

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

**Form 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2019

Or

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

For the transition period from     to

Commission file number:  
001-36299

**Ladder Capital Corp**



(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**80-0925494**

(IRS Employer  
Identification No.)

**345 Park Avenue, New York, NY**

(Address of principal executive  
offices)

**10154**

(Zip Code)

**(212) 715-3170**

(Registrant's telephone number, including area code)

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

| Title of Each Class                     | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|---|-------------------|---|
| Class A common stock, \$0.001 par value | LADR              | New York Stock Exchange                   |

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| <b>Class</b>                            | <b>Outstanding at October 31, 2019</b> |
|---|--|
| Class A common stock, \$0.001 par value | 107,573,820                            |
| Class B common stock, \$0.001 par value | 12,158,933                             |

LADDER CAPITAL CORP

FORM 10-Q  
September 30, 2019

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Quarterly Report”) includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact contained in this Quarterly Report, including statements regarding our future results of operations and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. The words “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “might,” “will,” “should,” “can have,” “likely,” “continue,” “design,” and other words and terms of similar expressions are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives and financial needs. Although we believe that the expectations reflected in our forward-looking statements are reasonable, actual results could differ from those expressed in our forward-looking statements. Our future financial position and results of operations, as well as any forward-looking statements are subject to change and inherent risks and uncertainties. You should consider our forward-looking statements in light of a number of factors that may cause actual results to vary from our forward-looking statements including, but not limited to:

- risks discussed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018 (“Annual Report”), as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this Quarterly Report and our other filings with the United States Securities and Exchange Commission (“SEC”);
- changes in general economic conditions, in our industry and in the commercial finance and the real estate markets;
- changes to our business and investment strategy;
- our ability to obtain and maintain financing arrangements;
- the financing and advance rates for our assets;
- our actual and expected leverage and liquidity;
- the adequacy of collateral securing our loan portfolio and a decline in the fair value of our assets;
- interest rate mismatches between our assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our assets;
- changes in prepayment rates on our mortgages and the loans underlying our mortgage-backed and other asset-backed securities;
- the effects of hedging instruments and the degree to which our hedging strategies may or may not protect us from interest rate and credit risk volatility;
- the increased rate of default or decreased recovery rates on our assets;
- the adequacy of our policies, procedures and systems for managing risk effectively;
- a potential downgrade in the credit ratings assigned to our investments;
- our compliance with, and the impact of and changes in, governmental regulations, tax laws and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and our ability and the ability of our subsidiaries to operate in compliance with REIT requirements;
- our ability and the ability of our subsidiaries to maintain our and their exemptions from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”);
- potential liability relating to environmental matters that impact the value of properties we may acquire or the properties underlying our investments;
- the inability of insurance covering real estate underlying our loans and investments to cover all losses;
- the availability of investment opportunities in mortgage-related and real estate-related instruments and other securities;
- fraud by potential borrowers;
- the availability of qualified personnel;
- the impact of any tax legislation or IRS guidance;
- the degree and nature of our competition; and
- the market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy.

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You should not rely upon forward-looking statements as predictions of future events. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. The forward-looking statements contained in this Quarterly Report are made as of the date hereof, and the Company assumes no obligation to update or supplement any forward-looking statements.

**REFERENCES TO LADDER CAPITAL CORP**

Ladder Capital Corp is a holding company, and its primary assets are a controlling equity interest in Ladder Capital Finance Holdings LLLP (“LCFH” or the “Operating Partnership”) and in each series thereof, directly or indirectly. Unless the context suggests otherwise, references in this report to “Ladder,” “Ladder Capital,” the “Company,” “we,” “us” and “our” refer (1) prior to the February 2014 initial public offering (“IPO”) of the Class A common stock of Ladder Capital Corp and related transactions, to LCFH (“Predecessor”) and its consolidated subsidiaries and (2) after our IPO and related transactions, to Ladder Capital Corp and its consolidated subsidiaries.

**Part I - Financial Information**

**Item 1. Financial Statements (Unaudited)**

The consolidated financial statements of Ladder Capital Corp and the notes related to the foregoing consolidated financial statements are included in this Item.

**Index to Consolidated Financial Statements (Unaudited)**

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**Ladder Capital Corp**  
**Consolidated Balance Sheets**  
(Dollars in Thousands)

|  | September 30, 2019(1) | December 31, 2018(1) |
|--|-----------------------|----------------------|
|  | (Unaudited)           |                      |
| <b>Assets</b>  |                       |                      |
| Cash and cash equivalents  | \$ 83,097             | \$ 67,878            |
| Restricted cash  | 38,656                | 30,572               |
| Mortgage loan receivables held for investment, net, at amortized cost:   |                       |                      |
| Mortgage loans held by consolidated subsidiaries   | 3,231,443             | 3,318,390            |
| Provision for loan losses  | (18,500)              | (17,900)             |
| Mortgage loan receivables held for sale  | 174,214               | 182,439              |
| Real estate securities   | 1,911,456             | 1,410,126            |
| Real estate and related lease intangibles, net   | 981,333               | 998,022              |
| Investments in and advances to unconsolidated joint ventures   | 51,419                | 40,354               |
| FHLB stock   | 61,619                | 57,915               |
| Derivative instruments   | 22                    | —                    |
| Due from brokers   | 3,962                 | —                    |
| Accrued interest receivable  | 22,699                | 27,214               |
| Other assets   | 78,454                | 157,862              |
| <b>Total assets</b>  | <b>\$ 6,619,874</b>   | <b>\$ 6,272,872</b>  |
| <b>Liabilities and Equity</b>  |                       |                      |
| <b>Liabilities</b>   |                       |                      |
| Debt obligations, net  | \$ 4,860,687          | \$ 4,452,574         |
| Due to brokers   | 7,000                 | 1,301                |
| Derivative instruments   | 82                    | 975                  |
| Amount payable pursuant to tax receivable agreement  | 1,559                 | 1,570                |
| Dividends payable  | 2,384                 | 37,316               |
| Accrued expenses   | 45,761                | 82,425               |
| Other liabilities  | 63,151                | 53,076               |
| <b>Total liabilities</b>   | <b>4,980,624</b>      | <b>4,629,237</b>     |
| <b>Commitments and contingencies (Note 18)</b>   | <b>—</b>              | <b>—</b>             |
| <b>Equity</b>  |                       |                      |
| Class A common stock, par value \$0.001 per share, 600,000,000 shares authorized; 110,693,832 and 106,642,335 shares issued and 107,573,820 and 103,941,173 shares outstanding | 108                   | 105                  |
| Class B common stock, par value \$0.001 per share, 100,000,000 shares authorized; 12,158,933 and 13,117,419 shares issued and outstanding                                      | 12                    | 13                   |
| Additional paid-in capital   | 1,529,599             | 1,471,157            |
| Treasury stock, 3,120,012 and 2,701,162 shares, at cost  | (41,556)              | (32,815)             |
| Retained earnings (dividends in excess of earnings)  | (39,860)              | 11,342               |
| Accumulated other comprehensive income (loss)  | 10,367                | (4,649)              |
| <b>Total shareholders' equity</b>  | <b>1,458,670</b>      | <b>1,445,153</b>     |
| Noncontrolling interest in operating partnership   | 171,731               | 188,427              |
| Noncontrolling interest in consolidated joint ventures   | 8,849                 | 10,055               |
| <b>Total equity</b>  | <b>1,639,250</b>      | <b>1,643,635</b>     |
| <b>Total liabilities and equity</b>  | <b>\$ 6,619,874</b>   | <b>\$ 6,272,872</b>  |

