, U.S. stockholders may be required to pay income taxes with respect to such distributions in excess of the cash portion of the distribution received. Accordingly, U.S. stockholders receiving a distribution of our shares may be required to sell shares received in such distribution or may be required to sell other stock or assets owned by them, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a U.S. stockholder sells the stock that it receives as part of the distribution in order to pay this tax, the sales proceeds may be less than the amount it must include in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such distribution, including in respect of all or a portion of such distribution that is payable in stock, by withholding or disposing of part of the shares included in such distribution and using the proceeds of such disposition to satisfy the withholding tax imposed. In addition, if a significant number of our stockholders determine to sell shares of our class A common stock in order to pay taxes owed on dividend income, such sale may put downward pressure on the market price of our class A common stock.

Various tax aspects of such a taxable cash/stock distribution are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose requirements in the future with respect to taxable cash/stock distributions, including on a retroactive basis, or assert that the requirements for such taxable cash/stock distributions have not been met.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to qualified dividend income payable to certain non-corporate U.S. stockholders has been reduced by legislation to 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our class A common

stock.

We will be dependent on external sources of capital to finance our growth.

As with other REITs, but unlike corporations generally, our ability to finance our growth must largely be funded by external sources of capital because we generally will have to distribute to our stockholders 90% of our taxable income in order to qualify as a REIT, including taxable income where we do not receive corresponding cash. Our access to external capital will depend upon a number of factors, including general market conditions, the market s perception of our growth potential, our current and potential future earnings, cash distributions and the market price of our class A common stock.

We may be subject to adverse legislative or regulatory tax changes that could increase our tax liability, reduce our operating flexibility and reduce the price of our class A common stock.

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of U.S. federal income tax laws applicable to investments similar to an investment in shares of our class A common stock. Additional changes to the tax laws are likely to continue to occur, and we cannot assure you that any such changes will not adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets. You are urged to consult with your tax advisor with respect to the impact of recent legislation on your investment in our shares and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in our shares. Although REITs generally receive certain tax advantages compared to entities taxed as regular corporations, it is possible that future legislation would result in a REIT having fewer tax advantages, and it could become more advantageous for a company that invests in real estate to elect to be treated for U.S. federal income tax purposes as a corporation. As a result, our charter provides our board of directors with the power, under certain circumstances, to revoke or otherwise terminate our REIT election and cause us to be taxed as a regular corporation, without the vote of our stockholders. Our board of directors has duties to us and could only cause such changes in our tax treatment if it determines in good faith that such changes are in the best interest of our company.

Our investments in certain debt instruments may cause us to recognize phantom income for U.S. federal income tax purposes even though no cash payments have been received on the debt instruments, and certain modifications of such debt by us could cause the modified debt to not qualify as a good REIT asset, thereby jeopardizing our REIT qualification.

Our taxable income may substantially exceed our net income as determined based on GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may acquire assets, including debt securities requiring us to accrue original issue discount, or OID, or recognize market discount income, that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets referred to as phantom income. In addition, if a borrower with respect to a particular debt instrument encounters financial difficulty rendering it unable to pay stated interest as due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income with the effect that we will recognize income but will not have a corresponding amount of cash available for distribution to our stockholders.

As a result of the foregoing, we may generate less cash flow than taxable income in a particular year and find it difficult or impossible to meet the REIT distribution requirements in certain circumstances. In such circumstances, we may be required to (a) sell assets in adverse market conditions, (b) borrow on unfavorable terms, (c) distribute amounts that would otherwise be used for future acquisitions or used to repay debt, or (d) make a taxable distribution of our shares of class A common stock as part of a distribution in which stockholders may elect to receive shares of class A common stock or (subject to a limit measured as a percentage of the total distribution) cash, in order to comply with the REIT distribution requirements.

Moreover, we may acquire distressed debt investments that require subsequent modification by agreement with the borrower. If the amendments to the outstanding debt are significant modifications under the applicable

Treasury Regulations, the modified debt may be considered to have been reissued to us in a debt-for-debt taxable exchange with the borrower. In certain circumstances, this deemed reissuance may prevent the modified debt from qualifying as a good REIT asset if the underlying security has declined in value and would cause us to recognize income to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt.

The taxable mortgage pool rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Securitizations could result in the creation of taxable mortgage pools for federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt disqualified organizations, such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we would be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

We may originate or acquire mezzanine loans, for which the IRS has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. We may originate or acquire mezzanine loans that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan s treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.

We have entered into financing arrangements that are structured as sale and repurchase agreements pursuant to which we would nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings which are secured by the assets sold pursuant thereto. We believe that we would be treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreements may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

Liquidation of assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with

these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

Our ownership of and relationship with any TRS will be restricted, and a failure to comply with the restrictions would jeopardize our REIT status and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT s assets may consist of stock or securities of one or more TRSs. The value of our interests in and thus the amount of assets held in a TRS may also be restricted by our need to qualify for an exclusion from regulation as an investment company under the Investment Company Act. A TRS will pay federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm s-length basis.

Any TRS we own, as a domestic TRS, will pay federal, state and local income tax on its taxable income, and its after-tax net income is available for distribution to us but is not required to be distributed to us. The aggregate value of the TRS stock and securities owned by us should be less than 25% of the value of our total assets (including the TRS stock and securities). Although we plan to monitor our investments in TRSs, there can be no assurance that we will be able to comply with the 25% limitation discussed above or to avoid application of the 100% excise tax discussed above.

Risks Related to Our Class A Common Stock

The market price of our class A common stock may fluctuate significantly.

The capital and credit markets have recently experienced a period of extreme volatility and disruption. The market price and liquidity of the market for shares of our class A common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. Some of the factors that could negatively affect the market price of our class A common stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;

- actual or perceived conflicts of interest with our Manager or other affiliates of Blackstone and individuals, including our executives;

- equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;

loss of a major funding source;

actual or anticipated accounting problems;

publication of research reports about us or the real estate industry;

changes in market valuations of similar companies;

adverse market reaction to the level of leverage we employ;

additions to or departures of our Manager s or Blackstone s key personnel;

speculation in the press or investment community;

our failure to meet, or the lowering of, our earnings estimates or those of any securities analysts;

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- increases in market interest rates, which may lead investors to demand a higher distribution yield for our class A common stock, and would result in increased interest expenses on our debt;

- a compression of the yield on our investments and an increase in the cost of our liabilities;

- failure to maintain our REIT qualification or exclusion from Investment Company Act regulation;

- price and volume fluctuations in the overall stock market from time to time;

- general market and economic conditions, and trends including inflationary concerns, and the current state of the credit and capital markets;

- significant volatility in the market price and trading volume of securities of publicly traded REITs or other companies in our sector, including Blackstone Mortgage Trust, which is not necessarily related to the operating performance of these companies;

- changes in law, regulatory policies or tax guidelines, or interpretations thereof, particularly with respect to REITs;

- changes in the value of our portfolio;

- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

- operating performance of companies comparable to us;

- short-selling pressure with respect to shares of our class A common stock or REITs generally; and

- uncertainty surrounding the strength of the U.S. economic recovery particularly in light of the recent debt ceiling and budget deficit concerns.

As noted above, market factors unrelated to our performance could also negatively impact the market price of our class A common stock. One of the factors that investors may consider in deciding whether to buy or sell our class A common stock is our distribution rate as a percentage of our stock price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher distribution rate or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and conditions in the capital markets may affect the market value of our class A common stock.

Because a limited number of stockholders, including affiliates of our Manager and members of our management team, own a substantial number of our shares, in addition to Blackstone s board designation rights, they have the power to make decisions or take actions that may be detrimental to your interests.

Our directors and executive officers, along with vehicles for the benefit of their families, collectively own and control 383,072 shares of our class A common stock, representing approximately 0.7% of our outstanding shares of class A common stock as of February 10, 2015. Blackstone and certain of its affiliates, with whom three of our directors are associated, owns 3,580,495 shares of our class A common stock, which represented approximately 6.1% of our outstanding class A common stock as of February 10, 2015. By virtue of their voting power, in addition to Blackstone s board designation rights, these stockholders have the power to significantly influence our business and affairs and are able to influence the outcome of matters required to be submitted to stockholders for approval, including the election of our directors, amendments to our charter, mergers or sales of assets. The influence exerted by these stockholders over our business and affairs might not be consistent with the interests of some or all of our stockholders. In addition, the concentration of ownership in our officers or directors or stockholders associated with them may have the effect of delaying or preventing a change in control of our company, including transactions which would be in the best interests of our stockholders and would result in receipt of a premium to the price of our class A common stock (and even if such change in control would not reasonably jeopardize our REIT status), and might negatively affect the market price of our class A common stock.

Some provisions of our charter and bylaws and Maryland law may deter takeover attempts, which may limit the opportunity of our stockholders to sell their shares at a favorable price.

Some of the provisions of Maryland law and our charter and bylaws discussed below could make it more difficult for a third party to acquire us, even if doing so might be beneficial to our stockholders by providing them with the opportunity to sell their shares at a premium to the then current market price.

Issuance of Stock Without Stockholder Approval. Our charter authorizes our board of directors, without stockholder approval, to authorize the issuance of up to 100,000,000 shares of preferred stock and up to 100,000,000 shares of class A common stock. Our charter also authorizes our board of directors, without stockholder approval, to classify or reclassify any unissued shares of our class A common stock and preferred stock into other classes or series of stock and to amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that are authorized by the charter to be issued. Preferred stock may be issued in one or more classes or series, the terms of which may be determined by our board of directors without further action by stockholders. Prior to issuance of any such class or series, our board of directors will set the terms of any such class or series, including the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption. The issuance of any preferred stock could materially adversely affect the rights of holders of our class A common stock and, therefore, could reduce the value of the class A common stock. In addition, specific rights granted to future holders of our preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The power of our board of directors to cause us to issue preferred stock could, in certain circumstances, make it more difficult, delay, discourage, prevent or make it more costly to acquire or effect a change in control, thereby preserving the current stockholders control.

Advance Notice Bylaw. Our bylaws contain advance notice procedures for the introduction by a stockholder of new business and the nomination of directors by a stockholder. These provisions could, in certain circumstances, discourage proxy contests and make it more difficult for you and other stockholders to elect stockholder-nominated directors and to propose and, consequently, approve stockholder proposals opposed by management.

Maryland Takeover Statutes. We are subject to the Maryland Business Combination Act, which could delay or prevent an unsolicited takeover of us. The statute substantially restricts the power of third parties who acquire, or seek to acquire, control of us to complete mergers and other business combinations without the approval of our board of directors even if such transaction would be beneficial to stockholders. Business combinations between such a third party acquirer or its affiliate and us are prohibited for five years after the most recent date on which the acquirer becomes an interested stockholder. An interested stockholder is defined as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock. If our board of directors approved in advance the transaction that would otherwise give rise to the acquirer attaining such status, the acquirer would not become an interested stockholder and, as a result, it could enter into a business combination with us. Our board of directors may, however, provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by it. Even after the lapse of the five-year prohibition period, any business combination with an interested stockholder must be recommended by our board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by stockholders; and

two-thirds of the votes entitled to be cast by stockholders other than the interested stockholder and affiliates and associates thereof.

The super-majority vote requirements do not apply if the transaction complies with a minimum price and form of consideration requirements prescribed by the statute.

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The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that an interested stockholder becomes an interested stockholder. Our board of directors has exempted any business combination involving a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell, our former chairman of the board, and his family and approved in advance the issuance of shares to W.R. Berkley. In addition, our board of directors has exempted any business combination involving Huskies Acquisition, an affiliate of Blackstone, or its present affiliates or Blackstone and its present and future affiliates; provided, however, that Huskies Acquisition or any of its present affiliates and Blackstone and any of its present or future affiliates may not enter into any business combination with us without the prior approval of at least a majority of the members of our board of directors who are not affiliates or associates of Huskies Acquisition or Blackstone. As a result, these parties may enter into business combinations with us without compliance with the five-year prohibition or the super-majority vote requirements and the other provisions of the statute.

We are also subject to the Maryland Control Share Acquisition Act. With certain exceptions, the Maryland General Corporation Law provides that a holder of control shares of a Maryland corporation acquired in a control share acquisition has no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquiring person or by our officers or by our directors who are our employees.

Control shares are voting shares of stock which, if aggregated with all other shares of stock owned or entitled to be voted (except solely by virtue of a revocable proxy) by the acquirer, would entitle the acquirer to exercise voting power in electing directors within one of the specified ranges of voting power. Control shares do not include shares the acquirer is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of issued and outstanding control shares subject to certain exceptions. A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions, including an undertaking to pay expenses, may compel our board to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the control shares in question. If no request for a meeting is made, we may present the question at any stockholders meeting.

If voting rights are not approved at a stockholders meeting or if the acquiring person does not deliver the statement required by Maryland law, then, subject to certain conditions and limitations, we may redeem for fair value (determined without regard to the absence of voting rights) any or all of the control shares, except those for which voting rights have previously been approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer may then vote a majority of the shares entitled to vote, then all other stockholders may exercise appraisal rights. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction, nor does it apply to acquisitions approved or exempted by our charter or bylaws. Our bylaws contain a provision exempting the following persons from this statute: (i) a limited liability company indirectly controlled by a trust for the benefit of Samuel Zell and his family; (ii) W.R. Berkley Corporation and any of its controlled affiliates; and (iii) Huskies Acquisition, or any person or entity that was an affiliate of Huskies Acquisition as of September 27, 2012 or by Blackstone or any of its affiliates.

We are also eligible to elect to be subject to the Maryland Unsolicited Takeovers Act, which permits our board of directors, without stockholder approval, to, among other things and notwithstanding any provision in our charter or bylaws, elect on our behalf to classify the terms of directors and to increase the stockholder vote required to remove a director. Such an election would significantly restrict the ability of third parties to wage a proxy fight for control of our board of directors as a means of advancing a takeover offer. If an acquirer were discouraged from offering to acquire us, or prevented from successfully completing a hostile acquisition, you could lose the opportunity to sell your

shares at a favorable price.

Our charter contains provisions that are designed to reduce or eliminate duties of Blackstone and our directors with respect to corporate opportunities and competitive activities.

Our charter contains provisions designed to reduce or eliminate duties of Blackstone and its affiliates (as such term is defined in the charter), and of our directors or any person our directors control to refrain from competing with us or to present to us business opportunities that otherwise may exist in the absence of such charter provisions. Under our charter, Blackstone and its affiliates and our directors or any person our directors control will not be obligated to present to us opportunities unless those opportunities are expressly offered to such person in his or her capacity as a director or officer of Blackstone Mortgage Trust and those persons will be able to engage in competing activities without any restriction imposed as a result of Blackstone s or its affiliates status as a stockholder or Blackstone s affiliates status as officers or directors of Blackstone Mortgage Trust.

We have not established a minimum distribution payment level and we cannot assure you of our ability to pay distributions in the future.

We are generally required to distribute to our stockholders at least 90% of our REIT taxable income each year for us to qualify as a REIT under the Internal Revenue Code, which requirement we currently intend to satisfy through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. Although we intend to make regular quarterly distributions to holders of our class A common stock and we generally intend to pay quarterly distributions in an amount at least equal to our REIT taxable income, we have not established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this report. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification, applicable law and other factors as our board of directors may deem relevant from time to time. We believe that a change in any one of the following factors could adversely affect our results of operations and impair our ability to pay distributions to our stockholders:

- our ability to make profitable investments;
- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that the level of any distributions we make to our stockholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect the market price of our class A common stock. We may use our net operating losses, to the extent available, carried forward to offset future REIT taxable income, and therefore reduce our dividend requirements. In addition, some of our distributions may include a return of capital, which would reduce the amount of capital available to operate our business.

In addition, distributions that we make to our stockholders will generally be taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for U.S. federal income tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a stockholder s investment in our class A common stock.

Investing in our class A common stock may involve a high degree of risk.

The investments that we make in accordance with our investment objectives may result in a high amount of risk when compared to alternative investment options and volatility or loss of principal. Our investments may be highly speculative and aggressive, and therefore an investment in our class A common stock may not be suitable for someone with lower risk tolerance.

Future issuances of equity or debt securities, which may include securities that would rank senior to our class A common stock, may adversely affect the market price of the shares of our class A common stock.

The issuance of additional shares of our class A common stock, including in connection with the conversion of our outstanding 5.25% Convertible Senior Notes due 2018, or other future issuances of our class A common stock or shares of preferred stock or securities convertible or exchangeable into equity securities, may dilute the ownership interest of our existing holders of class A common stock. If we decide to issue debt or equity securities which would rank senior to our class A common stock, it is likely that they will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our class A common stock and may result in dilution to owners of our class A common stock. We and, indirectly, our stockholders will bear the cost of issuing and servicing such securities. Because our decision to issue additional equity or debt securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future issuances. Also, we cannot predict the effect, if any, of future sales of our class A common stock, or the availability of shares for future sales, on the market price of our class A common stock. Sales of substantial amounts of class A common stock or the perception that such sales could occur may adversely affect the prevailing market price for the shares of our class A common stock. Thus holders of our class A common stock will bear the risk of our future issuances reducing the market price of our class A common stock and diluting the value of their stock holdings in us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive and administrative offices are located in leased space at 345 Park Avenue, 42nd Floor, New York, New York 10154. We do not own any real property. We consider these facilities to be suitable and adequate for the management and operations of our business.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our class A common stock is listed for trading on the NYSE under the symbol BXMT. The table below sets forth, for the calendar quarters indicated, the reported high and low sale prices for our class A common stock as reported on the NYSE composite transaction tape, and the per share cash dividends declared on our class A common stock. All amounts have been retroactively updated to reflect the one-for-ten reverse stock split which we effected as of May 6, 2013.

	2014			2013		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First Quarter	$ 29.68	$ 26.95	$ 0.48	$ 29.50	$ 18.10	$
Second Quarter	$ 30.04	$ 27.84	$ 0.48	$ 29.28	$ 20.60	$
Third Quarter	$ 29.25	$ 27.08	$ 0.50	$ 26.55	$ 23.89	$ 0.27
Fourth Quarter	$ 29.70	$ 26.51	$ 0.52	$ 28.20	$ 24.31	$ 0.45
Total			$ 1.98			$ 0.72

The last reported sale price of our class A common stock on February 10, 2015 as reported on the NYSE composite transaction tape was $28.91. As of February 5, 2015, there were 197 holders of record of our class A common stock. By including persons holding shares in broker accounts under street names, however, we estimate our stockholder base to be approximately 21,326 holders as of February 5, 2015.

During the year ended December 31, 2014, we declared aggregate quarterly dividends of $1.98 per share, of which approximately $1.92 will be included as taxable dividends for 2014 and approximately $0.06 will be recognized in 2015. Substantially all of the 2014 dividends represented ordinary income. During the year ended December 31, 2013, we declared aggregate quarterly dividends of $0.72 per share, all of which represented ordinary income. We generally intend to distribute each year substantially all of our taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles, or GAAP) to our stockholders so as to comply with the REIT provisions of the Internal Revenue Code, as amended. In addition, our dividend policy remains subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend upon, among other things, our actual results of operations and liquidity. These results and our ability to pay distributions will be affected by various factors, including our taxable income, our financial condition, our maintenance of REIT status, applicable law, and other factors as our board of directors deems relevant. In accordance with Internal Revenue Service guidance, we are required to report the amount of excess inclusion income earned by us. We calculated excess inclusion income to be *de minimis*.

Issuer Purchases of Equity Securities

We did not repurchase any of our class A common stock during the three months ended December 31, 2014.

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Equity Compensation Plan Information

The following table summarizes information, as of December 31, 2014, relating to our equity compensation plans pursuant to which shares of our class A common stock or other equity securities may be granted from time to time:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders[1]		$	939,319
Equity compensation plans not approved by security holders[2]			
Total		$	939,319

(1) The number of securities remaining for future issuances consists of an aggregate 939,319 shares issuable under our 2013 stock incentive plan and our 2013 manager incentive plan which were approved by our stockholders. Awards under the plan may include restricted stock, unrestricted stock, stock options, stock units, stock appreciation rights, performance shares, performance units, deferred share units, or other equity-based awards, as the board of directors may determine.

(2) All of our equity compensation plans have been approved by security holders.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated historical financial data should be read in conjunction with the information set forth under Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes thereto that appear on pages F-2 to F-41 of this report.

	Years ended December 31,[1]				
	2014	2013	2012	2011	2010
	(in thousands, except for per share data)				
Revenues					
Interest and related income	$ 184,766	$ 53,164	$ 34,939	$ 117,161	$ 158,792
Total revenues	184,766	53,164	34,939	117,161	158,792
Expenses					
Interest expense	69,143	18,017	38,138	96,974	123,963
Management and incentive fees	19,491	5,937			
General and administrative expenses	27,799	11,505	10,369	8,982	6,035
Total expenses	116,433	35,459	48,507	105,956	129,998
Impairments, provisions, and valuation adjustments	13,258	8,676	87,891	(31,251)	(220,963)
Gain on extinguishment of debt				271,031	3,134
(Loss) gain on deconsolidation of subsidiaries	(8,615)		200,283		
Other income		38	6,000		
Income from equity investments in unconsolidated subsidiaries	28,036		1,781	3,649	3,608
Income (loss) before income taxes	101,012	26,419	282,387	254,634	(185,427)
Income tax provision	518	995	174	1,425	14
Net income (loss) from continuing operations	100,494	25,424	282,213	253,209	(185,441)
Net (loss) income from discontinued operations, net of tax			(2,138)	(890)	97
Loss on sale of discontinued operations			(271)		
Net income (loss)	100,494	25,424	279,804	252,319	(185,344)
Net (income) loss attributable to non-controlling interests	(10,449)	(10,392)	(98,780)	5,823	
Net income (loss) attributable to Blackstone Mortgage Trust, Inc.	$ 90,045	$ 15,032	$ 181,024	$ 258,142	$ (185,344)

Net income (loss) from continuing operations per share of common stock										
Basic	$	1.86	$	0.81	$	78.19	$	114.31	$	(82.89)
Diluted	$	1.86	$	0.81	$	74.16	$	108.17	$	(82.89)
Net (loss) income from discontinued operations per share of common stock										
Basic	$		$		$	(1.03)	$	(0.39)	$	0.04
Diluted	$		$		$	(1.03)	$	(0.39)	$	0.04
Net income (loss) per share of common stock										
Basic	$	1.86	$	0.81	$	77.16	$	113.92	$	(82.85)
Diluted	$	1.86	$	0.81	$	73.13	$	107.78	$	(82.85)
Weighted-average shares of common stock outstanding										
Basic		48,394		18,520		2,346		2,266		2,237
Diluted		48,394		18,520		2,475		2,395		2,237
Dividends declared per share of common stock	$	1.98	$	0.72	$	20.00	$		$	

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	As of December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Balance Sheet Data					
Total assets	$ 4,588,521	$ 2,212,780	$ 322,343	$ 1,366,316	$ 4,120,690
Total liabilities	3,087,635	1,456,030	168,890	1,495,255	4,531,877
Non-controlling interests	35,515	38,841	80,009	(18,515)	
Total equity (deficit)	1,500,886	756,750	73,444	(110,424)	(411,187)

(1) The consolidated historical financial data above may not be comparable due to the significant impact on our consolidated financial statements of (i) the Investment Management Business Sale in December 2012 and (ii) a corporate debt restructuring we completed in March 2011. Refer to Note 11 to our consolidated financial statements for additional details of the Investment Management Business sale. In addition, on April 26, 2013, our board of directors approved a one-for-ten reverse stock split of our class A common stock which we effected on May 6, 2013. As a result, share and per share amounts have been retroactively updated to reflect the one-for-ten reverse stock split.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Introduction

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

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

2014 Highlights

Operating results:

- Net income of $1.86 per share in 2014 represents an increase of 129.6% compared to 2013, reflecting the launch of our senior lending program in May 2013.

- Achieved Core Earnings of $91.6 million during 2014 compared to $18.9 million during 2013.

- Declared aggregate dividends of $1.98 per share in 2014, with the fourth quarter representing an annualized yield of 8.3% on our December 31, 2014 book value of $25.10.

- Issued 28,275,000 shares of class A common stock at a weighted-average price of $27.14 per share, contributing to a net $0.85 per share increase in book value during 2014.

Loan originations:

Continued to grow our floating-rate Loan Origination portfolio with 35 loans closed during 2014, representing total commitments of $3.4 billion. As of December 31, 2014, 20% of our portfolio was secured by collateral located outside of the United States.

Total Loan Origination segment portfolio of $4.4 billion with a weighted-average loan-to-value of 64%, all of which are performing floating-rate loans.

Secured financings:

Credit capacity of $4.4 billion includes six revolving repurchase facilities, three asset-specific financings, four senior-loan participations sold, and one non-consolidated senior interest.

All-in cost of revolving repurchase facilities of L+2.11% as of December 31, 2014, providing stable, non-capital markets based mark-to-market financings.

I. Key Financial Measures and Indicators

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends per share, Core Earnings per share, and book value per share. For the year ended December 31, 2014 we recorded earnings per share of $1.86, declared dividends of $1.98 per share, and reported $1.89 per share of Core Earnings. In addition, our book value per share as of December 31, 2014 was $25.10. As further described below, Core Earnings is a measure that is not prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. We use Core Earnings to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that are not necessarily indicative of our current Loan Origination segment portfolio and operations.

Earnings Per Share and Dividends Declared

The following table sets forth the calculation of basic and diluted net income per share and the allocation of basic and diluted net income per share between our two reportable segments based on the weighted average of our shares of class A common stock, including restricted class A common stock and deferred stock units outstanding ($ in thousands, except per share data):

	Three Months Ended December 31, 2014			Year Ended
	Loan Origination	CT Legacy Portfolio	Total	December 31, 2014
Net income (loss)[1]	$ 26,323	$ (4,833)	$ 21,490	$ 90,045
Weighted-average shares outstanding, basic and diluted	58,190,324	58,190,324	58,190,324	48,394,478
Net income (loss) per share,basic and diluted	$ 0.45	$ (0.08)	$ 0.37	$ 1.86
Dividends per share			$ 0.52	$ 1.98

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

Core Earnings

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

We believe that Core Earnings provides meaningful information to consider in addition to our net income and cash flow from operating activities determined in accordance with GAAP. This adjusted measure helps us to evaluate our performance excluding the effects of certain transactions and GAAP adjustments that we believe are not necessarily indicative of our current Loan Origination segment portfolio and operations. We also use Core Earnings to calculate the incentive and base management fees due to our Manager under our management agreement and, as such, we

believe that the disclosure of Core Earnings is useful to our investors.

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

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

	Three Months Ended December 31, 2014	Year Ended December 31, 2014
Net income[1]	$ 21,490	$ 90,045
CT Legacy Portfolio segment net loss (income)	4,833	(9,839)
Incentive management fees	817	1,659
Amortization of discount on convertible notes	408	1,600
Unrealized gain on foreign currency remeasurement		(203)
Non-cash compensation expense	2,528	8,363
Core Earnings	$ 30,076	$ 91,625
Weighted-average shares outstanding, basic and diluted	58,190,324	48,394,478
Core Earnings per share, basic and diluted	$ 0.52	$ 1.89

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

Book Value Per Share

The following table calculates our book value per share and the allocation of our book value per share between our two reportable segments ($ in thousands, except share and per share data):

	December 31, 2014			
	Loan Origination	CT Legacy Portfolio	Total	December 31, 2013
Stockholders equity	$ 1,442,891	$ 22,480	$ 1,465,371	$ 717,909
Shares				
Class A common stock	57,350,170	57,350,170	57,350,170	28,801,651
Restricted class A common stock	919,719	919,719	919,719	700,000
Deferred stock units	118,919	118,919	118,919	101,233
	58,388,808	58,388,808	58,388,808	29,602,884
Book value per share	$ 24.71	$ 0.39	$ 25.10	$ 24.25

II. Loan Origination Portfolio

During the year ended December 31, 2014, our Loan Origination segment funded $3.1 billion of new loan commitments and generated interest income of $180.7 million. Our loan originations were financed with $1.7 billion of secured financings, $766.1 million of net proceeds from the sale of our class A common stock, and $571.2 million of loan principal collections. We incurred interest expense of $68.1 million during the year, which resulted in $112.6 million of net interest income during the year.

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Portfolio Overview

The following table details our loan originations activity during the three months and year ended December 31, 2014 ($ in thousands):

	Three Months Ended December 31, 2014		Year Ended December 31, 2014	
	Loan Commitments(2)	Loan Fundings(3)	Loan Commitments(2)	Loan Fundings(3)
Senior loans(1)	$ 780,880	$ 769,613	$ 3,441,255	$ 3,066,810
Subordinate loans		105		453
Total	$ 780,880	$ 769,718	$ 3,441,255	$ 3,067,263

(1) Includes senior mortgages and similar credit quality loans, including related contiguous subordinate loans, and pari passu participations in senior mortgage loans.
(2) Includes new originations and additional commitments made under existing loan agreements.
(3) Loan fundings during the three months ended December 31, 2014 included $137.1 million of additional fundings under existing loan commitments as of September 30, 2014, and loan fundings during the year ended December 31, 2014 included $53.8 million of additional fundings under existing loan commitments as of December 31, 2013.

As of December 31, 2014, the majority of loans in the Loan Origination segment were senior mortgages and similar credit quality loans.

The following table details overall statistics for our loan portfolio within the Loan Origination segment ($ in thousands):

	December 31, 2014	December 31, 2013
Number of loans	60	28
Principal balance	$ 4,462,897	$ 2,018,863
Net book value	$ 4,428,500	$ 2,000,223
Unfunded loan commitments(1)	$ 513,229	$ 164,283
Weighted-average cash coupon(2)	L+4.36%	L+4.64%
Weighted-average all-in yield(2)	L+4.81%	L+5.28%
Weighted-average maximum maturity (years)(3)	3.9	4.2

(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 five years.

(2) As of December 31, 2014, 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, 14% of our loans earned interest based on LIBOR floors, 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 are subject to yield maintenance, lock-out provisions, or other prepayment restrictions and 15% are open to repayment by the borrower.

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The charts below detail the geographic distribution and types of properties securing these loans, as of December 31, 2014 ($ in millions):

Refer to section V of this Item 7 for details of our loan portfolio, on a loan-by-loan basis.

Asset Management and Performance

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

As discussed in Note 2 to our consolidated financial statements, our Manager performs a quarterly review of our loan portfolio, assesses the performance of each loan, and assigns it a risk rating between 1 and 5, from less risk to greater risk. Previously, our Manager assigned risk ratings between 1 and 8, from less risk to greater risk.

As of December 31, 2014, all of the investments in the Loan Origination segment are performing as expected and the weighted-average risk rating of our loan portfolio is 2.2.

Secured Financings

Our secured financings included revolving repurchase facilities, asset-specific repurchase agreements, and loan participations sold. The following table details our revolving repurchase facilities outstanding ($ in thousands):

	December 31, 2014					Dec. 31, 2013
	Maximum	Collateral	Repurchase Borrowings[3]			Borrowings
Lender	Facility Size[1]	Assets[2]	Potential	Outstanding	Available	Outstanding
Wells Fargo	$ 1,000,000	$ 747,256	$ 585,737	$ 484,365	$ 101,372	$
Citibank	500,000	621,025	472,080	392,455	79,625	334,692
Bank of America	500,000	557,810	441,201	389,347	51,854	271,320
JP Morgan[4]	488,155	544,654	422,249	341,487	80,762	257,610
MetLife	500,000	476,499	366,902	305,889	61,013	
Morgan Stanley[5]	389,050	174,297	137,181	127,240	9,941	
	$ 3,377,205	$ 3,121,541	$ 2,425,350	$ 2,040,783	$ 384,567	$ 863,622

(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 ($238.2 million) facility.
(5) The Morgan Stanley maximum facility size represents a £250.0 million ($389.1 million) facility.

As of December 31, 2014, we had aggregate borrowings of $2.0 billion outstanding under our revolving repurchase facilities, with a weighted-average cash coupon of LIBOR plus 1.88% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.11% per annum. As of December 31, 2014, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.8 years.

The following table details our asset-specific repurchase agreements and loan participations sold as of December 31, 2014 ($ in thousands):

	Asset-specific Repurchase Agreements		Loan Participations Sold[2][3]	
	Repurchase Agreements	Collateral Assets	Participations Sold	Underlying Loans
Number of loans	3	4	4	4
Principal balance	$ 324,553	$ 429,197	$ 499,433	$ 635,701
Weighted-average cash coupon[1]	L+2.68%	L+5.07%	L+2.51%	L+4.10%
Weighted-average all-in yield / cost[1]	L+3.16%	L+5.53%	L+2.71%	L+4.71%

(1) As of December 31, 2014, 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 yield / cost includes the amortization of deferred origination fees / financing costs.
(2) We also sold a $110.0 million senior interest in a loan that qualified for sale accounting under GAAP and is therefore no longer included on our consolidated balance sheet.
(3) During 2014, we recorded $12.4 million of interest expense related to our loan participations sold.

Refer to Note 6 to our consolidated financial statements for additional terms and details of our secured financings, including certain financial covenants.

Floating Rate Portfolio

Our Loan Origination segment portfolio as of December 31, 2014 was comprised of floating rate loans financed by floating rate secured debt, which results in a return on equity that is correlated to LIBOR. Generally, our business model is such that rising interest rates will increase our net income, while declining interest rates will decrease net income. For instance, all other things being equal, as of December 31, 2014, a 100 basis point increase in LIBOR would have increased our net income by $15.2 million per annum, or $0.26 per share, while a 10 basis point decrease in LIBOR would have decreased our net income to $902,000 per annum, or $0.02 per share.

The following table details our Loan Origination segment s sensitivity to interest rates ($ in thousands):

	December 31, 2014
Floating rate loans[1]	$ 4,462,897
Floating rate debt[1][2]	(2,864,769)
Net floating rate exposure	$ 1,598,128
Net income impact from 100 bps increase in LIBOR[3]	$ 15,160
Per share impact, basic and diluted	$ 0.26

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(1) As of December 31, 2014, 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.
(2) Includes borrowings under revolving repurchase facilities, asset-specific repurchase agreements, and loan participations sold.
(3) Annualized net income includes the impact of LIBOR floors for our loan receivable investments where such floors are paying relative to LIBOR of 0.17% as of December 31, 2014.

Convertible Notes

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

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

III. CT Legacy Portfolio

As of December 31, 2014, Our CT Legacy Portfolio segment consists of: (i) our interests in CT Legacy Partners, LLC, or CT Legacy Partners and (ii) our carried interest in CTOPI, a private investment fund that was previously under our management and is now managed by an affiliate of our Manager.

During the year ended December 31, 2014, our CT Legacy Portfolio segment recorded net income of $9.8 million driven primarily by (i) $28.0 million of revenue from our carried interest in CTOPI and (ii) $13.3 million of net unrealized gains on investments carried at fair value in CT Legacy Partners. This was offset by (i) $12.9 million of compensation expenses triggered by CTOPI carried interest distributions received and (ii) the recognition of an $8.6 million loss as a result of the 100% impairment of our subordinate interests in CT CDOI which resulted in its deconsolidation.

CT Legacy Partners

As of December 31, 2014, the CT Legacy Partners portfolio consisted of cash, loans, securities, and other assets. As of December 31, 2014, CT Legacy Partners total equity was $60.8 million, of which $25.3 million was owned by Blackstone Mortgage Trust, Inc., and $35.5 million was allocated to non-controlling interests. Assuming a $3.5 million fully-vested payment of the related management incentive awards plan, our net interest in CT Legacy Partners would be $21.8 million. We periodically accrue a payable for the management incentive awards plan based on the vesting schedule for the awards and continued employment with an affiliate of our Manager of the award recipients. As of December 31, 2014, our balance sheet includes $2.8 million in accounts payable and accrued expenses for the management incentive awards plan. Refer to Note 10 to our consolidated financial statements for additional discussion of the CT Legacy Partners management incentive plan.

Carried Interest in CTOPI

In 2012, we transferred our management of CTOPI and sold our 4.6% co-investment to Blackstone. However, we retained our carried interest in CTOPI following the sale, which entitles us to earn carried interest distributions 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. We own a net 55% of the carried interest of CTOPI s general partner; the remaining 45% is payable under previously issued incentive awards. Refer to Note 5 to our consolidated financial statements for additional discussion of the CTOPI incentive awards.

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During the year ended December 31, 2014, CTOPI returned all capital to its limited partners and made a $17.9 million carried interest distribution to us. In addition, the return of investor capital by CTOPI eliminated the remaining contingencies related to our recognition of $10.2 million of prior tax advance distributions, resulting in total carried interest revenue recognized of $28.0 million.

As of December 31, 2014, we had been allocated $5.8 million of carried interest revenue from CTOPI based on a hypothetical liquidation of the fund at its net asset value, and after payment of the related incentive awards. Generally, we defer the recognition of income on our carried interest in CTOPI until cash is collected or appropriate contingencies have been eliminated. As a result, our net investment in the CTOPI carried interest had a book value of zero as of December 31, 2014.