(1) Includes amounts relating to consolidated variable interest entities. See Note 10.

The accompanying notes are an integral part of these consolidated financial statements.

**Ladder Capital Corp**  
**Consolidated Statements of Income**  
(Dollars in Thousands, Except Per Share and Dividend Data)  
(Unaudited)

|  | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                   |
|--|----------------------------------|------------------|---------------------------------|-------------------|
|  | 2019                             | 2018             | 2019                            | 2018              |
| <b>Net interest income</b>   |                                  |                  |                                 |                   |
| Interest income  | \$ 82,251                        | \$ 90,386        | \$ 254,040                      | \$ 253,822        |
| Interest expense   | 51,397                           | 51,476           | 155,015                         | 144,606           |
| <b>Net interest income</b>   | <b>30,854</b>                    | <b>38,910</b>    | <b>99,025</b>                   | <b>109,216</b>    |
| Provision for loan losses  | —                                | 10,300           | 600                             | 13,600            |
| <b>Net interest income after provision for loan losses</b>                               | <b>30,854</b>                    | <b>28,610</b>    | <b>98,425</b>                   | <b>95,616</b>     |
| <b>Other income (loss)</b>   |                                  |                  |                                 |                   |
| Operating lease income   | 24,405                           | 24,997           | 81,106                          | 79,306            |
| Sale of loans, net   | 11,247                           | 1,861            | 38,589                          | 12,893            |
| Realized gain (loss) on securities   | 3,396                            | (2,554)          | 10,726                          | (4,896)           |
| Unrealized gain (loss) on equity securities  | 254                              | —                | 1,341                           | —                 |
| Unrealized gain (loss) on Agency interest-only securities                                | 16                               | 142              | 38                              | 456               |
| Realized gain (loss) on sale of real estate, net   | 2,082                            | 63,704           | 963                             | 96,341            |
| Impairment of real estate  | —                                | —                | (1,350)                         | —                 |
| Fee and other income   | 5,166                            | 4,851            | 17,047                          | 17,579            |
| Net result from derivative transactions  | (9,465)                          | 7,115            | (35,956)                        | 29,156            |
| Earnings (loss) from investment in unconsolidated joint ventures                         | 1,094                            | 401              | 3,617                           | 466               |
| Gain (loss) on extinguishment/defeasance of debt   | —                                | (4,323)          | (1,070)                         | (4,392)           |
| <b>Total other income (loss)</b>   | <b>38,195</b>                    | <b>96,194</b>    | <b>115,051</b>                  | <b>226,909</b>    |
| <b>Costs and expenses</b>  |                                  |                  |                                 |                   |
| Salaries and employee benefits   | 14,319                           | 15,792           | 52,800                          | 46,754            |
| Operating expenses   | 5,314                            | 5,464            | 16,727                          | 16,608            |
| Real estate operating expenses   | 6,270                            | 7,152            | 17,776                          | 23,806            |
| Fee expense  | 2,056                            | 1,311            | 4,951                           | 2,953             |
| Depreciation and amortization  | 9,030                            | 10,417           | 29,192                          | 31,896            |
| <b>Total costs and expenses</b>  | <b>36,989</b>                    | <b>40,136</b>    | <b>121,446</b>                  | <b>122,017</b>    |
| <b>Income (loss) before taxes</b>  | <b>32,060</b>                    | <b>84,668</b>    | <b>92,030</b>                   | <b>200,508</b>    |
| Income tax expense (benefit)   | 1,112                            | 1,204            | 478                             | 5,679             |
| <b>Net income (loss)</b>   | <b>30,948</b>                    | <b>83,464</b>    | <b>91,552</b>                   | <b>194,829</b>    |
| Net (income) loss attributable to noncontrolling interest in consolidated joint ventures | (64)                             | (7,843)          | 691                             | (16,132)          |
| Net (income) loss attributable to noncontrolling interest in operating partnership       | (3,308)                          | (8,991)          | (10,247)                        | (22,786)          |
| <b>Net income (loss) attributable to Class A common shareholders</b>                     | <b>\$ 27,576</b>                 | <b>\$ 66,630</b> | <b>\$ 81,996</b>                | <b>\$ 155,911</b> |

The accompanying notes are an integral part of these consolidated financial statements.

|  | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                 |
|--|----------------------------------|-----------------|---------------------------------|-----------------|
|  | 2019                             | 2018            | 2019                            | 2018            |
| <b>Earnings per share:</b>                                   |                                  |                 |                                 |                 |
| Basic  | \$ 0.26                          | \$ 0.69         | \$ 0.78                         | \$ 1.62         |
| Diluted  | \$ 0.26                          | \$ 0.67         | \$ 0.77                         | \$ 1.61         |
| <b>Weighted average shares outstanding:</b>                  |                                  |                 |                                 |                 |
| Basic  | 106,004,152                      | 96,935,986      | 105,264,752                     | 96,317,513      |
| Diluted  | 106,603,713                      | 110,650,253     | 106,232,581                     | 110,482,991     |
| <b>Dividends per share of Class A common stock (Note 11)</b> | <b>\$ 0.340</b>                  | <b>\$ 0.325</b> | <b>\$ 1.020</b>                 | <b>\$ 0.965</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Ladder Capital Corp**  
**Consolidated Statements of Comprehensive Income**  
(Dollars in Thousands)  
(Unaudited)