IV. Our Results of Operations and Liquidity

Results of Operations

The following table sets forth information regarding our consolidated results of operations and certain key operating metrics for the years ended December 31, 2014, 2013, and 2012 ($ in thousands, except per share data):

	Year Ended December 31,		2014 vs 2013	Year Ended December 31,		2013 vs 2012
	2014	2013	$	2013	2012	$
Income from loans and other investments						
Interest and related income	$ 184,766	$ 53,164	$ 131,602	$ 53,164	$ 34,939	$ 18,225
Less: Interest and related expenses	69,143	18,017	51,126	18,017	38,138	(20,121)
Income (loss) from loans and other investments, net	115,623	35,147	80,476	35,147	(3,199)	38,346
Other expenses						
Management and incentive fees	19,491	5,937	13,554	5,937		5,937
General and administrative expenses	27,799	11,505	16,294	11,505	10,369	1,136
Total other expenses	47,290	17,442	29,848	17,442	10,369	7,073
Impairments, provisions, and valuation adjustments	13,258	8,676	4,582	8,676	87,891	(79,215)
(Loss) gain on deconsolidation of subsidiary	(8,615)		(8,615)		200,283	(200,283)
Other income (loss)		38	(38)	38	6,000	(5,962)
Income from equity investments in unconsolidated subsidiaries	28,036		28,036		1,781	(1,781)
Income before income taxes	101,012	26,419	74,593	26,419	282,387	(255,968)
Income tax provision	518	995	(477)	995	174	821
Income from continuing operations	$ 100,494	$ 25,424	$ 75,070	$ 25,424	$ 282,213	$ (256,789)

Loss from discontinued operations, net of tax					(2,138)	2,138
Loss on sale of discontinued operations					(271)	271
Net income	$ 100,494	$ 25,424	$ 75,070	$ 25,424	$ 279,804	$ (254,380)
Net income attributable to non-controlling interests	(10,449)	(10,392)	(57)	(10,392)	(98,780)	88,388
Net income attributable to Blackstone Mortgage Trust, Inc.	$ 90,045	$ 15,032	$ 75,013	$ 15,032	$ 181,024	$ (165,992)
Income from continuing operations per share diluted	$ 1.86	$ 0.81		$ 0.81	$ 74.16	
Net income per share diluted	$ 1.86	$ 0.81		$ 0.81	$ 73.13	
Dividends per share	$ 1.98	$ 0.72		$ 0.72	$ 20.00	

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Income from loans and other investments, net

Income from loans and other investments, net increased by $80.5 million during 2014 compared to 2013. This increase is comprised of $84.0 million related to our Loan Origination segment offset by a decrease of $3.5 million related to our CT Legacy Portfolio segment. The increase in our Loan Origination segment is a result of operating our originations business for a full year in 2014, compared to only a partial year of operations in 2013. The decrease in the CT Legacy Portfolio segment was driven by loan repayments received during the year.

Income from loans and other investments, net increased by $38.3 million during 2013 compared to 2012. This increase is comprised of $28.6 million related to our Loan Origination segment and $9.7 million related to our CT Legacy Portfolio segment. The increase in our Loan Origination segment is a result of the re-launch of our originations business in May 2013. The increase in the CT Legacy Portfolio segment relates to the deconsolidation of CT CDOs II and IV in December 2013 as well as a $10.2 million one-time expense in 2012 relating to the acceleration of discount associated with the $83.0 million CT Legacy Partners mezzanine loan.

Other expenses

Other expenses includes management and incentive fees paid to our Manager and general and administrative expenses. All general and administrative expenses incurred during 2012 related to our former investment management business have been reclassified to loss from discontinued operations.

Other expenses increased by $29.8 million during 2014 compared to 2013 primarily due to (i) an increase of $13.6 million of management and incentive fees payable to our Manager, primarily as a result of additional net proceeds received from the sale of shares of our class A common stock, (ii) $9.3 million of non-cash compensation expenses associated with our CT Legacy Portfolio segment incentive plans, and (iii) $6.9 million of non-cash restricted stock amortization related to shares awarded under our long-term incentive plans.

Other expenses increased by $7.1 million during 2013 compared to 2012 primarily due to (i) an increase of $6.0 million of management fees payable to our Manager, (ii) $2.5 million of non-cash compensation expenses driven by the accelerated vesting of certain awards under the CT Legacy Partners incentive plan, (iii) $1.7 million of additional professional fees and other operating costs, and (iv) $787,000 of additional expenses of our consolidated securitized vehicles. These were partially offset by a decrease of $3.8 million of transaction costs incurred during 2012 related to sale of our investment management business.

Impairments, provisions, and valuation adjustments

During 2014, we recognized $13.3 million of net gains on investments held by CT Legacy Partners.

During 2013, we recognized (i) $7.4 million of net gains on investments held by CT Legacy Partners and (ii) a $1.3 million positive valuation adjustment on CT CDO I s loan classified as held-for-sale.

During 2012, we recognized (i) a $51.9 million positive fair value adjustment on our net investment in CT Legacy Asset, (ii) a $36.1 million net recovery of provision for loan losses, and (iii) a $160,000 impairment, representing an additional credit loss on one of the securities in CT CDO I.

Income from equity investments in unconsolidated subsidiaries

During 2014, we recognized $28.0 million of promote revenue from CTOPI. No such income was recognized during 2013.

The income from equity investments during 2012 of $1.8 million was comprised of income from our co-investments in CTOPI and CT High Grade II. In December 2012, these co-investments were sold as a component of the sale of our investment management business.

(Loss) gain on deconsolidation of subsidiary

During 2014, we recognized a loss of $8.6 million on the deconsolidation of CT CDO I resulting from the write-off of our subordinate interests in that securitization vehicle. Refer to Note 2 to our consolidated financial statements for further details.

During 2012, we recognized a gain of $146.4 million on the deconsolidation of CT Legacy Asset and $53.9 million on the deconsolidation of CT CDOs II and IV. These gains were primarily the result of a reversal of charges to GAAP equity resulting from losses previously recorded in excess of our economic interests in these vehicles.

Other significant items

Our income tax provision decreased by $477,000 during 2014 compared to 2013. The decrease was primarily driven by the repayment of investments held by our taxable REIT subsidiaries during 2013. During 2012, we recorded an income tax provision primarily related to alternative minimum taxes incurred as a result of our use of net operating losses, or NOLs, to offset 2012 taxable income.

As a result of the sale of our investment management business in December 2012, our 2014 and 2013 operating results do not include any income or expense items related to our former investment management business. The income and expense items related to our investment management business in 2012 have been reclassified to loss from discontinued operations.

Dividends per share

During 2014, we declared aggregate dividends of $101.3 million, or $1.98 per share. During 2013, we declared aggregate dividends of $21.1 million, or $0.72 per share. During 2012, we declared a special dividend of $48.6 million, or $20.00 per share.

Liquidity and Capital Resources

Capitalization

During 2014, we issued 28,275,000 shares of our class A common stock in public offerings at a weighted-average price to the underwriters of $27.14 per share. We generated aggregate net proceeds from these issuances of $766.1 million after deducting underwriting discounts and other offering expenses.

See Note 9 to our consolidated financial statements for additional details regarding our recent equity offerings.

During 2014, we entered into three revolving repurchase facilities, two asset-specific repurchase agreements, and sold three senior loan participations, providing $2.2 billion of financing capacity. As of December 31, 2014, we had aggregate borrowings of $2.0 billion outstanding under our revolving repurchase facilities, with a weighted-average cash coupon of LIBOR plus 1.88% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.11% per annum. We also had three asset-specific repurchase agreements outstanding with an aggregate outstanding balance of $324.6 million, a cash coupon of LIBOR plus 2.68%, and an all-in cost of LIBOR plus 3.16%, as well as loan participations sold outstanding with an aggregate book balance of $499.4 million, a cash coupon of LIBOR plus 2.51%, and an all-in cost of LIBOR plus 2.71%.

See Note 6 to our consolidated financial statements for additional details regarding our secured financings.

As of December 31, 2014, we also had $172.5 million aggregate principal amount of convertible notes with a net book value of $161.9 million, which carry a cash coupon of 5.25% and an all-in cost of 5.87%. These notes mature in December 2018.

Sources of Liquidity

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

	As of December 31,	
	2014	**2013**
Cash and cash equivalents	$ 51,810	$ 52,342
Available borrowings under repurchase facilities	384,567	218,555
	$ 436,377	$ 270,897

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

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

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

Liquidity Needs

In addition to our ongoing loan origination activity, our primary liquidity needs include interest and principal payments under our $3.0 billion of outstanding debt obligations, our $513.2 million of unfunded loan commitments, dividend distributions to our stockholders, and operating expenses.

Contractual Obligations and Commitments

Our contractual obligations and commitments as of December 31, 2014 were as follows ($ in thousands):

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Unfunded loan commitments[1]	$ 513,229	$ 70,135	$ 403,019	$ 40,075	$

Revolving repurchase facilities[2]	2,040,783	253,825	1,729,769	57,189	
Asset-specific repurchase agreements[3]	348,092	54,311	293,781		
Loan participations sold[3]	556,388	43,997	114,138	398,253	
Convertible notes, net	209,228	9,937	18,364	180,927	
Total	$ 3,667,720	$ 432,205	$ 2,559,071	$ 676,444	$

(1) The allocation of our unfunded loan commitments is based on the earlier of the commitment expiration date or the loan maturity date.

(2) The allocation of our revolving repurchase facilities is based on the initial maturity date of each individual borrowing under our revolving repurchase facilities. Excludes the related future interest payment obligations, which are not fixed and determinable due to the revolving nature of these facilities.
(3) Obligations were indexed to the various benchmark rates relevant in each case in terms of currency and payment frequency. Future interest payment obligations are determined using the relevant benchmark rates in effect as of December 31, 2014.

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

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

Cash Flows

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

	For the years ended December 31,		
	2014	**2013**	**2012**
Cash flows from operating activities	$ 80,637	$ 28,669	$ 6,768
Cash flows from investing activities	(2,412,896)	(1,782,491)	189,601
Cash flows from financing activities	2,333,936	1,790,718	(215,764)
Net increase (decrease) in cash and cash equivalents	$ 1,677	$ 36,896	$ (19,395)

We experienced a net increase in cash of $1.7 million for the year ended December 31, 2014, compared to a net increase of $36.9 million for the year ended December 31, 2013. During 2014, we (i) borrowed $1.2 billion under our repurchase facilities, (ii) generated $766.1 million of net proceeds from the sale of our class A common stock, (iii) received $620.4 million of proceeds from loan sales and principal collections, and (iv) and sold $432.5 million of loan participations. We used the proceeds from our debt and equity financing activities to originate $3.1 billion of new loans during the year ended December 31, 2014. Refer to Notes 6 and 9 to our consolidated financial statements for additional discussion of our sale of shares of class A common stock and our debt obligations, respectively. Refer to Note 3 to our consolidated financial statements for further discussion of our loan origination activity.

We experienced a net increase in cash of $36.9 million for the year ended December 31, 2013, compared to a net decrease of $19.4 million for the year ended December 31, 2012. The increase was primarily due to the receipt of cash interest on loans in our Loan Origination segment which was partially offset by cash paid for interest and other operating expenses.

Income Taxes

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

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership, and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four full taxable years. As of December 31, 2014 and 2013, we were in compliance with all REIT requirements.

Refer to Note 12 to our consolidated financial statements for additional discussion of our income taxes.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires our Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. During 2014, our Manager reviewed and evaluated our critical accounting policies and believes them to be appropriate. The following is a summary of our significant accounting policies that we believe are the most affected by our Manager s judgments, estimates and assumptions:

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with GAAP and 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 financial statements to conform to the current presentation including reclassifying (i) loans receivable, at fair value, into accrued interest receivable, prepaid expenses, and other assets, (ii) securitized debt obligations into accounts payable, accrued expenses, and other liabilities, and (iii) restricted class A common stock into class A common stock.

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 primarily 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.

Assets of consolidated VIEs can only be used to satisfy the obligations of those VIEs. The liabilities of consolidated VIEs are non-recourse to us. Determination of the primary beneficiary can involve significant judgment by our Manager.

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, discounts, and direct costs 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.

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, 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.

Previously, our Manager assigned risk ratings between 1 and 8, from less risk to greater risk.

Derivative Financial Instruments

We classify all derivative financial instruments as other assets or other liabilities on our consolidated balance sheets at fair value. The designation of derivative contracts as hedges, the measurement of their effectiveness, and the estimate of the fair value of the contracts all may involve significant judgments by our Manager, and changes to those judgments could significantly impact our reported results of operations.

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).

Convertible Notes

The Debt with Conversion and Other Options Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or Codification, 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 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.

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the Codification 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.

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

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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 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 to our consolidated financial statements. We generally value our assets recorded at fair value by either (i) discounting expected cash flows based on assumptions regarding the collection of principal and interest and estimated market rates, or (ii) obtaining assessments from third-party dealers. For collateral-dependent loans that are identified as impaired, we measure impairment by comparing our Manager s estimation of fair value of the underlying collateral, less costs to sell, to the book value of the respective loan. These valuations may require significant judgments, which include assumptions regarding capitalization rates, leasing, creditworthiness of major tenants, occupancy rates, availability of financing, exit plan, loan sponsorship, actions of other lenders, and other factors deemed necessary by our Manager. The use of different assumptions or methodologies could have a material effect on our estimated fair value amounts.

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. In the case of impaired loans receivable, fair value was determined based on the lower of amortized cost and the value of the underlying real estate collateral.

Derivative financial instruments: The fair value of our foreign currency contracts were 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.

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Convertible notes, net: The convertible notes are actively traded and their fair values were obtained using quoted market prices based on recent transactions.

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 12 to our consolidated financial statements for additional information.

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V. Loan Portfolio Details

The following table provides details of the Loan Origination segment s portfolio, on a loan-by-loan basis, as of December 31, 2014 ($ in millions):

	Loan Type[(1)]	Principal Balance	Book Balance	Cash Coupon[(2)]	All-in Yield[(2)]	Maximum Maturity[(3)]	Geographic Location	Property Type	Origination LTV	Risk Rating
1	Senior loan	$ 311.2	$ 307.1	L + 4.00%	L + 4.34%	5/22/2019	UK	Hotel	57%	2
2	Senior loan	181.0	179.8	L + 4.50%	L + 4.86%	11/9/2018	NY	Condo	68%	3
3	Senior loan	163.3	161.8	L + 3.80%	L + 4.31%	12/9/2019	US diversified	Office	65%	2
4	Senior loan	153.9	152.8	L + 3.50%	L + 4.01%	8/9/2019	IL	Office	71%	2
5	Senior loan	151.8	150.6	L + 4.75%	L + 5.14%	1/7/2019	US diversified	Other	71%	2
6	Senior loan	149.4	147.9	L + 3.40%	L + 3.62%	11/20/2019	UK	Hotel	62%	2
7	Senior loan	139.8	139.1	L + 4.75%	L + 5.27%	1/9/2019	NY	Office	70%	2
8	Senior loan	138.6	137.0	L + 5.50%	L + 5.96%	12/9/2019	CAN	Office	53%	3
9	Senior loan	133.4	133.0	L + 4.30%	L + 4.63%	12/1/2017	NY	Hotel	39%	3
10	Senior loan	120.4	119.4	L + 5.75%	L + 6.39%	6/20/2016	CA	Hotel	44%	3
11	Senior loan	119.4	118.0	L + 4.40%	L + 4.81%	3/9/2019	US diversified	Hotel	51%	2
12	Senior loan	97.7	97.4	L + 4.40%	L + 4.58%	3/9/2019	NY	Office	70%	2
13	Senior loan	97.7	97.3	L + 4.38%	L + 4.61%	11/9/2018	CA	Hotel	72%	2
14	Senior loan	95.1	94.0	L + 4.00%	L + 4.58%	3/4/2018	UK	Office	55%	2
15	Senior loan	89.5	89.4	L + 3.70%	L + 3.83%	9/30/2020	NY	Multifamily	62%	3
16	Senior loan	87.0	86.3	L + 4.30%	L + 4.83%	7/15/2019	NY	Multifamily	77%	2
17	Senior loan	87.5	86.3	L + 4.00%	L + 4.34%	11/20/2019	ES	Retail	71%	2
18	Senior loan	84.5	83.9	L + 4.35%	L + 4.77%	12/9/2018	NY	Office	64%	3
19	Senior loan	81.6	80.8	L + 3.75%	L + 4.12%	11/9/2019	NY	Retail	78%	2
20		80.0	79.4	L + 4.00%	L + 4.54%	6/9/2019	DC	Office	79%	2

	Senior loan									
21	Senior loan	78.9	78.8	L + 4.75%	L + 4.91%	12/28/2016	NY	Condo	70%	2
22	Senior loan	78.2	77.8	L + 5.00%	L + 5.38%	9/14/2018	US diversified	Other	64%	2
23	Senior loan	77.5	77.0	L + 3.85%	L + 4.15%	6/9/2019	FL	Office	74%	2
24	Senior loan	76.0	75.3	L + 3.65%	L + 4.03%	8/9/2019	IL	Office	64%	2
25	Senior loan	73.8	73.7	L + 3.95%	L + 4.04%	6/9/2018	CA	Office	73%	1
26	Senior loan	69.9	69.8	L + 3.85%	L + 4.02%	7/9/2018	GA	Multifamily	74%	2
27	Senior loan	69.9	69.2	L + 4.50%	L + 4.92%	6/15/2019	CA	Office	67%	2
28	Senior loan	68.0	67.9	L + 4.00%	L + 4.23%	6/10/2016	NY	Office	68%	2
29	Senior loan	61.0	60.6	L + 3.85%	L + 4.23%	10/10/2018	US diversified	Multifamily	76%	2
30	Senior loan	60.5	60.3	L + 5.00%	L + 5.75%	8/9/2018	VA	Office	70%	2
31	Senior loan	60.5	60.1	L + 4.35%	L + 4.71%	1/9/2019	NY	Office	70%	2
32	Senior loan	58.2	58.0	L + 4.25%	L + 4.67%	8/10/2018	US diversified	Diversified	60%	2
33	Senior loan	57.0	56.5	L + 4.50%	L + 4.92%	4/9/2019	NY	Multifamily	66%	3

continued

	Loan Type(1)	Principal Balance	Book Balance	Cash Coupon(2)	All-in Yield(2)	Maximum Maturity(3)	Geographic Location	Property Type	Origination LTV	Risk Rating
34	Sub. Mortgage part.	54.4	53.8	L + 5.66%	L + 9.47%	4/9/2015	WA	Office	21%	1
35	Senior loan	50.0	49.7	L + 4.20%	L + 4.73%	4/9/2019	HI	Hotel	69%	2
36	Senior loan	48.4	48.6	L + 5.00%	L + 5.67%	12/9/2016	IL	Hotel	50%	2
37	Senior loan	48.5	48.1	L + 4.00%	L + 4.31%	9/9/2019	FL	Office	71%	2
38	Senior loan	48.0	47.7	L + 3.85%	L + 4.25%	9/10/2018	US diversified	Multifamily	76%	2
39	Senior loan	46.3	46.0	L + 4.25%	L + 4.64%	7/10/2018	CO	Hotel	69%	2
40	Senior loan	46.0	45.8	L + 4.25%	L + 4.78%	10/9/2018	CA	Hotel	51%	2
41	Senior loan	45.1	44.8	L + 4.50%	L + 4.86%	6/5/2019	UK	Retail	80%	2
42	Senior loan	45.0	44.6	L + 4.50%	L + 4.89%	1/9/2019	AZ	Office	68%	2
43	Senior loan	45.0	44.4	L + 4.15%	L + 4.63%	10/9/2019	NY	Hotel	65%	2
44	Senior loan	44.0	43.6	L + 4.25%	L + 4.94%	1/9/2017	NY	Multifamily	50%	2
45	Senior loan	43.5	43.4	L + 4.50%	L + 5.11%	7/16/2017	NY	Retail	69%	2
46	Senior loan	40.1	39.7	L + 4.00%	L + 4.67%	10/9/2019	TX	Office	70%	2
47	Senior loan	39.8	39.5	L + 4.30%	L + 4.70%	4/9/2019	CA	Office	71%	2
48	Senior loan	39.4	39.1	L + 3.85%	L + 4.04%	8/9/2018	IL	Office	69%	1
49	Senior loan	40.0	38.8	L + 4.00%	L + 6.14%	6/30/2018	CA	Office	71%	3
50	Mezzanine loan(4)	34.0	34.1	L + 12.56%	L + 12.35%	12/13/2017	NY	Condo	75%	3
51	Senior loan	34.0	33.5	L + 4.00%	L + 4.46%	7/20/2019	NL	Office	69%	2
52	Senior loan	32.9	33.0	L + 3.95%	L + 4.07%	8/9/2017	CO	Hotel	64%	1
53	Senior loan	31.0	30.7	L + 4.10%	L + 4.64%	1/9/2019	CA	Office	43%	2
54	Senior loan	29.3	28.9	L + 4.63%	L + 5.49%	11/27/2018	UK	Office	68%	2
55	Senior loan	28.0	27.8	L + 4.35%	L + 4.71%	12/9/2018	CA	Hotel	55%	2
56		27.9	27.7	L + 4.25%	L + 4.66%	4/9/2019	CA	Office	65%	2

	Senior loan									
57	Senior loan	26.0	25.9	L + 4.00%	L + 4.27%	3/9/2019	AZ	Other	69%	2
58	Senior loan	25.0	24.9	L + 6.83%	L + 7.59%	10/1/2017	NY	Condo	48%	3
59	Senior loan	9.5	9.5	L + 5.00%	L + 5.29%	11/6/2016	NY	Condo	20%	1
60	Senior loan	9.6	8.6	L + 5.00%	L + 5.77%	8/9/2019	GA	Office	43%	3
		$ 4,462.9	$ 4,428.5	L + 4.36%	L + 4.81%	3.9 years			64%	2.2

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

(2) As of December 31, 2014, 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, 14% of our loans currently earn interest based on LIBOR floors, 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 exit fees.

(3) Maximum maturity assumes all extension options are exercised, however our loans may be repaid prior to such date.

(4) We originated the loan directly senior to this subordinate loan, but sold the senior loan to finance our overall investment.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Interest Rate Risk

Our business is exposed to the risks related to interest rate fluctuations. We generally originate floating rate assets and finance those assets with index-matched floating rate liabilities. As a result, we significantly reduce our exposure to changes in portfolio value and cash flow variability related to changes in interest rates.

Loan Origination Portfolio

Our Loan Origination segment investments are exposed to the risks related to interest rate fluctuations discussed above. For instance, all other things being equal, as of December 31, 2014, a 100 basis point increase in LIBOR would have increased our net income by $15.2 million per annum, or $0.26 per share, while a 10 basis point decrease in LIBOR would have decreased our net income by $902,000 per annum or $0.02 per share. The table below details our interest rate exposure to this portfolio ($ in thousands):

		December 31, 2014
Floating rate loans[1]	$	4,462,897
Floating rate debt[1][2]		(2,864,769)
Net floating rate exposure	$	1,598,128
Net income impact from 100 bps increase in LIBOR[3]	$	15,160
Per share impact, basic and diluted	$	0.26

(1) As of December 31, 2014, 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.
(2) Includes borrowings under revolving repurchase facilities, asset-specific repurchase agreements, and loan participations sold.
(3) Annualized net income includes the impact of LIBOR floors for our loan receivable investments where such floors are paying relative to LIBOR of 0.17% as of December 31, 2014.

CT Legacy Portfolio

Our investments in CT Legacy Partners are also exposed to the risks related to interest rate fluctuations discussed above, however as a liquidating portfolio these investments are more sensitive to credit risk than interest rate risk.

Although our carried interest investment in CTOPI generally relates to a portfolio of interest earning assets, our economic interest in this portfolio relates primarily to the realization of investments purchased at a discount by CTOPI. Accordingly, our investment in this portfolio is not exposed to a significant degree of interest rate risk. Refer to Note 5 to our consolidated financial statements for additional discussion of CTOPI.

Risk of Non-Performance

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

Credit Risks

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

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

Capital Market Risks

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

Counterparty Risk

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

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

Currency Risk

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

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

	December 31, 2014		
Foreign currency assets	£ 405,331	101,137	C$ 162,434
Foreign currency liabilities	(324,954)	(22,684)	(113,270)

Foreign currency contracts notional					(48,400)
Net exposure to exchange rate fluctuations	£	80,377	78,453	C$	764

We estimate that a 10% appreciation of the United States dollar relative to the British Pound Sterling and the Euro would result in a decline in our net assets in US dollar terms of $12.5 million and $9.5 million, respectively, as of December 31, 2014. Our net asset exposure to the Canadian dollar has been hedged with foreign currency forward contracts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item and the reports of the independent accountants thereon required by Item 14(a)(2) appear on pages F-2 to F-40. See accompanying Index to the Consolidated Financial Statements on page F-1. The supplementary financial data required by Item 302 of Regulation S-K appears in Note 19 to the consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the company s reports under the Exchange Act is recorded, processed, and summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the company s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report on Form 10-K was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (a) are effective to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is timely recorded, processed, summarized and reported and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a 15(f) and 15d 15(f) under the Exchange Act) that occurred during our most recent quarter, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

Management of Blackstone Mortgage Trust, Inc. and subsidiaries, or Blackstone Mortgage Trust, is responsible for establishing and maintaining adequate internal control over financial reporting. Blackstone Mortgage Trust s internal control over financial reporting is a process designed under the supervision of its principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

Blackstone Mortgage Trust s internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the company; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of the company s management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of Blackstone Mortgage Trust s internal control over financial reporting as of December 31, 2014, based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, management has determined that Blackstone Mortgage Trust s internal control over financial reporting as of December 31, 2014, was effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited Blackstone Mortgage Trust s financial statements included in this report on Form 10-K and issued its report on the effectiveness of Blackstone Mortgage Trust s internal control over financial reporting as of December 31, 2014, which is included herein.

ITEM 9B. OTHER INFORMATION

None.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to the Company s definitive proxy statement to be filed not later than April 30, 2015 with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Company s definitive proxy statement to be filed not later than April 30, 2015 with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the Company s definitive proxy statement to be filed not later than April 30, 2015 with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the Company s definitive proxy statement to be filed not later than April 30, 2015 with the SEC pursuant to Regulation 14A under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the Company s definitive proxy statement to be filed not later than April 30, 2015 with the SEC pursuant to Regulation 14A under the Exchange Act.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

See the accompanying Index to Financial Statement Schedule on page F-1.

(a) (2) Consolidated Financial Statement Schedules

See the accompanying Index to Financial Statement Schedule on page F-1.

(a) (3) Exhibits

EXHIBIT INDEX

Exhibit Number	Exhibit Description
2.1	Purchase and Sale Agreement, dated September 27, 2012, by and between Capital Trust, Inc. and Huskies Acquisition LLC (filed as Exhibit 2.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on October 3, 2012 and incorporated herein by reference)
3.1.a	Articles of Amendment and Restatement (filed as Exhibit 3.1.a to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on April 2, 2003 and incorporated herein by reference)
3.1.b	Certificate of Notice (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on February 27, 2007 and incorporated herein by reference)
3.1.c	Articles Supplementary for Series A Junior Participating Preferred Stock (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on March 3, 2011 and incorporated herein by reference)
3.1.d	Articles of Amendment (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference)
3.1.e	Articles of Amendment (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 7, 2013 and incorporated herein by reference)
3.1.f	Articles Supplementary (filed as Exhibit 3.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 29, 2013 and incorporated herein by reference)
3.2	Fourth Amended and Restated Bylaws of Blackstone Mortgage Trust, Inc. (filed as Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 28, 2014 and incorporated herein by reference)
4.1	Indenture, dated as of November 25, 2013, between Blackstone Mortgage Trust, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on November 25, 2013 and incorporated herein by reference).
4.2	First Supplemental Indenture, dated as of November 25, 2013, between Blackstone Mortgage Trust, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (filed as Exhibit 4.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on November 25, 2013 and incorporated herein by reference)
4.3	Form of 5.25% Convertible Senior Note due 2018 (included as Exhibit A in Exhibit 4.5)
10.1	Second Amended and Restated Management Agreement, dated as of October 23, 2014, by and between Blackstone Mortgage Trust, Inc. and BXMT Advisors L.L.C. (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 28, 2014 and incorporated herein by reference)
10.2	Trademark License Agreement, dated May 6, 2013, by and between Blackstone Mortgage Trust, Inc. (f/k/a Capital Trust, Inc.) and Blackstone TM L.L.C. (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 7, 2013 and incorporated herein by reference)

10.3	Assignment Agreement, dated as of December 19, 2012, by and among Huskies Acquisition LLC, Blackstone Holdings III L.P. and Capital Trust, Inc. (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference)

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Exhibit Number		Exhibit Description
10.4	+	Capital Trust, Inc. Amended and Restated 1997 Non-Employee Director Stock Plan (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on January 29, 1999 and incorporated herein by reference)
10.5	+	Capital Trust, Inc. 2007 Long-Term Incentive Plan (the 2007 Plan) (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on June 12, 2007 and incorporated herein by reference)
10.6	+	2007 Amendment to the 2007 Plan (filed as Exhibit 10.20 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on March 5, 2008 and incorporated herein by reference)
10.7	+	Capital Trust, Inc. 2011 Long-Term Incentive Plan (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on June 28, 2011 and incorporated herein by reference)
10.8	+	Form of Annual Bonus Award Agreement (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on August 1, 2012 and incorporated herein by reference)
10.9	+	Form of Restricted Share Award Agreement relating to the Capital Trust, Inc. 2011 Long-Term Incentive Plan (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on August 1, 2012 and incorporated herein by reference)
10.10	+	Form of Special Transaction Bonus Award Agreement (filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on August 1, 2012 and incorporated herein by reference)
10.11	+	Blackstone Mortgage Trust, Inc. 2013 Stock Incentive Plan (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on July 1, 2013 and incorporated herein by reference)
10.12	+	Form of Restricted Stock Award of Blackstone Mortgage Trust, Inc. 2013 Stock Incentive Plan (filed as Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference)
10.13	+	Form of Restricted Stock Award of Blackstone Mortgage Trust, Inc. 2013 Stock Incentive Plan (filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 28, 2014 and incorporated herein by reference)
10.14	+	Blackstone Mortgage Trust, Inc. 2013 Manager Incentive Plan (filed as Exhibit 10.5 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on July 1, 2013 and incorporated herein by reference)
10.15	+	Form of Restricted Stock Award of Blackstone Mortgage Trust, Inc. 2013 Manager Incentive Plan (filed as Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference)
10.16	+	Form of Restricted Stock Award of Blackstone Mortgage Trust, Inc. 2013 Manager Incentive Plan (filed as Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 28, 2014 and incorporated herein by reference)
10.17	+	Form of Indemnification Agreement (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference)

10.18	Amended and Restated Registration Rights Agreement, dated May 6, 2013, by and among Blackstone Mortgage Trust, Inc., Blackstone Holdings III L.P. and BREDS/CT Advisors L.L.C. (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on May 6, 2013 and incorporated herein by reference)

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Exhibit Number	Exhibit Description
10.19	Limited Liability Company Agreement of 42-16 Partners, LLC, dated as of May 13, 2013, by and between Blackstone Mortgage Trust, Inc. and Blackstone Holdings Finance Co. L.L.C. (filed as Exhibit 10.1 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 17, 2013 and incorporated herein by reference)
10.20	Letter Agreement, dated as of May 13, 2013, by and between Blackstone Mortgage Trust, Inc. and Blackstone Holdings Finance Co. L.L.C. (filed as Exhibit 10.2 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on May 17, 2013 and incorporated herein by reference)
10.21	Master Repurchase Agreement, dated as of May 21, 2013, by and between Bank of America, N.A. and Parlex 1 Finance, LLC (filed as Exhibit 10.25 of the Registrant s Registration Statement on Form S-11 (No. 333-187541) filed on May 22, 2013 and incorporated herein by reference)
10.22	Joinder Agreement, dated as of September 23, 2013, by Parlex 1 Finance, LLC, Parlex 3 Finance LLC and Bank of America, N.A. (filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference)
10.23	Amendment No. 1 to Master Repurchase Agreement, dated as of September 23, 2013, by and between Bank of America, N.A. and Parlex 1 Finance, LLC (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference)
10.24	Guarantee Agreement, dated as of May 21, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Bank of America, N.A. (filed as Exhibit 10.26 of the Registrant s Registration Statement on Form S-11 (No. 333-187541) filed on May 22, 2013 and incorporated herein by reference)
10.25	Amendment No. 1 to Guarantee Agreement, dated as of September 23, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Bank of America, N.A. (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 29, 2013 and incorporated herein by reference)
10.26	Amendment No. 2 to Guarantee Agreement, dated as of February 21, 2014, made by Blackstone Mortgage Trust, Inc. in favor of Bank of America, N.A. (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.27	Master Repurchase and Securities Contract, dated as of June 7, 2013, by and between Wells Fargo Bank, National Association and SVP 2013 Finance, LLC (filed as Exhibit 10.8 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference)
10.28	Limited Guarantee Agreement, dated as of June 7, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Wells Fargo Bank, National Association (filed as Exhibit 10.9 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference)
10.29	Master Repurchase Agreement, dated as of June 12, 2013, by and between Citibank, N.A. and Parlex 2 Finance, LLC (filed as Exhibit 10.10 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference)
10.30	

		First Amendment to Master Repurchase Agreement, dated as of July 26, 2013, by and between Citibank, N.A., Parlex 2 Finance, LLC, and Blackstone Mortgage Trust, Inc. (filed as Exhibit 10.16 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference)
10.31	*	Second Amendment to Master Repurchase Agreement, dated as of September 11, 2013, by and between Citibank, N.A., Parlex 2 Finance, LLC, and Blackstone Mortgage Trust, Inc.

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Exhibit Number		Exhibit Description
10.32	*	Third Amendment to Master Repurchase Agreement, dated as of November 20, 2013, by and between Citibank, N.A., Parlex 2 Finance, LLC, and Blackstone Mortgage Trust, Inc.
10.33	*	Amended and Restated Master Repurchase Agreement, dated as of July 28, 2014, by and between Citibank, N.A., Parlex 2 Finance, LLC, and Blackstone Mortgage Trust, Inc.
10.34		Fourth Amendment to Master Repurchase Agreement, dated as of January 31, 2014, by and between Citibank, N.A. and Parlex 2 Finance, LLC (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.35		Limited Guaranty, dated as of June 12, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Citibank, N.A. (filed as Exhibit 10.11 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference)
10.36	*	First Amendment to Limited Guaranty, dated as of November 20, 2013, made by Blackstone Mortgage Trust, Inc. in favor of Citibank, N.A.
10.37		Second Amendment to Limited Guaranty, dated as of February 24, 2014, made by Blackstone Mortgage Trust, Inc. in favor of Citibank, N.A. (filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.38		Master Repurchase Agreement, dated as of June 28, 2013, by and between JPMorgan Chase Bank, National Association and Parlex 4 Finance, LLC (filed as Exhibit 10.12 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference)
10.39		Amendment No. 1 to Master Repurchase Agreement, dated as of December 20, 2013, by and between JPMorgan Chase Bank, National Association and Parlex 4 Finance, LLC (filed as Exhibit 10.34 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on February 18, 2014 and incorporated herein by reference)
10.40		Guarantee Agreement, dated as of June 28, 2013, made by Blackstone Mortgage Trust, Inc. in favor of JPMorgan Chase Bank, National Association (filed as Exhibit 10.13 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 30, 2013 and incorporated herein by reference)
10.41		Amendment No. 1 to Guarantee Agreement, dated as of March 3, 2014, made by Blackstone Mortgage Trust, Inc. in favor of JPMorgan Chase Bank, National Association (filed as Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.42		Master Repurchase Agreement, dated as of December 20, 2013, among JPMorgan Chase Bank, National Association and Parlex 4 UK Finance, LLC and Parlex 4 Finance, LLC (filed as Exhibit 10.36 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on February 18, 2014 and incorporated herein by reference)
10.43		Guarantee Agreement, dated as of December 20, 2013, made by Blackstone Mortgage Trust, Inc. in favor of JPMorgan Chase Bank, National Association (filed as Exhibit 10.37 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on February 18, 2014 and incorporated herein by reference)
10.44		

Amendment No. 1 to Guarantee Agreement, dated as of March 3, 2014, made by Blackstone Mortgage Trust, Inc. in favor of JPMorgan Chase Bank, National Association (filed as Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)

Exhibit Number	Exhibit Description
10.45	Master Repurchase and Securities Contract Agreement, dated as of March 3, 2014, among Parlex 6 UK Finco, LLC, Blackstone Mortgage Trust, Inc. and Morgan Stanley Bank, N.A. (filed as Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.46	Parent Guaranty and Indemnity, dated as of March 3, 2014, made by Blackstone Mortgage Trust, Inc. in favor of Morgan Stanley Bank, N.A. (filed as Exhibit 10.7 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.47	Master Repurchase and Securities Contract, dated as of March 13, 2014, between Parlex 5 Finco, LLC and Wells Fargo Bank, National Association (filed as Exhibit 10.8 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.48	Amendment No. 1 to Master Repurchase and Securities Contract, dated as of March 21, 2014, between Parlex 5 Finco, LLC and Wells Fargo Bank, National Association (filed as Exhibit 10.9 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.49	Guarantee Agreement, dated as of March 13, 2014, made by Blackstone Mortgage Trust, Inc. in favor of Wells Fargo Bank, N.A. (filed as Exhibit 10.10 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on April 29, 2014 and incorporated herein by reference)
10.50	Master Repurchase Agreement, dated as of April 25, 2014, between 643 Single Family Finco 2014, LLC and Goldman Sachs Bank USA (filed as Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 29, 2014 and incorporated herein by reference)
10.51	Guaranty, dated as of April 25, 2014, made by Blackstone Mortgage Trust, Inc, in favor of Goldman Sachs Bank USA (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 29, 2014 and incorporated herein by reference)
10.52	Master Repurchase Agreement, dated as of June 27, 2014, between Parlex 7 Finco, LLC and Metropolitan Life Insurance Company (filed as Exhibit 10.3 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on July 29, 2014 and incorporated herein by reference)
10.53	Guaranty, dated as of June 27, 2014, made by Blackstone Mortgage Trust, Inc, in favor of Metropolitan Life Insurance Company (filed as Exhibit 10.2 to the Registrant s Quarterly Report on Form 10-Q (File No. 1-14788) filed on October 28, 2014 and incorporated herein by reference)
10.54	Agreement of Lease dated as of May 3, 2000, between 410 Park Avenue Associates, L.P., owner, and Capital Trust, Inc., tenant (filed as Exhibit 10.11 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on April 2, 2001 and incorporated herein by reference)
10.55	Additional Space, Lease Extension and First Lease Modification Agreement, dated as of May 23, 2007, by and between 410 Park Avenue Associates, L.P. and Capital Trust, Inc. (filed as Exhibit 10.74 to the Registrant s Annual Report on Form 10-K (File No. 1-14788) filed on March 5, 2008 and incorporated herein by reference)
10.56	Assignment and Assumption of Lease, dated as of December 19, 2012, by and between Capital Trust, Inc. and Blackstone Holdings I L.P. (filed as Exhibit 10.5 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference)

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Exhibit Number		Exhibit Description
10.57		Consent to Assignment of Lease, and Fifth Lease Modification Agreement, dated December 19, 2012, between 410 Park Avenue Associates, L.P., Blackstone Holdings I L.P. and Capital Trust, Inc. (filed as Exhibit 10.6 to the Registrant s Current Report on Form 8-K (File No. 1-14788) filed on December 21, 2012 and incorporated herein by reference)
21.1	*	Subsidiaries of Blackstone Mortgage Trust, Inc.
23.1	*	Consent of Deloitte & Touche LLP
23.2	*	Consent of Ernst & Young LLP
31.1	*	Certification of Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	Certification of Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
99.1	*	Section 13(r) Disclosure
101.INS	++	XBRL Instance Document
101.SCH	++	XBRL Taxonomy Extension Schema Document
101.CAL	++	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	++	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	++	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	++	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

\+ This document has been identified as a management contract or compensatory plan or arrangement.