|  | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                   |
|--|----------------------------------|------------------|---------------------------------|-------------------|
|  | 2019                             | 2018             | 2019                            | 2018              |
| <b>Net income (loss)</b>   | <b>\$ 30,948</b>                 | <b>\$ 83,464</b> | <b>\$ 91,552</b>                | <b>\$ 194,829</b> |
| <b>Other comprehensive income (loss)</b>   |                                  |                  |                                 |                   |
| <b>Unrealized gain (loss) on securities, net of tax:</b>   |                                  |                  |                                 |                   |
| Unrealized gain (loss) on real estate securities, available for sale   | 1,389                            | (1,109)          | 27,414                          | (14,554)          |
| Reclassification adjustment for (gain) loss included in net income (loss)  | (3,398)                          | 2,554            | (10,639)                        | 4,896             |
| <b>Total other comprehensive income (loss)</b>   | <b>(2,009)</b>                   | <b>1,445</b>     | <b>16,775</b>                   | <b>(9,658)</b>    |
| <b>Comprehensive income (loss)</b>   | <b>28,939</b>                    | <b>84,909</b>    | <b>108,327</b>                  | <b>185,171</b>    |
| Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures               | (64)                             | (7,843)          | 691                             | (16,132)          |
| <b>Comprehensive income (loss) of combined Class A common shareholders and Operating Partnership unitholders</b> | <b>28,875</b>                    | <b>77,066</b>    | <b>109,018</b>                  | <b>169,039</b>    |
| Comprehensive (income) loss attributable to noncontrolling interest in operating partnership                     | (3,104)                          | (9,160)          | (12,087)                        | (21,358)          |
| <b>Comprehensive income (loss) attributable to Class A common shareholders</b>                                   | <b>\$ 25,771</b>                 | <b>\$ 67,906</b> | <b>\$ 96,931</b>                | <b>\$ 147,681</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Ladder Capital Corp**  
**Consolidated Statements of Changes in Equity**  
(Dollars and Shares in Thousands)  
(Unaudited)

|   | <b>Shareholders' Equity</b> |               |                             |              |                                |                   |   |  |                                 |                                |                     |
|---|-----------------------------|---------------|-----------------------------|--------------|--------------------------------|-------------------|---|--|---------------------------------|--------------------------------|---------------------|
|   | <u>Class A Common Stock</u> |               | <u>Class B Common Stock</u> |              | Additional Paid-<br>in-Capital | Treasury<br>Stock | Retained<br>Earnings<br>(Dividends in<br>Excess of<br>Earnings) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | <u>Noncontrolling Interests</u> |                                | Total Equity        |
|   | Shares                      | Par           | Shares                      | Par          |                                |                   |   |  | Operating<br>Partnership        | Consolidated<br>Joint Ventures |                     |
| <b>Balance, June 30, 2019</b>   | <b>107,551</b>              | <b>\$ 108</b> | <b>12,159</b>               | <b>\$ 12</b> | <b>\$ 1,526,469</b>            | <b>\$(41,535)</b> | <b>\$ (30,847)</b>  | <b>\$ 12,171</b>                                       | <b>\$ 172,466</b>               | <b>\$ 9,230</b>                | <b>\$ 1,648,074</b> |
| Contributions   | —                           | —             | —                           | —            | —                              | —                 | —   | —  | —                               | 306                            | 306                 |
| Distributions   | —                           | —             | —                           | —            | —                              | —                 | —   | —  | (4,283)                         | (751)                          | (5,034)             |
| Amortization of equity based compensation   | —                           | —             | —                           | —            | 3,575                          | —                 | —   | —  | —                               | —                              | 3,575               |
| Re-issuance of treasury stock   | 24                          | —             | —                           | —            | —                              | —                 | —   | —  | —                               | —                              | —                   |
| Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock and units | (1)                         | —             | —                           | —            | —                              | (21)              | —   | —  | —                               | —                              | (21)                |
| Dividends declared  | —                           | —             | —                           | —            | —                              | —                 | (36,589)  | —  | —                               | —                              | (36,589)            |
| Net income (loss)   | —                           | —             | —                           | —            | —                              | —                 | 27,576  | —  | 3,308                           | 64                             | 30,948              |
| Other comprehensive income (loss)   | —                           | —             | —                           | —            | —                              | —                 | —   | (1,804)  | (205)                           | —                              | (2,009)             |
| Rebalancing of ownership percentage between Company and Operating Partnership                                       | —                           | —             | —                           | —            | (445)                          | —                 | —   | —  | 445                             | —                              | —                   |
| <b>Balance, September 30, 2019</b>  | <b>107,574</b>              | <b>\$ 108</b> | <b>12,159</b>               | <b>\$ 12</b> | <b>\$ 1,529,599</b>            | <b>\$(41,556)</b> | <b>\$ (39,860)</b>  | <b>\$ 10,367</b>                                       | <b>\$ 171,731</b>               | <b>\$ 8,849</b>                | <b>\$ 1,639,250</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Ladder Capital Corp**  
**Consolidated Statements of Changes in Equity**  
(Dollars and Shares in Thousands)  
(Unaudited)