++ This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act) or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 17, 2015	/s/ Stephen D. Plavin
Date	Stephen D. Plavin
	Chief Executive Officer
	(Principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

February 17, 2015	/s/ Michael B. Nash
Date	Michael B. Nash
	Executive Chairman of the Board of Directors
February 17, 2015	/s/ Stephen D. Plavin
Date	Stephen D. Plavin
	Chief Executive Officer and Director
	(Principal executive officer)
February 17, 2015	/s/ Paul D. Quinlan
Date	Paul D. Quinlan
	Chief Financial Officer
	(Principal financial officer)
February 17, 2015	/s/ Anthony F. Marone, Jr.
Date	Anthony F. Marone, Jr.
	Principal Accounting Officer
February 17, 2015	/s/ Leonard W. Cotton

Date	Leonard W. Cotton, Director
February 17, 2015	/s/ Thomas E. Dobrowski
Date	Thomas E. Dobrowski, Director
February 17, 2015	/s/ Martin L. Edelman
Date	Martin L. Edelman, Director
February 17, 2015	/s/ Henry N. Nassau
Date	Henry N. Nassau, Director
February 17, 2015	/s/ Lynne B. Sagalyn
Date	Lynne B. Sagalyn, Director
February 17, 2015	/s/ John G. Schreiber
Date	John G. Schreiber, Director

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Schedules other than those listed are omitted as they are not applicable or the required or equivalent information has been included in the consolidated financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Blackstone Mortgage Trust, Inc.

New York, New York

We have audited the accompanying consolidated balance sheets of Blackstone Mortgage Trust, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, changes in (deficit) equity, and cash flows for the years then ended. Our audits also included the 2014 and 2013 information in the financial statement schedule listed in the Index at Item 15(a). The consolidated financial statements of the Company for the year ended December 31, 2012, before the effects of the adjustments to retrospectively apply the one-for-ten reverse stock split discussed in Note 13 to the consolidated financial statements, and the 2012 information in the financial statement schedule were audited by other auditors whose report, dated March 26, 2013, expressed an unqualified opinion on those financial statements and schedule. We also have audited the Company s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on

the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal

control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the 2014 and 2013 consolidated financial statements present fairly, in all material respects, the financial position of Blackstone Mortgage Trust, Inc. and subsidiaries as of December 31, 2014, and 2013 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such 2014 and 2103 information in the financial statement schedule, when considered in relation to the basic 2014 and 2013 consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited the adjustments to the 2012 consolidated financial statements to retrospectively apply the one-for-ten reverse stock split, as discussed in Note 13 to the consolidated financial statements. Our procedures included (1) comparing the amounts shown in the earnings per share disclosures for 2012 to the Company s underlying accounting analysis, (2) comparing the previously reported shares outstanding and income statement amounts per the Company s accounting analysis to the previously issued consolidated financial statements, and (3) recalculating the amounts to give effect to the reverse stock split and testing the mathematical accuracy of the underlying analysis. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2012 consolidated financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 consolidated financial statements taken as a whole.

/s/ Deloitte & Touche LLP

New York, New York

February 17, 2015

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Capital Trust, Inc.

We have audited the accompanying consolidated statements of operations, comprehensive income, changes in (deficit) equity, and cash flows of Capital Trust, Inc. and Subsidiaries (the Company) for the year ended December 31, 2012. Our audit also included the 2012 information in the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of the Company s operations and its cash flows for the year ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, such 2012 information in the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

New York, New York

March 26, 2013

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Blackstone Mortgage Trust, Inc.

Consolidated Balance Sheets

(in thousands, except share and per share data)

	December 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 51,810	$ 52,342
Restricted cash	11,591	10,096
Loans receivable, net	4,428,500	2,047,223
Equity investments in unconsolidated subsidiaries	10,604	22,480
Accrued interest receivable, prepaid expenses, and other assets	86,016	80,639
Total assets	$ 4,588,521	$ 2,212,780
Liabilities and Equity		
Accounts payable, accrued expenses, and other liabilities	$ 61,013	$ 97,153
Revolving repurchase facilities	2,040,783	863,622
Asset-specific repurchase agreements	324,553	245,731
Loan participations sold	499,433	90,000
Convertible notes, net	161,853	159,524
Total liabilities	3,087,635	1,456,030
Equity		
Class A common stock, $0.01 par value, 100,000,000 shares authorized, 58,269,889 and 29,501,651 shares issued and outstanding as of December 31, 2014 and 2013, respectively	583	295
Additional paid-in capital	2,027,404	1,252,986
Accumulated other comprehensive (loss) income	(15,024)	798
Accumulated deficit	(547,592)	(536,170)
Total Blackstone Mortgage Trust, Inc. stockholders equity	1,465,371	717,909
Non-controlling interests	35,515	38,841
Total equity	1,500,886	756,750
Total liabilities and equity	$ 4,588,521	$ 2,212,780

See accompanying notes to consolidated financial statements.

Blackstone Mortgage Trust, Inc.

Consolidated Statements of Operations

(in thousands, except share and per share data)

	Year Ended December 31,		
	2014	**2013**	**2012**
Income from loans and other investments			
Interest and related income	$ 184,766	$ 53,164	$ 34,939
Less: Interest and related expenses	69,143	18,017	38,138
Income (loss) from loans and other investments, net	115,623	35,147	(3,199)
Other expenses			
Management and incentive fees	19,491	5,937	
General and administrative expenses	27,799	11,505	10,369
Total other expenses	47,290	17,442	10,369
Recovery of provision for loan losses			36,147
Valuation allowance on loans held-for-sale		1,259	
Unrealized gain on investments at fair value	13,258	7,417	51,904
(Loss) gain on deconsolidation of subsidiary	(8,615)		200,283
Other income		38	5,840
Income from equity investments in unconsolidated subsidiaries	28,036		1,781
Income before income taxes	101,012	26,419	282,387
Income tax provision	518	995	174
Income from continuing operations	100,494	25,424	282,213
Loss from discontinued operations, net of tax			(2,138)
Loss on sale of discontinued operations			(271)
Net income	100,494	25,424	279,804
Net income attributable to non-controlling interests	(10,449)	(10,392)	(98,780)
Net income attributable to Blackstone Mortgage Trust, Inc.	$ 90,045	$ 15,032	$ 181,024
Income from continuing operations per share of common stock			
Basic	$ 1.86	$ 0.81	$ 78.19
Diluted	$ 1.86	$ 0.81	$ 74.16

Loss from discontinued operations per share of common stock			
Basic	$	$	$ (1.03)
Diluted	$	$	$ (1.03)
Net income per share of common stock			
Basic	$ 1.86	$ 0.81	$ 77.16
Diluted	$ 1.86	$ 0.81	$ 73.13
Weighted-average shares of common stock outstanding			
Basic	48,394,478	18,520,052	2,345,943
Diluted	48,394,478	18,520,052	2,475,294

See accompanying notes to consolidated financial statements.

Blackstone Mortgage Trust, Inc.

Consolidated Statements of Comprehensive Income

(in thousands)

	Year Ended December 31,		
	2014	**2013**	**2012**
Net income	$ 100,494	$ 25,424	$ 279,804
Other comprehensive income			
Unrealized (loss) gain on foreign currency remeasurement	(15,822)	798	
Unrealized gain on derivative financial instruments			8,367
Gain on interest rate swaps no longer designated as cash flow hedges			2,481
Amortization of unrealized gains and losses on securities			(775)
Amortization of net deferred gains on settlement of swaps			(56)
Other-than-temporary impairments of securities related to fair value adjustments in excess of expected credit losses, net of amortization			688
Other comprehensive (loss) income	(15,822)	798	10,705
Comprehensive income	84,672	26,222	290,509
Comprehensive income attributable to non-controlling interests	(10,449)	(10,392)	(98,790)
Comprehensive income attributable to Blackstone Mortgage Trust, Inc.	$ 74,223	$ 15,830	$ 191,719

See accompanying notes to consolidated financial statements.

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Blackstone Mortgage Trust, Inc.

Consolidated Statements of Changes in (Deficit) Equity

(in thousands)

	Blackstone Mortgage Trust, Inc.						
	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Stockholders' Equity	Non-Controlling Interests	Total Equity
Balance at December 31, 2011	$ 222	$ 597,049	$ (40,584)	$ (667,111)	$ (110,424)	$ (18,515)	$ (128,939)
Shares of class A common stock issued	50	9,950			10,000		10,000
Restricted class A common stock earned	4	993			997		997
Shares issued upon exercise of warrants	17	(17)					
Deferred directors compensation		1,027			1,027		1,027
Other comprehensive income			10,695		10,695	10	10,705
Deconsolidation of subsidiaries			29,889		29,889		29,889
Net income				181,024	181,024	98,780	279,804
Dividends declared on common stock				(49,764)	(49,764)		(49,764)
Distributions to non-controlling interests						(266)	(266)
Balance at December 31, 2012	$ 293	$ 609,002	$	$ (535,851)	$ 73,444	$ 80,009	$ 153,453
Shares of class A common stock issued	265	633,549			633,807		633,807
Adjustment to par value for reverse stock split and charter amendment	(263)	263					
Restricted class A common stock earned		1,057			1,064		1,064
Issuance of convertible notes		8,826			8,826		8,826
		289			289		289

Deferred directors compensation							
Other comprehensive income			798		798		798
Consolidation of subsidiaries				5,727	5,727	6,235	11,962
Net income				15,032	15,032	10,392	25,424
Dividends declared on common stock				(21,078)	(21,078)		(21,078)
Contributions from non-controlling interests						15,000	15,000
Distributions to non-controlling interests						(72,795)	(72,795)
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	288	765,855			766,143		766,143
Restricted class A common stock earned		7,983			7,983		7,983
Dividends reinvested		205		(205)			
Deferred directors compensation		375			375		375
Other comprehensive income			(15,822)		(15,822)		(15,822)
Net income				90,045	90,045	10,449	100,494
Dividends declared on common stock				(101,262)	(101,262)		(101,262)
Distributions to non-controlling interests						(13,775)	(13,775)
Balance at December 31, 2014	$ 583	$ 2,027,404	$ (15,024)	$ (547,592)	$ 1,465,371	$ 35,515	$ 1,500,886

See accompanying notes to consolidated financial statements.

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continued

See accompanying notes to consolidated financial statements.

Blackstone Mortgage Trust, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2014	**2013**	**2012**
Cash flows from operating activities			
Net income	$ 100,494	$ 25,424	$ 279,804
Adjustments to reconcile net income to net cash provided by operating activities			
Recovery of provision for loan losses			(36,147)
Valuation allowance on loans held-for-sale		(1,259)	
Unrealized gain on investments at fair value	(13,258)	(7,417)	(51,904)
Income from equity investments in unconsolidated subsidiaries	(28,036)		(1,781)
Loss (gain) on deconsolidation of subsidiary	8,615		(200,283)
Other non-cash income (loss)		(38)	(5,896)
Non-cash compensation expense	9,716	6,242	3,808
Distributions of income from unconsolidated subsidiaries	17,867	8,795	1,933
Distributions from CT Legacy Asset			9,581
Loss on sale of discontinued operations			271
Amortization of deferred interest on loans	(19,785)	(6,290)	(566)
Amortization of deferred financing costs and premiums/discount on debt obligations	9,900	4,935	12,133
Changes in assets and liabilities, net			
Accrued interest receivable, prepaid expenses, and other assets	(13,166)	116	(1,751)
Accounts payable, accrued expenses, and other liabilities	8,290	(1,839)	(2,434)
Net cash provided by operating activities	80,637	28,669	6,768
Cash flows from investing activities			
Proceeds from Investment Management Business Sale			21,424
Origination and fundings of loans receivable	(3,067,263)	(2,327,913)	
Origination and exit fees received on loans receivable	35,449	25,402	
Principal collections and proceeds from the sale of loans receivable and other assets	620,413	508,718	172,462
Distributions from equity investments		7,151	
Contributions to unconsolidated subsidiaries			(4,030)
Distributions from unconsolidated subsidiaries			1,006

(Increase) decrease in restricted cash	(1,495)	4,151	(1,261)
Net cash (used in) provided by investing activities	(2,412,896)	(1,782,491)	189,601

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Blackstone Mortgage Trust, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended December 31,		
	2014	**2013**	**2012**
Cash flows from financing activities			
Repayment and purchase of secured notes		(11,059)	
Borrowings under revolving repurchase facilities	2,898,427	1,356,796	123,977
Repayments under revolving repurchase facilities	(1,709,740)	(571,380)	(58,464)
Borrowings under asset-specific repurchase agreements	298,512	310,827	
Repayments under asset-specific repurchase agreements	(216,904)	(7,104)	
Proceeds from issuance of convertible notes		168,415	
Repayment of other liabilities	(20,794)	(98,965)	(241,945)
Proceeds from sale of loan participations	494,306	90,000	
Repayment of loan participations	(61,836)		
Payment of deferred financing costs	(16,160)	(8,867)	
Settlement of interest rate swaps		(6,123)	
Contributions from non-controlling interests		15,000	
Purchase of and distributions to non-controlling interests	(13,775)	(72,853)	(16)
Proceeds from issuance of common stock	766,138	633,807	10,000
Dividends paid on class A common stock	(84,238)	(7,776)	(48,960)
Vesting of restricted class A common stock			(356)
Net cash provided by (used in) financing activities	2,333,936	1,790,718	(215,764)
Net increase (decrease) in cash and cash equivalents	1,677	36,896	(19,395)
Cash and cash equivalents at beginning of year	52,342	15,423	34,818
Effects of currency translation on cash and cash equivalents	(2,209)	23	
Cash and cash equivalents at end of year	$ 51,810	$ 52,342	$ 15,423
Supplemental disclosure of cash flows information			
Payments of interest	$ (55,174)	$ (12,702)	$ (26,363)
(Payments) receipts of income taxes	$ (1,473)	$ 8	$ (2,747)
Supplemental disclosure of non-cash investing and financing activities			
Dividends declared, not paid	$ 30,357	$ 13,302	$ 804
Participations sold, net	432,470	90,000	
Deconsolidation (consolidation) of subsidiaries	$ 8,615	$ (38,913)	$ 371,621

See accompanying notes to consolidated financial statements.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements

1. ORGANIZATION

References herein to Blackstone Mortgage Trust, Company, we, us or our refer to Blackstone Mortgage Tru 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 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. Our business is organized into two operating segments: the Loan Origination segment and the CT Legacy Portfolio segment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, and 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 financial statements to conform to the current presentation including reclassifying (i) loans receivable, at fair value, into accrued interest receivable, prepaid expenses, and other assets, (ii) securitized debt obligations into accounts payable, accrued expenses, and other liabilities, and (iii) restricted class A common stock into class A common stock.

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 primarily 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.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

Assets of consolidated VIEs can only be used to satisfy the obligations of those VIEs. The liabilities of consolidated VIEs are non-recourse to us. As of December 31, 2013, our consolidated balance sheet included $49.8 million of other assets and $40.2 million of other liabilities that were attributable to CT CDO I, a consolidated VIE which was part of our CT Legacy Portfolio segment. During 2014, we recorded a 100% impairment of our residual interests in CT CDO I. As a result of this impairment, we no longer have a variable interest in CT CDO I, and therefore ceased to be its primary beneficiary. This resulted in the recognition of an $8.6 million loss on the deconsolidation of CT CDO I on our consolidated statement of operations. As of December 31, 2014, we no longer had any assets or liabilities on our consolidated balance sheet attributable to a consolidated VIE.

Use of Estimates

The preparation of 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, discounts, and direct costs 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.

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.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

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, 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.

Previously, our Manager assigned risk ratings between 1 and 8, from less risk to greater risk.

Loans Held-for-Sale and Related Allowance

In certain cases, we may classify loans as held-for-sale based upon the specific facts and circumstances of particular loans, including known or expected transactions. Loans held-for-sale are carried at the lower of their amortized cost basis or fair value, less costs to sell. A reduction in the fair value of loans held-for-sale is recorded as a charge to our consolidated statements of operations as a valuation allowance on loans held-for-sale.

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 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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

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.

Convertible Notes

The Debt with Conversion and Other Options Topic of the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or Codification, 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 Codification 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.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

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

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

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

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

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

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

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

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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

financing, exit plan, sponsorship, actions of other lenders, and indications of market value from other market participants. In the case of impaired loans receivable, fair value was determined based on the lower of amortized cost and the value of the underlying real estate collateral.

Derivative financial instruments: The fair value of our foreign currency contracts 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 based on recent transactions.

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 12 for additional information.

Stock-Based Compensation

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

Earnings per Share

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

these restricted shares have the same rights as our other shares of class A common stock, including participating in any gains or losses.

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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

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 operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with loan origination and acquisition, the capitalization of our loan portfolio, and the costs associated with operating our business generally. The CT Legacy Portfolio segment includes our activities specifically related to CT Legacy Partners and our equity investment in CTOPI. Our Manager makes operating decisions and assesses the performance of each of our business segments based on financial and operating data and metrics generated from our internal information systems.