|   | <b>Shareholders' Equity</b> |              |                             |              |                                |                   |   |  |                                 |                                |                     |
|---|-----------------------------|--------------|-----------------------------|--------------|--------------------------------|-------------------|---|--|---------------------------------|--------------------------------|---------------------|
|   | <u>Class A Common Stock</u> |              | <u>Class B Common Stock</u> |              | Additional Paid-<br>in-Capital | Treasury<br>Stock | Retained<br>Earnings<br>(Dividends in<br>Excess of<br>Earnings) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | <u>Noncontrolling Interests</u> |                                | Total Equity        |
|   | Shares                      | Par          | Shares                      | Par          |                                |                   |   |  | Operating<br>Partnership        | Consolidated<br>Joint Ventures |                     |
| <b>Balance, June 30, 2018</b>   | <b>97,938</b>               | <b>\$ 99</b> | <b>13,318</b>               | <b>\$ 13</b> | <b>\$ 1,370,092</b>            | <b>\$(32,793)</b> | <b>\$ (12,106)</b>  | <b>\$ (9,855)</b>                                      | <b>\$ 185,158</b>               | <b>\$ 11,854</b>               | <b>\$ 1,512,462</b> |
| Contributions   | —                           | —            | —                           | —            | —                              | —                 | —   | —  | —                               | 739                            | 739                 |
| Distributions   | —                           | —            | —                           | —            | —                              | —                 | —   | —  | (4,292)                         | (10,608)                       | (14,900)            |
| Amortization of equity based compensation                                     | —                           | —            | —                           | —            | 2,162                          | —                 | —   | —  | —                               | —                              | 2,162               |
| Grants of restricted stock  | 5                           | —            | —                           | —            | —                              | —                 | —   | —  | —                               | —                              | —                   |
| Dividends declared  | —                           | —            | —                           | —            | —                              | —                 | (31,931)  | —  | —                               | —                              | (31,931)            |
| Exchange of noncontrolling interest for common stock                          | 200                         | —            | (200)                       | —            | 3,000                          | —                 | —   | (24)   | (2,774)                         | —                              | 202                 |
| Net income (loss)   | —                           | —            | —                           | —            | —                              | —                 | 66,630  | —  | 8,991                           | 7,843                          | 83,464              |
| Other comprehensive income (loss)   | —                           | —            | —                           | —            | —                              | —                 | —   | 1,276  | 169                             | —                              | 1,445               |
| Rebalancing of ownership percentage between Company and Operating Partnership | —                           | —            | —                           | —            | (238)                          | —                 | —   | 21   | 217                             | —                              | —                   |
| <b>Balance, September 30, 2018</b>  | <b>98,143</b>               | <b>\$ 99</b> | <b>13,118</b>               | <b>\$ 13</b> | <b>\$ 1,375,016</b>            | <b>\$(32,793)</b> | <b>\$ 22,593</b>  | <b>\$ (8,582)</b>                                      | <b>\$ 187,469</b>               | <b>\$ 9,828</b>                | <b>\$ 1,553,643</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Ladder Capital Corp**  
**Consolidated Statements of Changes in Equity**  
(Dollars and Shares in Thousands)  
(Unaudited)

|   | <b>Shareholders' Equity</b> |               |                             |              |                                |                   |   |  |                                 |                                |                     |
|---|-----------------------------|---------------|-----------------------------|--------------|--------------------------------|-------------------|---|--|---------------------------------|--------------------------------|---------------------|
|   | <u>Class A Common Stock</u> |               | <u>Class B Common Stock</u> |              | Additional Paid-<br>in-Capital | Treasury<br>Stock | Retained<br>Earnings<br>(Dividends in<br>Excess of<br>Earnings) | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | <u>Noncontrolling Interests</u> |                                | Total Equity        |
|   | Shares                      | Par           | Shares                      | Par          |                                |                   |   |  | Operating<br>Partnership        | Consolidated<br>Joint Ventures |                     |
| <b>Balance,<br/>December 31, 2018</b>   | <b>103,941</b>              | <b>\$ 105</b> | <b>13,118</b>               | <b>\$ 13</b> | <b>\$ 1,471,157</b>            | <b>\$(32,815)</b> | <b>\$ 11,342</b>  | <b>\$ (4,649)</b>                                      | <b>\$ 188,427</b>               | <b>\$ 10,055</b>               | <b>\$ 1,643,635</b> |
| Contributions   | —                           | —             | —                           | —            | —                              | —                 | —   | —  | —                               | 498                            | 498                 |
| Distributions   | —                           | —             | —                           | —            | —                              | —                 | —   | —  | (12,821)                        | (1,013)                        | (13,834)            |
| Amortization of<br>equity based<br>compensation   | —                           | —             | —                           | —            | 18,336                         | —                 | —   | —  | —                               | —                              | 18,336              |
| Grants of restricted<br>stock   | 1,478                       | 1             | —                           | —            | (1)                            | —                 | —   | —  | —                               | —                              | —                   |
| Purchase of treasury<br>stock   | (40)                        | —             | —                           | —            | —                              | (637)             | —   | —  | —                               | —                              | (637)               |
| Re-issuance of<br>treasury stock  | 92                          | —             | —                           | —            | —                              | —                 | —   | —  | —                               | —                              | —                   |
| Shares acquired to<br>satisfy minimum<br>required federal<br>and state tax<br>withholding on<br>vesting restricted<br>stock and units | (462)                       | —             | —                           | —            | —                              | (8,104)           | —   | —  | —                               | —                              | (8,104)             |
| Forfeitures   | (9)                         | —             | —                           | —            | —                              | —                 | —   | —  | —                               | —                              | —                   |
| Dividends declared  | —                           | —             | —                           | —            | —                              | —                 | (109,375)   | —  | —                               | —                              | (109,375)           |
| Stock dividends   | 1,434                       | 1             | 181                         | —            | 23,822                         | —                 | (23,823)  | —  | —                               | —                              | —                   |
| Exchange of<br>noncontrolling<br>interest for<br>common stock   | 1,140                       | 1             | (1,140)                     | (1)          | 16,449                         | —                 | —   | 64   | (16,109)                        | —                              | 404                 |
| Net income (loss)   | —                           | —             | —                           | —            | —                              | —                 | 81,996  | —  | 10,247                          | (691)                          | 91,552              |
| Other comprehensive<br>income (loss)  | —                           | —             | —                           | —            | —                              | —                 | —   | 14,935   | 1,840                           | —                              | 16,775              |
| Rebalancing of<br>ownership<br>percentage between<br>Company and<br>Operating<br>Partnership  | —                           | —             | —                           | —            | (164)                          | —                 | —   | 17   | 147                             | —                              | —                   |
| <b>Balance,<br/>September 30, 2019</b>  | <b>107,574</b>              | <b>\$ 108</b> | <b>12,159</b>               | <b>\$ 12</b> | <b>\$ 1,529,599</b>            | <b>\$(41,556)</b> | <b>\$ (39,860)</b>  | <b>\$ 10,367</b>                                       | <b>\$ 171,731</b>               | <b>\$ 8,849</b>                | <b>\$ 1,639,250</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Ladder Capital Corp**  
**Consolidated Statements of Changes in Equity**  
(Dollars and Shares in Thousands)  
(Unaudited)

|   | <b>Shareholders' Equity</b> |              |                             |              |  |                           |  |  |                                  |  |                     |
|---|-----------------------------|--------------|-----------------------------|--------------|--|---------------------------|--|--|----------------------------------|--|---------------------|
|   | <u>Class A Common Stock</u> |              | <u>Class B Common Stock</u> |              | <u>Additional Paid-<br/>in-Capital</u> | <u>Treasury<br/>Stock</u> | <u>Retained<br/>Earnings<br/>(Dividends in<br/>Excess of<br/>Earnings)</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</u> | <u>Noncontrolling Interests</u>  |  | <u>Total Equity</u> |
|   | <u>Shares</u>               | <u>Par</u>   | <u>Shares</u>               | <u>Par</u>   |  |                           |  |  | <u>Operating<br/>Partnership</u> | <u>Consolidated<br/>Joint Ventures</u> |                     |
| <b>Balance,<br/>December 31, 2017</b>   | <b>93,641</b>               | <b>\$ 94</b> | <b>17,668</b>               | <b>\$ 18</b> | <b>\$ 1,306,136</b>                    | <b>\$(31,956)</b>         | <b>\$ (39,112)</b>   | <b>\$ (212)</b>  | <b>\$ 240,861</b>                | <b>\$ 12,317</b>                       | <b>\$ 1,488,146</b> |
| Contributions   | —                           | —            | —                           | —            | —                                      | —                         | —  | —  | —                                | 5,779                                  | 5,779               |
| Distributions   | —                           | —            | —                           | —            | —                                      | —                         | —  | —  | (13,191)                         | (24,400)                               | (37,591)            |
| Amortization of<br>equity based<br>compensation   | —                           | —            | —                           | —            | 6,667                                  | —                         | —  | —  | —                                | —                                      | 6,667               |
| Grants of restricted<br>stock   | 34                          | —            | —                           | —            | —                                      | —                         | —  | —  | —                                | —                                      | —                   |
| Shares acquired to<br>satisfy minimum<br>required federal<br>and state tax<br>withholding on<br>vesting restricted<br>stock and units | (56)                        | —            | —                           | —            | —                                      | (837)                     | —  | —  | —                                | —                                      | (837)               |
| Forfeitures   | (26)                        | —            | —                           | —            | —                                      | —                         | —  | —  | —                                | —                                      | —                   |
| Dividends declared  | —                           | —            | —                           | —            | —                                      | —                         | (94,206)   | —  | —                                | —                                      | (94,206)            |
| Exchange of<br>noncontrolling<br>interest for<br>common stock   | 4,550                       | 5            | (4,550)                     | (5)          | 63,109                                 | —                         | —  | (167)  | (62,428)                         | —                                      | 514                 |
| Net income (loss)   | —                           | —            | —                           | —            | —                                      | —                         | 155,911  | —  | 22,786                           | 16,132                                 | 194,829             |
| Other comprehensive<br>income (loss)  | —                           | —            | —                           | —            | —                                      | —                         | —  | (8,230)  | (1,428)                          | —                                      | (9,658)             |
| Rebalancing of<br>ownership<br>percentage between<br>Company and<br>Operating<br>Partnership  | —                           | —            | —                           | —            | (896)                                  | —                         | —  | 27   | 869                              | —                                      | —                   |
| <b>Balance,<br/>September 30, 2018</b>  | <b>98,143</b>               | <b>\$ 99</b> | <b>13,118</b>               | <b>\$ 13</b> | <b>\$ 1,375,016</b>                    | <b>\$(32,793)</b>         | <b>\$ 22,593</b>   | <b>\$ (8,582)</b>  | <b>\$ 187,469</b>                | <b>\$ 9,828</b>                        | <b>\$ 1,553,643</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Ladder Capital Corp**  
**Consolidated Statements of Cash Flows**  
**(Dollars in Thousands)**  
**(Unaudited)**

|   | <b>Nine Months Ended September 30,</b> |                 |
|---|--|-----------------|
|   | <b>2019</b>                            | <b>2018</b>     |
| <b>Cash flows from operating activities:</b>  |  |                 |
| Net income (loss)   | \$ 91,552                              | \$ 194,829      |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:  |  |                 |
| (Gain) loss on extinguishment/defeasance of debt  | 1,070                                  | 4,392           |
| Depreciation and amortization   | 29,192                                 | 31,896          |
| Unrealized (gain) loss on derivative instruments  | (889)                                  | (1,356)         |
| Unrealized (gain) loss on equity securities   | (1,341)                                | —               |
| Unrealized (gain) loss on Agency interest-only securities   | (38)                                   | (456)           |
| Unrealized (gain) loss on investment in mutual fund   | (308)                                  | (204)           |
| Provision for loan losses   | 600                                    | 13,600          |
| Impairment of real estate   | 1,350                                  | —               |
| Amortization of equity based compensation   | 18,336                                 | 6,667           |
| Amortization of deferred financing costs included in interest expense                               | 8,460                                  | 8,020           |
| Amortization of premium on mortgage loan financing  | (1,300)                                | (762)           |
| Amortization of above- and below-market lease intangibles   | (867)                                  | (1,286)         |
| Amortization of premium/(accretion) of discount and other fees on loans                             | (14,405)                               | (13,795)        |
| Amortization of premium/(accretion) of discount and other fees on securities                        | 82                                     | 2,944           |
| Realized (gain) loss on sale of mortgage loan receivables held for sale                             | (38,589)                               | (12,893)        |
| Realized (gain) loss on securities  | (10,726)                               | 4,896           |
| Realized (gain) loss on sale of real estate, net  | (963)                                  | (96,341)        |
| Realized gain on sale of derivative instruments   | 84                                     | 192             |
| Origination of mortgage loan receivables held for sale  | (554,115)                              | (1,115,218)     |
| Purchases of mortgage loan receivables held for sale  | (9,934)                                | —               |
| Repayment of mortgage loan receivables held for sale  | 492                                    | 1,324           |
| Proceeds from sales of mortgage loan receivables held for sale                                      | 574,303                                | 926,889         |
| (Income) loss from investments in unconsolidated joint ventures in excess of distributions received | (3,617)                                | (466)           |
| Distributions from operations of investment in unconsolidated joint ventures                        | 3,067                                  | —               |
| Deferred tax asset (liability)  | 7,405                                  | (4,484)         |
| Changes in operating assets and liabilities:  |  |                 |
| Accrued interest receivable   | 4,275                                  | (1,968)         |
| Other assets  | (5,921)                                | 7,503           |
| Accrued expenses and other liabilities  | (33,010)                               | (5,262)         |
| <b>Net cash provided by (used in) operating activities</b>  | <b>64,245</b>                          | <b>(51,339)</b> |