Recent Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities, or ASU 2013-01. ASU 2013-01 was developed to clarify which instruments and transactions are subject to the offsetting disclosure requirements set forth by ASU 2011-11 Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2013-01 was effective for the first interim or annual period beginning on or after January 1, 2013, and was applied retrospectively for all comparative periods presented. The adoption of ASU 2013-01 did not have a material impact on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, or ASU 2013-02. ASU 2013-02 implements the previously deferred requirement to disclose reclassification adjustments into and out of accumulated other comprehensive income in either a note or on the face of the financial statements. ASU 2013-02 was effective for the first interim or annual period beginning after December 15, 2012, and was applied prospectively. As we have not reclassified any balances into or out of accumulated other comprehensive income, the adoption of ASU 2013-02 did not have a material impact on our consolidated financial statements.

In June 2013, the FASB issued ASU 2013-08, Financial Services-Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, or ASU 2013-08. ASU 2013-08 amends the criteria for qualification as an investment company under Topic 946 of the FASB Accounting Standards Codification, or Topic 946, and requires additional disclosure by investment companies. ASU 2013-08 is effective for the first interim or

annual period beginning after December 15, 2013, and is to be applied prospectively. We currently consolidate CT Legacy Partners, which accounts for its operations as an investment company under Topic 946. We do not expect the adoption of ASU 2013-08 to impact CT Legacy Partners status as an investment company. Further, because ASU 2013-08 specifically excludes REITs from its scope, it will not otherwise impact our consolidated financial statements.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

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, 2016, 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.

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

In August 2014, the FASB issued ASU 2014-15, 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.

3. LOANS RECEIVABLE

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

	December 31, 2014	December 31, 2013
Number of loans	60	31
Principal balance	$ 4,462,897	$ 2,077,227
Net book value	$ 4,428,500	$ 2,047,223
Unfunded loan commitments[1]	$ 513,229	$ 164,283
Weighted-average cash coupon[2]	L+4.36%	L+4.64%
Weighted-average all-in yield[2]	L+4.81%	L+5.26%
Weighted-average maximum maturity (years)[3]	3.9	4.1

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

(2) As of December 31, 2014, 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, 14% of our loans earned interest based on LIBOR floors, 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 are subject to yield maintenance, lock-out provisions, or other prepayment restrictions and 15% are open to repayment by the borrower.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

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

	Principal Balance	Deferred Fees and Other Items	Net Book Value
December 31, 2013	$ 2,077,227	$ (30,004)	$ 2,047,223
Loan fundings	3,067,263		3,067,263
Loan repayments and sales	(591,246)		(591,246)
Unrealized loss on foreign currency translation	(52,801)	725	(52,076)
Deferred origination fees and expenses		(35,449)	(35,449)
Amortization of deferred fees and expenses		19,785	19,785
Realized loan losses[1]	(10,546)	10,546	
Reclassification to other assets	(27,000)		(27,000)
December 31, 2014	$ 4,462,897	$ (34,397)	$ 4,428,500

(1) Includes a loan loss reserve of $10.5 million as of December 31, 2013, related to one loan in the CT Legacy Portfolio segment, owned by CT CDO I, with a principal balance of $10.5 million. This loan was subsequently written off in 2014 resulting in an aggregate loan loss reserve of zero as of December 31, 2014.

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):

	December 31, 2014		December 31, 2013	
Asset Type	Net Book Value	Percentage	Net Book Value	Percentage
Senior loans[1]	$ 4,340,586	98%	$ 1,800,329	88%
Subordinate loans[2]	87,914	2	246,894	12
	$ 4,428,500	100%	$ 2,047,223	100%

Property Type	Net Book Value	Percentage	Net Book Value	Percentage
Office	$ 1,878,605	42%	$ 864,666	42%
Hotel	1,267,486	29	390,492	19

Multifamily	426,094	10	341,819	17
Condominium	315,686	7	275,645	13
Retail	270,812	6	43,115	2
Other	269,817	6	131,486	7
	$ 4,428,500	100%	$ 2,047,223	100%

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

Geographic Location	Net Book Value	Percentage	Net Book Value	Percentage
United States				
Northeast	$ 1,383,258	31%	$ 828,571	40%
Southeast	657,484	15	243,798	12
West	628,275	14	469,262	23
Southwest	405,741	9	216,429	11
Midwest	335,406	8	85,708	4
Northwest	138,796	3	166,207	8
Subtotal	3,548,960	80	2,009,975	98
International				
United Kingdom	622,692	14	37,248	2
Canada	137,024	3		
Spain	86,289	2		
Netherlands	33,535	1		
Subtotal	879,540	20	37,248	2
Total	$ 4,428,500	100%	$ 2,047,223	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 subordinate interests in mortgages and mezzanine loans.

Loan Risk Ratings

As 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. One of the primary factors considered is how senior or junior each loan is relative to other debt obligations of the borrower. Additional factors considered in the assessment include risk of loss, current LTV, 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 as of December 31, 2014 ($ in thousands):

Risk Rating	Senior Loans[1]	Subordinate Loans[2]

	Number of Loans	Principal Balance	Net Book Value	Number of Loans	Principal Balance	Net Book Value	Total Net Book Value
1 3	58	$ 4,374,532	$ 4,340,586	2	$ 88,365	$ 87,914	$ 4,428,500
4 5							
	58	$ 4,374,532	$ 4,340,586	2	$ 88,365	$ 87,914	$ 4,428,500

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

(2) Includes subordinate interests in mortgages and mezzanine loans.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

The following table allocates the principal balance and net book value of our loans receivable based on our internal risk ratings as of December 31, 2013 ($ in thousands):

	Senior Loans[1]			Subordinate Loans[2]			
Risk Rating	**Number of Loans**	**Principal Balance**	**Net Book Value**	**Number of Loans**	**Principal Balance**	**Net Book Value**	**Total Net Book Value**
1 3	26	$ 1,811,513	$ 1,800,329	3	$ 227,350	$ 219,894	$ 2,020,223
4 5				2	37,548	27,000	27,000
	26	$ 1,811,513	$ 1,800,329	5	$ 264,898	$ 246,894	$ 2,047,223

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

Loan Impairments and Nonaccrual Loans

We do not have any loan impairments, nonaccrual loans, or loans in maturity default as of December 31, 2014. We did not have any material interest receivable accrued on nonperforming loans as of December 31, 2014 or 2013. As of December 31, 2013, CT CDO I, which was a component of our CT Legacy Portfolio segment, had one impaired subordinate interest in a mortgage loan with a gross book value of $10.5 million that was delinquent on its contractual payments. As of December 31, 2013, this loan was on nonaccrual status and we had recorded a 100% loan loss reserve on this loan. This loan was subsequently written off resulting in a loan loss reserve of zero as of December 31, 2014. As of December 31, 2013, CT CDO I had one loan with a net book value of $27.0 million in maturity default, but which had no reserve recorded due to our expectation of future repayment. In June 2014, this loan was restructured and reclassified to other assets.

4. LOANS HELD-FOR-SALE

During the first quarter of 2013, we reclassified a $6.6 million subordinate mortgage loan and its related $4.6 million provision for loan losses to loans held-for-sale. We subsequently sold this loan and recorded a $1.3 million valuation adjustment to reflect the position at its fair value based on the proceeds received from the sale. We did not have any loans classified as held-for-sale as of December 31, 2014 or 2013.

5. EQUITY INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

As of December 31, 2014, 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 ($ in thousands):

	CTOPI Carried Interest	
Total as of December 31, 2013	$	22,480
Distributions		(17,867)
Deferred income allocation[1]		5,991
Total as of December 31, 2014	$	10,604

(1) In instances where we have not received cash or all appropriate contingencies have not been eliminated, we have deferred the

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

recognition of 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 carried interest 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 December 31, 2014, we had been allocated $10.6 million of carried interest 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 and appropriate contingencies have been eliminated. During the year ended December 31, 2014, we received a $17.9 million distribution from CTOPI in respect of our carried interest and recorded such amount as income in our consolidated statement of operations. In addition, we had previously recorded, but deferred recognition of, $10.2 million of advance distributions in respect of our carried interest to allow us to pay any taxes owed on phantom taxable income allocated to us from the partnership. We recognized $28.0 million of distributions as income during the year ended December 31, 2014 as all fund-level contingencies had been satisfied.

CTOPI Incentive Management Fee Grants

In January 2011, we created a management compensation pool for employees equal to 45% of the CTOPI carried interest distributions received by us. As of December 31, 2014, we had granted 96% of the pool, and the remainder was unallocated. If any awards remain unallocated at the time carried interest distributions are received by us, any amounts otherwise payable to the unallocated awards will be distributed pro rata to the plan participants then employed by an affiliate of our Manager.

Approximately 65% of these grants have the following vesting schedule: (i) one-third on the date of grant; (ii) one-third on September 13, 2012; and (iii) the remainder is contingent on continued employment with an affiliate of our Manager and upon our receipt of carried interest distributions from CTOPI. Of the remaining 35% of these grants, 31% are fully vested as a result of an acceleration event, and 4% vest solely upon our receipt of carried interest distributions from CTOPI or the disposition of certain investments owned by CTOPI.

During the year ended December 31, 2014, we made payments of $12.9 million under the CTOPI incentive plan, which amount was recognized as a component of general and administrative expenses in our consolidated statement of operations.

6. SECURED FINANCINGS

As of December 31, 2014, our secured financings included revolving repurchase facilities, asset-specific financings, and senior loan participations sold. During the year ended December 31, 2014, we entered into three revolving repurchase facilities, two asset-specific repurchase agreements, and sold three senior loan participations, providing an additional $2.2 billion of credit capacity.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

Repurchase Agreements

Revolving Repurchase Facilities

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

	December 31, 2014					Dec. 31, 2013
	Maximum	Collateral	Repurchase Borrowings[3]			Borrowings
Lender	Facility Size[1]	Assets[2]	Potential	Outstanding	Available	Outstanding
Wells Fargo	$ 1,000,000	$ 747,256	$ 585,737	$ 484,365	$ 101,372	$
Citibank	500,000	621,025	472,080	392,455	79,625	334,692
Bank of America	500,000	557,810	441,201	389,347	51,854	271,320
JP Morgan[4]	488,155	544,654	422,249	341,487	80,762	257,610
MetLife	500,000	476,499	366,902	305,889	61,013	
Morgan Stanley[5]	389,050	174,297	137,181	127,240	9,941	
	$ 3,377,205	$ 3,121,541	$ 2,425,350	$ 2,040,783	$ 384,567	$ 863,622

(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 ($238.2 million) facility.
(5) The Morgan Stanley maximum facility size represents a £250.0 million ($389.1 million) facility.

The weighted-average outstanding balance of our revolving repurchase facilities was $1.4 billion for the year ended December 31, 2014. As of December 31, 2014, we had aggregate borrowings of $2.0 billion outstanding under our revolving repurchase facilities, with a weighted-average cash coupon of LIBOR plus 1.88% per annum and a weighted-average all-in cost of credit, including associated fees and expenses, of LIBOR plus 2.11% per annum. As of December 31, 2014, outstanding borrowings under these facilities had a weighted-average maturity, excluding extension options and term-out provisions, of 1.8 years. Borrowings under each facility are subject to the initial approval of eligible collateral loans by the lender and the maximum advance rate and pricing rate of individual advances are determined with reference to the attributes of the respective collateral loan.

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

Lender	Rate[1][2]	Guarantee[1][3]	Advance Rate[1]	Margin Call[4]	Term/Maturity
Wells Fargo	L+1.82%	25%	78.82%	Collateral marks only	Term matched[5]
Citibank	L+1.93%	25%	76.68%	Collateral marks only	Term matched[5]
Bank of America	L+1.77%	50%	79.59%	Collateral marks only	May 21, 2019[6]
JP Morgan	L+1.94%	25%	77.92%	Collateral marks only	Term matched[5][7]
MetLife	L+1.81%	50%	77.27%	Collateral marks only	June 29, 2020[8]
Morgan Stanley	L+2.32%	25%	78.71%	Collateral marks only	March 3, 2017

(1) Represents a weighted-average based on collateral assets pledged and borrowings outstanding as of December 31, 2014.

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Notes to Consolidated Financial Statements (continued)

(2) Represents weighted-average cash coupon on borrowings outstanding as of December 31, 2014. As of December 31, 2014, 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) These revolving repurchase facilities have various availability periods during which new advances can be made and which are generally subject to each lender s discretion. Maturity dates for advances outstanding are tied to the term of each respective collateral asset.
(6) Includes two one-year extension options which may be exercised at our sole discretion.
(7) Borrowings denominated in British pound sterling under this facility mature on December 30, 2016.
(8) Includes five one-year extension options which may be exercised at our sole discretion.

Asset-Specific Repurchase Agreements

The following table details statistics for our asset-specific repurchase agreements ($ in thousands):

	December 31, 2014		December 31, 2013	
	Repurchase Agreements	Collateral Assets	Repurchase Agreements	Collateral Assets
Number of loans	3	4	4	4
Principal balance	$ 324,553	$ 429,197	$ 245,731	$ 334,857
Weighted-average cash coupon[1]	L+2.68%	L+5.07%	L+2.55%	L+4.79%
Weighted-average all-in yield / cost[1]	L+3.16%	L+5.53%	L+3.03%	L+5.38%

(1) As of December 31, 2014, 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 yield / cost includes the amortization of deferred origination fees / financing costs.

The weighted-average outstanding asset-specific balance was $257.9 million for the year ended December 31, 2014.

Debt Covenants

Each of the guarantees related to our revolving repurchase facilities and asset-specific repurchase 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 $1.1 billion as of December 31, 2014 plus 75% of the net cash proceeds of future equity issuances subsequent to December 31, 2014; (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 December 31, 2014 and 2013, we were in compliance with these covenants.

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.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

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

	December 31, 2014		December 31, 2013	
	Participations Sold	Underlying Loans	Participations Sold	Underlying Loans
Number of loans	4	4	1	1
Principal balance	$ 499,433	$ 635,701	$ 90,000	$ 173,837
Weighted-average cash coupon[1]	L+2.51%	L+4.10%	L+5.12%	L+5.66%
Weighted-average all-in yield / cost[1]	L+2.71%	L+4.71%	L+5.26%	L+9.25%

(1) As of December 31, 2014, 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 yield / cost includes the amortization of deferred origination fees / financing costs.

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. As of December 31, 2014, the Convertible Notes were carried on our consolidated balance sheet at $161.9 million, net of an unamortized discount of $7.3 million.

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 December 31, 2014. 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 including distributions above $0.50 per share, subject to certain limited exceptions. We may not redeem the Convertible Notes prior to maturity. As of December 31, 2014 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. As of December 31, 2014, the closing price of our class A common stock was $29.14 which exceeds our Convertible Notes conversion price of $28.66. As a result, the if-converted value of our convertible notes exceeded the principal balance by $2.9 million as of December 31, 2014.

We recorded a $9.1 million discount upon issuance of the Convertible Notes 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. For the year ended December 31, 2014, we

incurred total interest on our convertible notes of $11.5 million, of which $9.1 million related to cash coupon and $2.4 million related to the amortization of discount and certain issuance costs. We incurred total interest on our convertible notes of $1.1 million for the year ended December 31, 2013, of which $874,000 related to cash coupon and $197,000 related to the amortization of discount and certain issuance costs. Refer to Note 2 for additional discussion of our accounting policies for the Convertible Notes.

8. DERIVATIVE FINANCIAL INSTRUMENTS

We may, from time to time, enter into derivative contracts to achieve certain risk management objectives. 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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

fluctuations in foreign currency exchange rates. Historically, our consolidated subsidiary, CT Legacy Partners, also used derivative financial instruments to manage, or hedge, the cash flow variability caused by the fluctuations in interest rates.

As of and during the year ended December 31, 2014, we had a net investment hedge on one Canadian dollar-denominated subsidiary which consisted of two Canadian dollar forward contracts. These foreign currency contracts had an aggregate notional value of $42.5 million, and their fair value of $1.1 million has been included as part of accrued interest receivable, prepaid expenses, and other assets on our consolidated balance sheet. The following table summarizes the notional and fair value amounts of our derivative financial instruments as of December 31, 2014 and 2013 ($ in thousands):

	December 31, 2014		December 31, 2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Foreign Currency Contracts	$ 42,525	$ 1,138	$	$
	$ 42,525	$ 1,138	$	$

The following table summarizes the impact of our derivative financial instruments to our consolidated statement of operations and consolidated statement of comprehensive income for the year ended December 31, 2014, 2013, and 2012 ($ in thousands):

	For the year ended December 31,		
	2014	2013	2012
Net investment hedges Foreign currency contracts			
Gain recognized in other comprehensive income	$ 1,138	$	$
Gain reclassified from AOCI into net income	$	$	$
Gain recognized in net income	$	$	$
Freestanding derivatives Interest rate contracts[1]			
Loss recognized in other comprehensive income	$	$	$ (10,449)
Loss reclassified from AOCI into net income	$	$	$ (15,066)
Gain recognized in net income	$	$ 136	$

(1) The interest rate derivatives represent five interest rate swaps that our consolidated subsidiary, CT Legacy Partners was party to during 2013. In June 2013, CT Legacy Partners terminated these interest rate swaps and recorded a gain of $136,000 which was included as a component of interest expense on our consolidated statements of operations for the year ended December 31, 2013. CT Legacy Partners is no longer party to any derivative financial instruments as of December 31, 2014.

9. EQUITY

Total equity increased by $744.1 million during the year ended December 31, 2014 to $1.5 billion. This increase was primarily driven by the issuance of additional shares of our class A common stock. See below for further discussion of our share issuances.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

Share and Share Equivalents

Authorized Capital

We have the authority to issue up to 200,000,000 shares of stock, consisting of 100,000,000 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 December 31, 2014.

Class A Common Stock and Deferred Stock Units

Holders of shares of our class A common stock are entitled to vote on all matters submitted to a vote of stockholders and are entitled to receive such dividends as may be authorized by our board of directors and declared by us, in all cases subject to the rights of the holders of shares of outstanding preferred stock, if any.

The following table details our issuances of class A common stock during the year ended December 31, 2014 ($ in thousands, except share and per share data):

	Class A Common Stock Offerings				2014 Total /
	January 2014	**April 2014**	**September 2014**	**December 2014**[3]	**Wtd.-Avg.**
Shares Issued	9,775,000	9,200,000	9,200,000	100,000	28,275,000
Issue Price[1]	$ 26.25	$ 27.72	$ 27.49	$ 27.58	$ 27.14
Net Proceeds[2]	$ 256,092	$ 254,758	$ 252,530	$ 2,758	$ 766,138

(1) Represents price per share paid to the underwriters.
(2) Net proceeds represents proceeds received from the underwriters less applicable transaction costs.
(3) Issuance represents 100,000 shares issued over a five-day period in December, with a weighted average issue price of $27.58, and generating net proceeds of $2.8 million.

We also issue restricted class A common stock under our stock-based incentive plans. Refer to Note 13 for additional discussion of these long-term incentive plans.