|   | <b>Nine Months Ended September 30,</b> |                  |
|---|--|------------------|
|   | <b>2019</b>                            | <b>2018</b>      |
| <b>Cash flows from investing activities:</b>  |  |                  |
| Origination of mortgage loan receivables held for investment  | (985,825)                              | (1,240,894)      |
| Repayment of mortgage loan receivables held for investment  | 1,191,908                              | 755,404          |
| Purchases of real estate securities   | (1,192,852)                            | (303,021)        |
| Repayment of real estate securities   | 178,468                                | 93,185           |
| Basis recovery of Agency interest-only securities   | 9,339                                  | 14,898           |
| Proceeds from sales of real estate securities   | 534,249                                | 306,109          |
| Purchases of real estate  | (13,905)                               | (113,903)        |
| Capital improvements of real estate   | (3,606)                                | (4,822)          |
| Proceeds from sale of real estate   | 10,794                                 | 153,398          |
| Capital contributions and advances to investment in unconsolidated joint ventures                                 | (56,393)                               | (370)            |
| Capital distribution from investment in unconsolidated joint ventures   | 46,019                                 | 1,250            |
| Capitalization of interest on investment in unconsolidated joint ventures   | (142)                                  | (1,074)          |
| Purchase of FHLB stock  | (3,704)                                | —                |
| Proceeds from sale of FHLB stock  | —                                      | 20,000           |
| Purchase of derivative instruments  | (210)                                  | (305)            |
| Sale of derivative instruments  | 101                                    | 114              |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(285,759)</b>                       | <b>(320,031)</b> |
| <b>Cash flows from financing activities:</b>  |  |                  |
| Deferred financing costs paid   | (4,453)                                | (2,975)          |
| Proceeds from borrowings under debt obligations   | 10,186,669                             | 4,401,648        |
| Repayment of borrowings under debt obligations  | (9,771,014)                            | (3,969,654)      |
| Cash dividends paid to Class A common shareholders  | (144,306)                              | (122,770)        |
| Capital distributed to noncontrolling interests in operating partnership  | (12,821)                               | (13,191)         |
| Capital contributed by noncontrolling interests in consolidated joint ventures                                    | 498                                    | 5,779            |
| Capital distributed to noncontrolling interests in consolidated joint ventures                                    | (1,013)                                | (24,400)         |
| Payment of liability assumed in exchange for shares for the minimum withholding taxes on vesting restricted stock | (8,106)                                | (837)            |
| Purchase of treasury stock  | (637)                                  | —                |
| <b>Net cash provided by (used in) financing activities</b>  | <b>244,817</b>                         | <b>273,600</b>   |
| <b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>                                      | <b>23,303</b>                          | <b>(97,770)</b>  |
| Cash, cash equivalents and restricted cash at beginning of period   | 98,450                                 | 182,683          |
| <b>Cash, cash equivalents and restricted cash at end of period</b>  | <b>\$ 121,753</b>                      | <b>\$ 84,913</b> |

|  | Nine Months Ended September 30, |            |
|--|---------------------------------|------------|
|  | 2019                            | 2018       |
| <b>Supplemental information:</b>   |                                 |            |
| Cash paid for interest, net of amounts capitalized   | \$ 164,429                      | \$ 151,868 |
| Cash paid (received) for income taxes  | 4,817                           | 5,718      |
| <b>Non-cash investing and financing activities:</b>  |                                 |            |
| Securities and derivatives purchased, not settled  | 7,000                           | 14         |
| Securities and derivatives sold, not settled   | 3,962                           | —          |
| Repayment in transit of mortgage loans receivable held for investment (other assets)   | 6,120                           | 31,764     |
| Repayment of mortgage loans receivable held for sale   | 128                             | —          |
| Settlement of mortgage loan receivable held for investment by real estate, net   | (17,851)                        | —          |
| Transfer from mortgage loans receivable held for sale to mortgage loans receivable held for investment, net, at amortized cost | 35,940                          | 55,403     |
| Proceeds from sale of real estate  | —                               | 1,421      |
| Real estate acquired in settlement of mortgage loan receivable held for investment, net  | 17,851                          | —          |
| Net settlement of sale of real estate, subject to debt - real estate   | (11,943)                        | —          |
| Net settlement of sale of real estate, subject to debt - debt obligations  | 11,943                          | —          |
| Reduction in proceeds from sales of real estate  | —                               | 62,417     |
| Assumption of debt obligations by real estate buyer/defeasance of debt and related costs                                       | —                               | (62,417)   |
| Exchange of noncontrolling interest for common stock   | 16,110                          | 62,433     |
| Change in deferred tax asset related to exchanges of noncontrolling interest for common stock                                  | —                               | 428        |
| Increase in amount payable pursuant to tax receivable agreement  | (11)                            | (86)       |
| Rebalancing of ownership percentage between Company and Operating Partnership  | 147                             | 869        |
| Dividends declared, not paid   | 2,384                           | 1,964      |
| Stock dividends  | 23,824                          | —          |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statement of cash flows (\$ in thousands):

|   | September 30, 2019 | September 30, 2018 | December 31, 2018 |
|---|--------------------|--------------------|-------------------|
| Cash and cash equivalents   | \$ 83,097          | \$ 49,625          | \$ 67,878         |
| Restricted cash   | 38,656             | 35,288             | 30,572            |
| <b>Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows</b> | <b>\$ 121,753</b>  | <b>\$ 84,913</b>   | <b>\$ 98,450</b>  |

The accompanying notes are an integral part of these consolidated financial statements.

**Ladder Capital Corp**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**1. ORGANIZATION AND OPERATIONS**

Ladder Capital Corp is an internally-managed real estate investment trust (“REIT”) that is a leader in commercial real estate finance. Ladder originates and invests in a diverse portfolio of commercial real estate and real estate-related assets, focusing on senior secured assets. Ladder’s investment activities include: (i) direct origination of commercial real estate first mortgage loans; (ii) investments in investment grade securities secured by first mortgage loans on commercial real estate; and (iii) investments in net leased and other commercial real estate equity. Ladder Capital Corp, as the general partner of Ladder Capital Finance Holdings LLLP (“LCFH,” “Predecessor” or the “Operating Partnership”), operates the Ladder Capital business through LCFH and its subsidiaries. As of September 30, 2019, Ladder Capital Corp has a 89.8% economic interest in LCFH and controls the management of LCFH as a result of its ability to appoint its board members. Accordingly, Ladder Capital Corp consolidates the financial results of LCFH and its subsidiaries and records a noncontrolling interest for the economic interest in LCFH held by certain existing owners of LCFH, who were limited partners of LCFH prior Ladder Capital Corp’s initial public offering (“IPO”) and continue to hold an economic interest in LCFH and voting shares of Ladder Capital Corp Class B common stock (the “Continuing LCFH Limited Partners”). In addition, Ladder Capital Corp, through certain subsidiaries which are treated as taxable REIT subsidiaries (each a “TRS”), is indirectly subject to U.S. federal, state and local income taxes. Other than the noncontrolling interest in the Operating Partnership and such indirect U.S. federal, state and local income taxes, there are no material differences between Ladder Capital Corp’s consolidated financial statements and LCFH’s consolidated financial statements.