In addition to our class A common stock, we also issue deferred stock units to certain members of our board of directors in lieu of cash compensation for services rendered. These deferred stock units are non-voting, but carry the right to receive dividends in the form of additional deferred stock units in an amount equivalent to the cash dividends paid to holders of shares of class A common stock. During 2014, we issued 2,851 shares of class A common stock to Joshua A. Polan in exchange for his deferred stock units upon his decision not to stand for reelection to our board of directors.

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:

	Year Ended December 31,		
Common Stock Outstanding[(1)(2)]	**2014**	**2013**	**2012**
Beginning balance	29,602,884	3,016,407	2,277,344
Issuance of class A common stock	28,275,006	25,875,000	669,047
Issuance of restricted class A common stock, net	490,381	700,000	36,493
Issuance of deferred stock units	20,537	11,477	33,523
Ending balance	58,388,808	29,602,884	3,016,407

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Notes to Consolidated Financial Statements (continued)

(1) Deferred stock units held by members of our board of directors totalled 118,919, 101,233, and 89,754 as of December 31, 2014, 2013, and 2012, respectively.
(2) Share amounts have been retroactively updated to reflect the one-for-ten reverse stock split which we effected as of May 6, 2013. See below for further discussion.

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 year ended December 31, 2014, we issued six shares of class A common stock under the dividend reinvestment component and zero shares under the direct stock purchase plan component. As of December 31, 2014, 9,999,994 shares of class A common stock, in the aggregate, 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, if any, 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 year ended December 31, 2014, we sold 100,000 shares of class A common stock under the ATM Agreements, with net proceeds totaling $2.8 million. As of December 31, 2014, sales of our class A common stock with an aggregate sales price of $197.2 million remain available for issuance under the ATM Agreements.

Reverse Stock Split

On April 26, 2013, our board of directors approved a one-for-ten reverse stock split of our class A common stock which we effected on May 6, 2013. As a result of the reverse stock split, the number of outstanding shares of our class A common stock was reduced to 2,926,651. In addition, there was a reclassification of $263,000 from the par value of our class A common stock to additional paid-in capital to reflect the impact of the reverse stock split.

Dividends

We generally intend to distribute substantially all of our taxable income, which does not necessarily equal net income as calculated in accordance with GAAP, to our stockholders each year to comply with the REIT provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

Our dividend policy remains subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend upon our taxable income, our financial condition, our maintenance of REIT status, applicable law, and other factors as our board of directors deems relevant.

During the years ended December 31, 2014, 2013, and 2012 we declared dividends per share of $1.98, $0.72, and $20.00, respectively, representing aggregate dividends payment of $101.3 million, $21.1 million, and $49.8 million during each year.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

Earnings Per Share

We calculate our basic and diluted earnings per share using the two-class method for all periods presented as the unvested shares of our restricted class A common stock qualify as participating securities, as defined by GAAP. These restricted shares have the same rights as our other shares of class A common stock, including participating in any gains and losses, and therefore have been included in our basic and diluted net income per share calculation.

The following table sets forth the calculation of basic and diluted net income per share of class A common stock based on the weighted-average of both restricted and unrestricted class A common stock outstanding for the indicated periods ($ in thousands, except per share data):

	Year Ended December 31,		
	2014	2013	2012
Net income	$ 90,045	$ 15,032	$ 181,024
Weighted-average shares outstanding[1]	48,394,478	18,520,052	2,345,943
Warrants and options outstanding for the purchase of class A common stock			129,351
Weighted-average shares outstanding, diluted	48,394,478	18,520,052	2,475,294
Per share amount, basic	$ 1.86	$ 0.81	$ 77.16
Per share amount, diluted	$ 1.86	$ 0.81	$ 73.13

(1) Share and per share amounts have been retroactively updated to reflect the one-for-ten reverse stock split which we effected as of May 6, 2013. See above for further discussion.

The following table sets forth the calculation of basic and diluted income from continuing operations per share based on the weighted-average of our shares of class A common stock, including restricted class A common stock and deferred stock units outstanding ($ in thousands, except per share data):

	Year Ended December 31,		
	2014	2013	2012
Income from continuing operations	$ 100,494	$ 25,424	$ 282,213
Net income attributable to non-controlling interests	(10,449)	(10,392)	(98,780)
Income from continuing operations attributable to Blackstone Mortgage Trust, Inc.	90,045	15,032	183,433

Weighted-average shares outstanding[1]	48,394,478	18,520,052	2,345,943
Warrants and options outstanding for the purchase of class A common stock			129,351
Weighted-average shares outstanding, diluted	48,394,478	18,520,052	2,475,294
Per share amount, basic	$ 1.86	$ 0.81	$ 78.19
Per share amount, diluted	$ 1.86	$ 0.81	$ 74.16

(1) Share and per share amounts have been retroactively updated to reflect the one-for-ten reverse stock split which we effected as of May 6, 2013. See above for further discussion.

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

Other Balance Sheet Items

Accumulated Other Comprehensive Loss

As of December 31, 2014, total accumulated other comprehensive loss was $15.0 million, representing the cumulative currency translation adjustment on assets and liabilities denominated in foreign currencies. During the year ended December 31, 2014, we recorded a $15.8 million currency translation loss in other comprehensive income. As of and during the year ended December 31, 2013, total accumulated other comprehensive income was $798,000 representing the currency translation adjustment on assets denominated in foreign currencies. The following table details the primary components of accumulated other comprehensive loss as of, and for the year ended, December 31, 2012 ($ in thousands):

Accumulated Other Comprehensive Loss	Mark-to-Market on Interest Rate Hedges	Deferred Gains on Settled Hedges	Other-than-Temporary Impairments	Unrealized Gains on Securities	Total
Total as of December 31, 2011	(27,423)	56	(16,578)	3,361	(40,584)
Unrealized gain on derivative financial instruments	8,367				8,367
Ineffective portion of cash flow hedges[(1)]	2,481				2,481
Amortization of net unrealized gains on securities				(775)	(775)
Amortization of net deferred gains on settlement of swaps		(56)			(56)
Other-than-temporary impairments of securities			678		678
Deconsolidation of subsidiaries	16,575		15,900	(2,586)	29,889
Total as of December 31, 2012	$	$	$	$	$

(1) As a result of the deconsolidation of CT Legacy Asset in the first quarter of 2012, the balance of accumulated other comprehensive income related to cash flow hedges of CT Legacy Asset was reclassified to interest expense.

Non-controlling Interests

The non-controlling interests included on our consolidated balance sheets represent the equity interests in CT Legacy Partners that are not owned by us. A portion of CT Legacy Partners consolidated equity and results of operations are allocated to these non-controlling interests based on their pro rata ownership of CT Legacy Partners. As of

December 31, 2014, CT Legacy Partners total equity was $60.8 million, of which $25.3 million was owned by Blackstone Mortgage Trust, Inc., and $35.5 million was allocated to non-controlling interests.

10. OTHER EXPENSES

Our other expenses consist of the management and incentive fees we pay to our Manager and our general and administrative expenses.

Management and Incentive Fees

Pursuant to our management agreement, our Manager earns a base management fee in an amount equal to 1.50% per annum multiplied by our average outstanding Equity balance, as defined in the management agreement. In addition, our Manager is entitled to an incentive fee in an amount equal to the product of (i) 20% and (ii) the excess of (a) our Core Earnings (as defined in the management agreement) for the previous 12-month

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

period over (b) an amount equal to 7.00% per annum multiplied by our average outstanding Equity, provided that our Core Earnings over the prior three-year period (or the period since May 29, 2013, the date of the first offering of our class A common stock following December 19, 2012, whichever is shorter) is greater than zero. Core Earnings is generally equal to our net income (loss) prepared in accordance with GAAP, excluding (i) certain non-cash items and (ii) the net income (loss) related to our CT Legacy Portfolio segment.

During the years ended December 31, 2014 and 2013, we incurred $17.8 million and $5.9 million of management fees payable to our Manager, respectively. We did not incur any management fees payable to our Manager during the year ended December 31, 2012. During the year ended December 31, 2014, we incurred $1.7 million of incentive fees payable to our Manager. We did not incur any incentive fees payable to our Manager during the years ended December 31, 2013 and 2012.

General and Administrative Expenses

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

	Year Ended December 31, 2014		
	2014	**2013**	**2012**
Professional services	$ 2,627	$ 2,441	$ 895
Operating and other costs	2,009	1,797	1,732
Transaction costs investment management sale			3,870
	4,636	4,238	6,497
Non-cash and CT Legacy Portfolio compensation expenses			
Management incentive awards plan CTOPI[1]	12,898		
Management incentive awards plan CT Legacy Partners[2]	1,374	5,089	2,232
Restricted class A common stock earned	7,988	1,064	1,353
Director stock-based compensation	375	263	223
	22,635	6,416	3,808
Expenses of consolidated securitization vehicles	528	851	64
	$ 27,799	$ 11,505	$ 10,369

(1) Represents the portion of CTOPI carried interest revenue paid under compensation awards. See Note 5 for further discussion.

(2) Represents the accrual of amounts payable under the CT Legacy Partners management incentive awards during the period. See below for discussion of the CT Legacy Partners management incentive awards plan.

CT Legacy Partners Management Incentive Awards Plan

In conjunction with our March 2011 Restructuring, we created an employee pool for up to 6.75% of the distributions paid to the common equity holders of CT Legacy Partners (subject to certain caps and priority distributions). As of December 31, 2014, incentive awards for 94% of the pool have been granted, and the remainder was unallocated. If any awards remain unallocated at the time distributions are paid, any amounts otherwise payable to the unallocated awards will be distributed pro rata to the plan participants then employed by an affiliate of our Manager.

Approximately 53% of these grants have the following vesting schedule: (i) 25% on the date of grant; (ii) 25% in March 2013; (iii) 25% in March 2014; and (iv) the remainder is contingent on continued employment with an

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

affiliate of our Manager and our receipt of distributions from CT Legacy Partners. Of the remaining 47% of these grants, 29% are fully vested as a result of an acceleration event, and 18% vest only upon our receipt of distributions from CT Legacy Partners.

We accrue a liability for the amounts due under these grants based on the value of CT Legacy Partners and the periodic vesting of the awards granted. Accrued payables for these awards were $2.8 million as of both December 31, 2014 and 2013.

11. DISCONTINUED OPERATIONS

Investment Management Business Sale

On December 19, 2012, pursuant to a purchase and sale agreement, dated as of September 27, 2012, or Purchase Agreement, by and between us and an affiliate of Blackstone, we completed the disposition of our investment management and special servicing business for a purchase price of $21.4 million. The sale included our equity interests in CT Investment Management Co., LLC, our related private investment fund co-investments, and 100% of the outstanding class A preferred stock of CT Legacy REIT. We refer to the entire transaction as our Investment Management Business Sale. As a result of the Investment Management Business Sale, the income and expense items related to our investment management business have been reclassified to income from discontinued operations on our consolidated statements of operations for the year ended December 31, 2012.

The following table provides additional information on the components of discontinued operations ($ in thousands):

	Year Ended December 31,		
	2014	2013	2012
Servicing fees	$	$	$ 9,686
Management fees from affiliates			6,312
Total revenues			15,998
General and administrative expenses			12,938
Income from discontinued operations before income taxes			3,060
Income tax provision			(5,198)
Loss from discontinued operations	$	$	$ (2,138)
Loss on sale of discontinued operations			(271)
Loss from discontinued operations per share common stock:			

Basic	$	$	$ (1.03)
Diluted	$	$	$ (1.03)

12. INCOME TAXES

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

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Internal Revenue Code, which relate to organizational structure, diversity of stock ownership and certain restrictions with regard to the nature of our assets and the sources of our income. Even if we qualify as a REIT, we may be subject to certain U.S. federal excise taxes and state and local taxes on our income and assets. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and will not be able to qualify as a REIT for the subsequent four full taxable years.

During the years ended December 31, 2014, 2013, and 2012, we recorded a current income tax provision of $518,000, $995,000, and $174,000, respectively, primarily related to activities of our taxable REIT subsidiaries and various state and local taxes. We did not have any deferred tax assets or liabilities as of December 31, 2014 or 2013.

As a result of our issuance of 25,875,000 shares of class A common stock in May 2013, the availability of our net operating losses, or NOLs, and net capital losses, or NCLs, is generally limited to $2.0 million per annum by change of control provisions promulgated by the Internal Revenue Service with respect to the ownership of Blackstone Mortgage Trust. As of December 31, 2014, we had estimated NOLs of $159.0 million and NCLs of $32.0 million available to be carried forward and utilized in current or future periods. To the extent we are unable to utilize our NOLs, they will expire in 2029. To the extent we are unable to utilize our NCLs, $31.4 million will expire in 2015, and $602,000 will expire in 2017.

As of December 31, 2014, tax years 2011 through 2014 remain subject to examination by taxing authorities.

13. STOCK-BASED INCENTIVE PLANS

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

We had stock-based incentive awards outstanding under five benefit plans as of December 31, 2014: (i) our amended and restated 1997 non-employee director stock plan, or 1997 Plan; (ii) our 2007 long-term incentive plan, or 2007 Plan; (iii) our 2011 long-term incentive plan, or 2011 Plan; (iv) our 2013 stock incentive plan, or 2013 Plan; and (v) our 2013 manager incentive plan, or 2013 Manager Plan. We refer to our 1997 Plan, our 2007 Plan, and our 2011 Plan collectively as our Expired Plans and we refer to our 2013 Plan and 2013 Manager Plan collectively as our Current Plans.

Our Expired Plans have expired and no new awards may be issued under them. Under our Current Plans, a maximum of 2,160,106 shares of our class A common stock may be issued to our Manager, our directors and officers, and certain employees of affiliates of our Manager. As of December 31, 2014, there were 939,319 shares available under the Current Plans.

We issued 490,381 and 700,000 shares of restricted class A common stock under our Current Plans during 2014 and 2013, respectively. These shares generally vest in quarterly installments over a three-year period, pursuant to the terms of the respective award agreements and the terms of the Current Plans. The 919,719 shares of restricted class A

common stock outstanding as of December 31, 2014 will vest as follows; 398,751 shares will vest in 2015; 357,511 shares will vest in 2016; and 163,457 shares will vest in 2017.

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Notes to Consolidated Financial Statements (continued)

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

	Restricted Class A Common Stock	Weighted-Average Grant Date Fair Value Per Share
Balance as of December 31, 2013	700,000	$ 25.69
Granted	490,381	27.82
Vested	(270,662)	25.57
Balance as of December 31, 2014	919,719	$ 26.86

14. FAIR VALUES

Assets Recorded at Fair Value

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

	Level 1	Level 2	Level 3	Fair Value
December 31, 2014				
Other assets, at fair value[1]	$	$ 2,648	$ 47,507	$ 50,155
December 31, 2013				
Other assets, at fair value[1]	$	$ 1,944	$ 54,461	$ 56,405

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

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

	2014	2013		
	Other Assets	Loans Held-for-Sale, net	Other Assets	Investment in CT Legacy Assets

January 1,	$ 54,461	$	$	$ 132,000
Consolidation of CT Legacy Partners			164,780	(132,000)
Transfer from loans receivable, at fair value		2,000		
Proceeds from investments	(20,231)	(3,259)	(118,635)	
Adjustments to fair value included in earnings				
Gain on investments at fair value	13,277		7,332	
Valuation allowance on loans held-for-sale		1,259		
Deferred interest			984	
December 31,	$ 47,507	$	$ 54,461	$

Our other assets include loans, securities, equity investments, and other receivables that are carried at fair value. The following describes the key assumptions used in arriving at the fair value of each of these assets as of December 31, 2014 and 2013.

Securities: As of December 31, 2014 and 2013, our securities, which had a book value of $10.0 million and $9.4 million, respectively, were valued by obtaining assessments from third-party dealers.

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Notes to Consolidated Financial Statements (continued)

Loans: The following table lists the range of key assumptions for each type of loans receivable as of December 31, 2014 and December 31, 2013 ($ in millions):

Collateral Type	Discount Rate	Recovery Percentage[(1)]	Fair Value as of December 31, 2014	December 31, 2013
Hotel	(2)	100%	$ 15.0	$ 15.0
Office	(3)	100%	4.0	25.7
			$ 19.0	$ 40.7

(1) Represents the proportion of the principal expected to be collected relative to the loan balances as of December 31, 2014 and 2013, excluding loans for which there is no expectation of future cash flows.
(2) The discount rate used to value our hotel loan portfolio was 7% as of December 31, 2014 and 2013. A 100 bp discount rate increase would result in a decrease in fair value of 0.3% and 1.4% as of December 31, 2014 and 2013, respectively.
(3) The discount rates used to value our office loan portfolio was 15% as of December 31, 2014 and ranged from 6% to 15% as of December 31, 2013. A 100 bp discount rate increase would result in a decrease in fair value of 1.1% and 0.3% as of December 31, 2014 and 2013, respectively.

Equity investments and other receivables: As of December 31, 2014, equity investments and other receivables, which had an aggregate book value of $18.5 million, were generally valued by discounting expected cash flows.

There were no liabilities recorded at fair value as of December 31, 2014 or 2013. Refer to Note 2 for further discussion regarding fair value measurement.

Fair Value of Financial Instruments

As discussed in Note 2, GAAP requires disclosure of fair value information about financial instruments, whether or not reported in the statement of financial position at fair value, for which it is practicable to estimate that value.

The following table details the carrying amount, face amount, and fair value of the financial instruments described in Note 2 that are not reported in the statement of financial position at fair value ($ in thousands):

	December 31, 2014			December 31, 2013		
	Carrying Amount	Face Amount	Fair Value	Carrying Amount	Face Amount	Fair Value
Financial assets						

Cash and cash equivalents	$ 51,810	$ 51,810	$ 51,810	$ 52,342	$ 52,342	$ 52,342
Restricted cash	11,591	11,591	11,591	10,096	10,096	10,096
Loans receivable, net	4,428,500	4,462,897	4,462,897	2,047,223	2,077,227	2,058,699
Financial liabilities						
Revolving repurchase facilities	2,040,783	2,040,783	2,040,783	863,622	863,622	863,622
Asset-specific repurchase agreements	324,553	324,553	324,553	245,731	245,731	245,731
Loan participations sold	499,433	499,433	499,433	90,000	90,000	90,000
Convertible notes, net	161,853	172,500	181,341	159,524	172,500	181,772

Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

Estimates of fair value for cash, cash equivalents and convertible notes are measured using observable, quoted market prices, or Level 1 inputs. All other significant fair value estimates are measured using unobservable inputs, or Level 3 inputs. The use of different assumptions or methodologies could have a material effect on our estimated fair value amounts. See Note 2 for further discussion regarding fair value measurement of certain of our assets and liabilities.

15. TRANSACTIONS WITH RELATED PARTIES

Transactions Related to Our Manager and its Affiliates

As further described in Note 11, in December 2012 we concluded multiple, related transactions with Blackstone and its affiliates, including: (i) the Investment Management Business Sale; (ii) the sale of 500,000 shares of our class A common stock for $20.00 per share; and (iii) the execution of a new external management agreement with our Manager. In addition, Blackstone received the right to designate two members of our board of directors and exercised that right by designating an employee and one of its senior advisors to replace two former members of our board of directors who resigned effective December 19, 2012. Certain of our former employees are now employed by an affiliate of our Manager.