Ladder Capital Corp was formed as a Delaware corporation on May 21, 2013. The Company conducted its IPO which closed on February 11, 2014. The Company used the net proceeds from the IPO to purchase newly issued limited partnership units (“LP Units”) from LCFH. In connection with the IPO, Ladder Capital Corp also became a holding corporation and the general partner of, and obtained a controlling interest in, LCFH. Ladder Capital Corp’s only business is to act as the general partner of LCFH, and, as such, Ladder Capital Corp indirectly operates and controls all of the business and affairs of LCFH and its subsidiaries. The IPO transactions described herein are referred to as the “IPO Transactions.”

Pursuant to LCFH’s Third Amended and Restated LLLP Agreement, dated as of December 31, 2014 and as amended from time to time, and subject to the applicable minimum retained ownership requirements and certain other restrictions, including notice requirements, from time to time, Continuing LCFH Limited Partners (or certain transferees thereof) may from time to time, subject to certain conditions, receive one share of the Company’s Class A common stock in exchange for (i) one share of the Company’s Class B common stock, (ii) one Series REIT LP Unit and (iii) either one Series TRS LP Unit or one TRS Share, subject to equitable adjustments for stock splits, stock dividends and reclassifications. However, such exchange for shares of Ladder Capital Corp Class A common stock will not affect the exchanging owners’ voting power since the votes represented by the canceled shares of Ladder Capital Corp Class B common stock will be replaced with the votes represented by the shares of Class A common stock for which such Series Units, including TRS Shares as applicable, will be exchanged.

As a result of the Company’s ownership interest in LCFH and LCFH’s election under Section 754 of the Code, the Company expects to benefit from depreciation and other tax deductions reflecting LCFH’s tax basis for its assets. Those deductions will be allocated to the Company and will be taken into account in reporting the Company’s taxable income.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting and Principles of Consolidation***

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). In the opinion of management, the unaudited financial information for the interim periods presented in this report reflects all normal and recurring adjustments necessary for a fair statement of results of operations, financial position and cash flows. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018, which are included in the Company’s Annual Report, as certain disclosures that would substantially duplicate those contained in the audited consolidated financial statements have not been included in this interim report. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The interim consolidated

financial statements have been prepared, without audit, and do not necessarily include all information and footnotes necessary for a fair statement of our consolidated financial position, results of operations and cash flows in accordance with GAAP.

The consolidated financial statements include the Company's accounts and those of its subsidiaries which are majority-owned and/or controlled by the Company and variable interest entities for which the Company has determined itself to be the primary beneficiary, if any. All significant intercompany transactions and balances have been eliminated.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") *Topic 810 — Consolidation* ("ASC 810"), provides guidance on the identification of entities for which control is achieved through means other than voting rights ("variable interest entities" or "VIEs") and the determination of which business enterprise, if any, should consolidate the VIEs. Generally, the consideration of whether an entity is a VIE applies when either: (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The Company consolidates VIEs in which it is considered to be the primary beneficiary. The primary beneficiary is the entity that has both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the VIE's performance; and (2) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. See Note 10 for further information on the Company's consolidated variable interest entities.

Noncontrolling interests in consolidated subsidiaries are defined as "the portion of the equity (net assets) in the subsidiaries not attributable, directly or indirectly, to a parent." Noncontrolling interests are presented as a separate component of equity in the consolidated balance sheets. In addition, the presentation of net income attributes earnings to shareholders/unitholders (controlling interest) and noncontrolling interests.

### *Use of Estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the balance sheets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of resulting changes are reflected in the consolidated financial statements in the period the changes are deemed to be necessary. Significant estimates made in the accompanying consolidated financial statements include, but are not limited to the following:

- valuation of real estate securities;
- valuation of mortgage loan receivables held for sale;
- allocation of purchase price for acquired real estate;
- impairment, and useful lives, of real estate;
- useful lives of intangible assets;
- valuation of derivative instruments;
- valuation of deferred tax asset (liability);
- amounts payable pursuant to the Tax Receivable Agreement;
- determination of effective yield for recognition of interest income;
- adequacy of provision for loan losses including the valuation of underlying collateral for collateral dependent loans;
- determination of other than temporary impairment of real estate securities and investments in and advances to unconsolidated joint ventures;
- certain estimates and assumptions used in the accrual of incentive compensation and calculation of the fair value of equity compensation issued to employees;
- determination of the effective tax rate for income tax provision; and
- certain estimates and assumptions used in the allocation of revenue and expenses for our segment reporting.

### ***Cash and Cash Equivalents***

The Company considers all investments with original maturities of three months or less, at the time of acquisition, to be cash equivalents. The Company maintains cash accounts at several financial institutions, which are insured up to a maximum of \$250,000 per account as of September 30, 2019 and December 31, 2018. At September 30, 2019 and December 31, 2018, and at various times during the years, the balances exceeded the insured limits.

### ***Restricted Cash***

Restricted cash is comprised of accounts the Company maintains with brokers to facilitate financial derivative and repurchase agreement transactions in support of its loan and securities investments and risk management activities. Based on the value of the positions in these accounts and the associated margin requirements, the Company may be required to deposit additional cash into these broker accounts. The cash collateral held by broker is considered restricted cash. Restricted cash also includes tenant security deposits, deposits related to real estate sales and acquisitions and required escrow balances on credit facilities. Prior to January 1, 2017, these amounts were previously recorded in other assets on the Company's consolidated balance sheets.

### ***Recognition of Operating Lease Income and Tenant Recoveries***

The Company adopted ASC Topic 842 on January 1, 2019. The primary impact of applying ASC Topic 842 was the initial recognition of a \$3.5 million lease liability and a \$3.3 million right-of-use asset (including previously accrued straight line rent) on the Company's consolidated financial statements, for leases classified as operating leases under ASC Topic 840, primarily for the Company's corporate headquarters and other identified leases. There is no cumulative effect on retained earnings or other components of equity recognized as of January 1, 2019.