The initial term of the Management Agreement expires on December 19, 2015 and will be automatically renewed for a one-year term each anniversary thereafter unless earlier terminated.

On March 26, 2013, we amended the Management Agreement with our Manager to, among other things, amend our investment guidelines to permit the investment risk management committee of our board of directors, which consists of only independent directors, to approve any proposed investment by our Manager.

On July 30, 2013, we and our Manager entered into Amendment No. 1 to our amended and restated Management Agreement with our Manager. The amendments consisted of: (i) revisions to clarify that internal audit expenses (including through one or more third parties and/or affiliates of our Manager) are to be paid by us and not our Manager; and (ii) updates to reflect our recent name change and the merger of our CT Legacy REIT Mezz Borrower, Inc. subsidiary with and into CT Legacy Partners, LLC.

On October 23, 2014, we and our Manager entered into a Second Amended and Restated Management Agreement, or the Second Amended and Restated Management Agreement. The Second Amended and Restated Management Agreement amended and restated the existing Management Agreement to, among other things: (i) incorporate the terms of Amendment No. 1 to our amended and restated Management Agreement; (ii) amend our investment guidelines to increase the threshold required for approval by the investment risk management committee of our board of directors from any proposed investment in excess of $150.0 million to any proposed investment in excess of $250.0 million; and (iii) revise the definitions for Incentive Compensation and Management Fee (in each case as defined in the Second Amended and Restated Management Agreement) to remove wording regarding the calculation of payments during 2013 that is no longer relevant.

As of December 31, 2014, our consolidated balance sheet included $6.3 million of accrued management and incentive fees payable to our Manager. During the year ended December 31, 2014, we paid $15.7 million of management and

incentive fees to our Manager and reimbursed our Manager for $115,000 of expenses incurred on our behalf. In addition, as of December 31, 2014, our consolidated balance sheet includes $151,000 of preferred distributions payable by CT Legacy Partners to an affiliate of our Manager. During the year ended December 31, 2014, CT Legacy Partners made aggregate preferred distributions of $2.1 million to such affiliate.

On October 23, 2014, we issued 337,941 shares of restricted class A common stock with a fair value of $9.4 million as of the grant date to our Manager under the 2013 Manager Plan. On October 3, 2013, we issued

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Notes to Consolidated Financial Statements (continued)

339,431 shares of restricted class A common stock with a grant date fair value of $8.5 million to our Manager under the 2013 Manager Plan. The shares of restricted class A common stock vest ratably in quarterly installments over three years from the date of issuance. During the years ended, December 31, 2014 and 2013, we recorded a non-cash expense related to these shares of $3.8 million and $767,000, respectively. Refer to Note 13 for further discussion of our restricted class A common stock.

During the years ended December 31, 2014 and 2013, CT CDO I incurred special servicing fees to our Manager of $522,000 and $847,000 respectively, of which it paid $139,000 and $847,000 respectively.

During the years ended December 31, 2014 and 2013, we paid fees of $26,000 and $9,000, respectively, to a third-party service provider for equity capital markets data services. This service provider was acquired by an affiliate of our Manager on August 6, 2014.

During the year ended December 31, 2014, we incurred $96,000 of fees to a third-party service provider for various administrative services that was owned by an affiliate of our Manager. We did not incur any of these fees during the year ended December 31, 2013.

During the year ended December 31, 2014, we incurred $80,000 of fees to an affiliate of our Manager for various administrative services. We did not incur any of these fees during the year ended December 31, 2013.

There may be conflicts between us and our Manager with respect to certain of the investments in the CT Legacy Partners and CTOPI portfolios where an affiliate of our Manager holds a related investment that is senior, junior, or *pari passu* to the investments held by these portfolios.

The Management Agreement with our Manager excludes from the management fee calculation our interests in CT Legacy Partners, CTOPI, and CT CDO I, which may result in further conflicts between the economic interests of us and our Manager. Refer to Note 10 for further discussion of the Management Agreement with our Manager.

On May 13, 2013, we entered into a joint venture, 42-16 Partners, with an affiliate of our Manager to originate and warehouse loans prior to the completion of our class A common stock offering on May 29, 2013. 42-16 Partners was owned 16.7% by us and 83.3% by an affiliate of our Manager and originated one senior mortgage loan on May 21, 2013. On May 30, 2013, we ended this relationship with the affiliate of our Manager and purchased 100% of the equity interests in 42-16 Partners held by the affiliate of our Manager using proceeds from the sale of our class A common stock, and, as a result, 42-16 Partners became a 100% owned and consolidated subsidiary. We recorded a $193,000 charge to non-controlling interest as a result of the purchase of these equity interests at their fair value, rather than GAAP book value.

An affiliate of our Manager purchased 1,960,784 shares of our class A common stock as part of our stock offering on May 22, 2013. These shares were purchased for $25.50 each, the same price offered to non-affiliated purchasers. This affiliate owned class A common stock representing 5.4% of outstanding class A common stock and stock units as of February 10, 2015. In addition, an affiliate of our Manager was compensated $1.0 million for its role as co-manager of our offering of class A common stock on May 22, 2013 and $188,000 for its role as co-manager of our offering of

convertible notes on November 19, 2013.

On October 2, 2013 we originated a $71.0 million loan, the proceeds of which were used by the borrower to repay an existing loan owned by an affiliate of our Manager.

On October 23, 2013, we purchased a $176.9 million loan from a third party. In conjunction with our acquisition of this loan, we consented to its restructuring, which restructuring resulted in an affiliate of our Manager earning a $2.3 million modification fee. During 2014, we received $119.4 million of proceeds from partial repayments of this loan, resulting in a net book value of $53.8 million as of December 31, 2014.

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Notes to Consolidated Financial Statements (continued)

On June 20, 2014, CT CDO I, CT Legacy Partners, CTOPI, and other affiliates of our Manager entered into a deed-in-lieu of foreclosure transaction which resulted in a restructuring of the interests held by each entity with respect to certain loans in our CT Legacy Portfolio segment with an aggregate principal balance of $35.0 million and an aggregate book value of $27.0 million.

Other Related-Party Transactions

In conjunction with the Investment Management Business Sale, we entered into a letter agreement with W.R. Berkley Corporation, or WRBC, pursuant to which we agreed not to undertake any offering of our class A common stock, or other equity securities, in an aggregate amount greater than $30.0 million without prior approval of a majority of the independent members of our board of directors. This one-time approval was obtained in conjunction with our May 2013 offering of class A common stock, and we are no longer required to obtain such approval for future offerings. An employee of WRBC was a member of our board of directors until our annual meeting held on June 18, 2014.

16. COMMITMENTS AND CONTINGENCIES

Unfunded Commitments Under Loans Receivable

As of December 31, 2014, we had unfunded commitments of $513.2 million related to 35 loans receivable, which amounts will generally be funded to finance lease-related or capital expenditures by our borrowers. These future commitments will expire over the next five years.

Income Tax Audit of CTIMCO

The Internal Revenue Service, or the IRS, is currently undergoing an examination of the federal income tax returns for the year ended December 31, 2012 of our former subsidiary, CT Investment Management Co., LLC, or CTIMCO. The examination is on-going, and no adjustments have been communicated to us by the IRS. When we sold CTIMCO in December 2012, we provided certain indemnifications related to its operations, and any amounts determined by the IRS to be owed by CTIMCO would ultimately be paid by us.

Litigation

In the normal course of business, we are subject to various legal proceedings and claims, the resolution of which, in our Manager s opinion, will not have a material adverse effect on our consolidated financial position or results of operations. As of December 31, 2014, there are no reserves recorded for pending litigation.

Board of Director s Compensation

As of December 31, 2014, of the eight members of our board of directors, five are entitled to annual compensation of $125,000 each. The other three board members, including our chairman and our chief executive officer, serve as directors with no compensation. As of December 31, 2014, the annual compensation for our directors was paid 50% in cash and 50% in the form of deferred stock units. In addition, the member of our board of directors that serves as the

chairperson of the audit committee of our board of directors receives additional annual cash compensation of $12,000. Compensation to the board of directors is payable in four equal quarterly installments.

17. SEGMENT REPORTING

We operate our real estate finance business through a Loan Origination segment and a CT Legacy Portfolio segment. The Loan Origination segment includes our activities associated with the origination and acquisition of mortgage loans, the capitalization of our loan portfolio, and the costs associated with operating our business

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Notes to Consolidated Financial Statements (continued)

generally. The CT Legacy Portfolio segment includes our activities specifically related to CT Legacy Partners and our equity investment in CTOPI. Our Manager identifies, makes operating decisions, and assesses the performance of each of our business segments based on financial and operating data and metrics generated from our internal information systems.

Our Loan Origination segment business commenced during 2013. Accordingly, no comparable segment data exists for 2012, or any other prior period, and we have therefore not retrospectively restated our previously reported 2012 information.

There were no transactions between our operating segments during the years ended December 31, 2014 and 2013. For the year ended December 31, 2014, 11% of our revenues were generated from international sources. Substantially all of our revenues for the year ended December 31, 2013 were generated from domestic sources.

The following table presents our consolidated statement of operations for each segment for the year ended December 31, 2014 ($ in thousands):

	Loan Origination	CT Legacy Portfolio	Total
Income from loans and other investments			
Interest and related income	$ 180,654	$ 4,112	$ 184,766
Less: Interest and related expenses	68,098	1,045	69,143
Income from loans and other investments, net	112,556	3,067	115,623
Other expenses			
Management and incentive fees	19,491		19,491
General and administrative expenses	12,665	15,134	27,799
Total other expenses	32,156	15,134	47,290
Gain on investments at fair value		13,258	13,258
Loss on deconsolidation of subsidiaries		(8,615)	(8,615)
Income from equity investments in unconsolidated subsidiaries		28,036	28,036
Income before income taxes	80,400	20,612	101,012
Income tax provision	194	324	518
Net income	80,206	20,288	100,494
Net income attributable to non-controlling interests		(10,449)	(10,449)
	$ 80,206	$ 9,839	$ 90,045

Net income attributable to Blackstone Mortgage Trust, Inc.

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

The following table presents our consolidated balance sheet for each segment as of December 31, 2014 ($ in thousands):

	Loan Origination	CT Legacy Portfolio	Total
Assets			
Cash and cash equivalents	$ 51,810	$	$ 51,810
Restricted cash		11,591	11,591
Loans receivable, net	4,428,500		4,428,500
Equity investments in unconsolidated subsidiaries		10,604	10,604
Accrued interest receivable, prepaid expenses, and other assets	36,531	49,485	86,016
Total assets	$ 4,516,841	$ 71,680	$ 4,588,521
Liabilities and Equity			
Accounts payable, accrued expenses, and other liabilities	$ 47,328	$ 13,685	$ 61,013
Revolving repurchase facilities	2,040,783		2,040,783
Asset-specific repurchase agreements	324,553		324,553
Loan participations sold	499,433		499,433
Convertible notes, net	161,853		161,853
Total liabilities	3,073,950	13,685	3,087,635
Equity			
Total Blackstone Mortgage Trust, Inc. stockholders equity	1,442,891	22,480	1,465,371
Non-controlling interests		35,515	35,515
Total equity	1,442,891	57,995	1,500,886
Total liabilities and equity	$ 4,516,841	$ 71,680	$ 4,588,521

The following table presents our consolidated statement of operations for each segment for the year ended December 31, 2013 ($ in thousands):

	Loan Origination	CT Legacy Portfolio	Total
Income from loans and other investments			
Interest and related income	$ 41,621	$ 11,543	$ 53,164
Less: Interest and related expenses	13,053	4,964	18,017

Income from loans and other investments, net	28,568	6,579	35,147
Other expenses			
Management and incentive fees	5,937		5,937
General and administrative expenses	5,149	6,356	11,505
Total other expenses	11,086	6,356	17,442
Valuation allowance on loans held-for-sale		1,259	1,259
Gain on investments at fair value		7,417	7,417
Gain on extinguishment of debt		38	38
Income before income taxes	17,482	8,937	26,419
Income tax benefit	31	964	995
Net income	17,451	7,973	25,424
Net income attributable to non-controlling interests	(193)	(10,199)	(10,392)
Net income (loss) attributable to Blackstone Mortgage Trust, Inc.	$ 17,258	$ (2,226)	$ 15,032

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

The following table presents our consolidated balance sheet for each segment as of December 31, 2013 ($ in thousands):

	Loan Origination	CT Legacy Portfolio	Total
Assets			
Cash and cash equivalents	$ 52,342	$	$ 52,342
Restricted cash		10,096	10,096
Loans receivable, net	2,000,223	47,000	2,047,223
Equity investments in unconsolidated subsidiaries		22,480	22,480
Accrued interest receivable, prepaid expenses, and other assets	21,020	59,619	80,639
Total assets	$ 2,073,585	$ 139,195	$ 2,212,780
Liabilities and Equity			
Accounts payable, accrued expenses, and other liabilities	$ 21,104	$ 76,049	$ 97,153
Revolving repurchase facilities	863,622		863,622
Asset-specific repurchase agreements	245,731		245,731
Loan participations sold	90,000		90,000
Convertible notes, net	159,524		159,524
Total liabilities	1,379,981	76,049	1,456,030
Equity			
Total Blackstone Mortgage Trust, Inc. stockholders equity	693,604	24,305	717,909
Non-controlling interests		38,841	38,841
Total equity	693,604	63,146	756,750
Total liabilities and equity	$ 2,073,585	$ 139,195	$ 2,212,780

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Blackstone Mortgage Trust, Inc.

Notes to Consolidated Financial Statements (continued)

18. SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2014, 2013, and 2012 ($ in thousands except per share data):

	March 31	June 30	September 30	December 31
2014				
Revenues[(1)]	$ 33,656	$ 42,466	$ 50,386	$ 58,258
Net income	$ 13,116	$ 38,439	$ 23,601	$ 25,338
Net income attributable to Blackstone Mortgage Trust, Inc.	$ 13,065	$ 33,466	$ 22,024	$ 21,490
Net income per share of class A common stock:				
Basic	$ 0.34	$ 0.70	$ 0.45	$ 0.37
Diluted	$ 0.34	$ 0.70	$ 0.45	$ 0.37
2013				
Revenues[(1)]	$ 1,456	$ 6,017	$ 18,853	$ 26,837
Net (loss) income	$ (1,597)	$ 6,768	$ 10,526	$ 9,728
Net (loss) income attributable to Blackstone Mortgage Trust, Inc.	$ (3,115)	$ 2,748	$ 8,320	$ 7,079
Net (loss) income per share of class A common stock:				
Basic	$ (1.03)	$ 0.22	$ 0.29	$ 0.24
Diluted	$ (1.03)	$ 0.22	$ 0.29	$ 0.24
2012				
Revenues[(1)]	$ 14,716	$ 6,763	$ 6,944	$ 6,517
Net income	$ 140,622	$ 3,351	$ 12,900	$ 122,931
Net income attributable to Blackstone Mortgage Trust, Inc.	$ 66,553	$ 2,283	$ 6,999	$ 105,189
Net income per share of class A common stock:				
Basic	$ 29.14	$ 1.00	$ 3.02	$ 42.21
Diluted	$ 27.39	$ 0.93	$ 2.84	$ 40.65

(1) Excludes revenues from discontinued operations.

Basic and diluted earnings per share are computed independently based on the weighted-average shares of common stock and stock units outstanding for each period. Accordingly, the sum of the quarterly earnings per share amounts may not agree to the total for the year. Earnings per share amounts have been adjusted to give retroactive effect to the reverse stock split, which we effected on May 6, 2013. See Note 9 for a further discussion of earnings per share.

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Blackstone Mortgage Trust, Inc.

Schedule IV Mortgage Loans on Real Estate

As of December 31, 2014

(in thousands)

Loan/Borrower	Description / Location	Interest Payment Rates[2]	Maximum Maturity Date[3]	Periodic Payment Terms[4]	Prior Liens[5]	Face Amount of Loans	Car Amo Loa
Mortgage Loans[1]							
er A	Hotel / UK	L + 4.00%	5/22/2019	I/O	$	$ 311,240	$ 3
er B	Condo / Northeast	L + 4.50%	11/9/2018	I/O		181,000	1
er C	Office / Diversified	L + 3.80%	12/9/2019	I/O		163,300	1
er D	Office / Midwest	L + 3.50%	8/9/2019	I/O		153,879	1
er E	Other / Diversified	L + 4.75%	1/7/2019	I/O		151,767	1
er F	Hotel / UK	L + 3.40%	11/20/2019	I/O		149,395	1
er G	Office / Northeast	L + 4.75%	1/9/2019	I/O		139,809	1
er H	Office / Canada	L + 5.50%	12/9/2019	I/O		138,644	1
er I	Hotel / Northeast	L + 4.30%	12/1/2017	I/O		133,350	1
r mortgage loans ally less than 3%	Various / Diversified	L + 3.65 % L + 6.83%	6/10/2016 9/30/2020			2,852,148	2,8
nior mortgage						4,374,532	4,3
nate Loans[7]							
er AA	Office / Northwest	L + 5.66%	4/9/2015	I/O	88,986	54,399	
er BB	Condo / Northeast	L + 12.56%	12/13/2017	I/O	110,388	33,966	
ubordinate loans					199,374	88,365	
ans					$ 199,374	$ 4,462,897	$ 4,4

(1) Includes senior mortgages and similar credit quality loans, including related contiguous subordinate loans, and pari passu participations in senior mortgage loans.
(2) As of December 31, 2014, 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 yield includes the amortization of deferred origination fees, loan origination costs, and accrual of both extension and exit fees.
(3) Maximum maturity date assumes all extension options are exercised.
(4) I/O = interest only.

(5) Represents only third party liens.
(6) The tax basis of the loans included above is approximately $3.9 billion as of December 31, 2014.
(7) Includes subordinate interests in mortgages and mezzanine loans.

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Blackstone Mortgage Trust, Inc.

Notes to Schedule IV

As of December 31, 2014

(in thousands)

1. Reconciliation of Mortgage Loans on Real Estate:

The following table reconciles mortgage loans on real estate for the years ended:

	2014	2013	2012
Balance at January 1,	$ 2,047,223	$ 141,500	$ 869,269
Additions during period:			
Consolidation (deconsolidation) of subsidiary			(645,163)
Loan fundings	3,067,263	2,327,914	26
Amortization of deferred fees and expenses	19,785	5,965	180
Unrealized gain on foreign currency translation		796	
Valuation allowance on loans held-for-sale		1,259	
Recovery of provision for loan losses			36,147
Deductions during period:			
Collections of principal	(564,183)	(383,647)	(118,959)
Unrealized (loss) on foreign currency translation	(52,076)		
Deferred origination fees and expenses	(35,449)	(25,402)	
Loans sold	(27,063)	(21,162)	
Transfers to other assets	(27,000)		
Balance at December 31,	$ 4,428,500	$ 2,047,223	$ 141,500