Certain arrangements may contain both lease and non-lease components. The Company determines if an arrangement is, or contains, a lease at contract inception. Only the lease components of these contractual arrangements are subject to the provisions of ASC Topic 842. Any non-lease components are subject to other applicable accounting guidance. We have elected, however, to adopt the optional practical expedient not to separate lease components from non-lease components for accounting purposes. This policy election has been adopted for each of the Company's leased asset classes existing as of the effective date and subject to the transition provisions of ASC Topic 842, will be applied to all new or modified leases executed on or after January 1, 2019. For contractual arrangements executed in subsequent periods involving a new leased asset class, the Company will determine at contract inception whether it will apply the optional practical expedient to the new leased asset class.

Leases are evaluated for classification as operating or finance leases at the commencement date of the lease. Right-of-use assets and corresponding liabilities are recognized on the Company's consolidated balance sheet based on the present value of future lease payments relating to the use of the underlying asset during the lease term. Future lease payments include fixed lease payments as well as variable lease payments that depend upon an index or rate using the index or rate at the commencement date and probable amounts owed under residual value guarantees. The amount of future lease payments may be increased to include additional payments related to lease extension, termination, and/or purchase options when the Company has determined, at or subsequent to lease commencement, generally due to limited asset availability or operating commitments, it is reasonably certain of exercising such options.

The Company uses its incremental borrowing rate as the discount rate in determining the present value of future lease payments, unless the interest rate implicit in the lease arrangement is readily determinable. Lease payments that vary based on future usage levels, the nature of leased asset activities, or certain other contingencies, are not included in the measurement of lease right-of-use assets and corresponding liabilities. The Company has elected not to record assets and liabilities on its consolidated balance sheet for lease arrangements with terms of 12 months or less. Tenant recoveries related to reimbursement of real estate taxes, insurance, utilities, repairs and maintenance, and other operating expenses are recognized as revenue in the period during which the applicable expenses are incurred.

### ***Out-of-Period Adjustments***

During the first quarter of 2018, the Company recorded an out-of-period adjustment to increase tenant real estate tax recoveries on a net lease property by \$1.1 million, which was not billed until the three month period ended March 31, 2018, but related to prior periods. The Company has concluded that this adjustment was not material to the financial position or results of operations for the three months ended March 31, 2018 or any prior periods; accordingly, the Company recorded the related adjustment in the three month period ended March 31, 2018.

### **Recently Adopted Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either operating leases or financing leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sale-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous lease standard, *Leases (Topic 840)*. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842 (Leases)* (“ASU 2018-10”), which provides narrow amendments to clarify how to apply certain aspects of the new leasing standard. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements* (“ASU 2018-11”), which provides a new transition method at the adoption date through a cumulative-effect adjustment to the opening balance of retained earnings, prior periods will not require restatement. ASU 2018-11 also provides a new practical expedient for lessors adopting the new lease standard. Lessors have the option to aggregate nonlease components with the related lease component upon adoption of the new standard if the following conditions are met: (1) the timing and pattern of transfer for the nonlease component and the related lease component are the same and (2) the stand-alone lease component would be classified as an operating lease if accounted for separately. In December 2018, the FASB issued ASU 2018-20, *Leases (Topic 842)* (“ASU 2018-20”), which provides narrow amendments to clarify how to apply certain aspects of the new leasing standard. Each of the standards are effective for the Company on January 1, 2019, with early adoption permitted. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842): Codification Improvements* (“ASU 2019-01”), which aligns the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in Topic 842 with that of existing guidance. As a result, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between when the underlying asset is acquired and when the lease commences, the definition of fair value in Topic 820, *Fair Value Measurement* should be applied. ASU 2019-01 also requires lessors within the scope of Topic 942, *Financial Services—Depository and Lending*, to present all “principal payments received under leases” within investing activities.

The Company adopted ASU 2016-02, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01, collectively FASB ASC Topic 842, *Leases* (“ASC Topic 842”), beginning January 1, 2019. The Company adopted ASU Topic 842 using the modified retrospective approach and elected to utilize the Optional Transition Method, which permits the Company to apply the provisions of ASC Topic 842 to leasing arrangements existing at or entered into after January 1, 2019, and present in its financial statements comparative periods prior to January 1, 2019 under the historical requirements of ASC Topic 840. In addition, the Company elected to adopt the package of optional transition-related practical expedients, which among other things, allows the Company to carry forward certain historical conclusions reached under ASC Topic 840 regarding lease identification, classification, and the accounting treatment of initial direct costs. Furthermore, the Company elected not to record assets and liabilities on its consolidated balance sheets for new or existing lease arrangements with terms of 12 months or less.

In March 2017, the FASB issued ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)*, (“ASU 2017-08”). The ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Historically, entities generally amortized the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. ASU No. 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The adoption of ASU 2017-08 on January 1, 2019 had no material impact on the Company’s consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*, (“ASU 2017-11”). Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The adoption of ASU 2017-11 on January 1, 2019 had no material impact on the Company’s consolidated financial statements.

In January 2018, the FASB issued ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, (“ASU 2018-01”). This ASU provides an optional transition practical expedient that, if elected, would not require companies to reconsider their accounting for existing or expired land easements before adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. This ASU will be effective January 1, 2019 and early adoption is permitted. The adoption of ASU 2018-01 on January 1, 2019, had no material impact on the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*, (“ASU 2018-02”). This ASU allows an entity to elect to reclassify the stranded tax effects related to the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income into retained earnings. This ASU will be effective January 1, 2019, and early adoption is permitted. The adoption of ASU 2018-02 on January 1, 2019 had no material impact on the Company’s consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, *Codification Improvements*, (“ASU 2018-09”). This standard does not prescribe any new accounting guidance, but instead makes minor improvements and clarifications of several different FASB Accounting Standards Codification areas based on comments and suggestions made by various stakeholders. Certain updates are applicable immediately while others provide for a transition period to adopt as part of the next fiscal year beginning after December 15, 2018. The adoption of ASU 2018-09 had no material impact on the Company’s consolidated financial statements.

#### ***Recent Accounting Pronouncements Pending Adoption***

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, (“ASU 2016-13”). The guidance changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. In November 2018, the FASB issued ASU 2018-19 to clarify that operating lease receivables recorded by lessors are explicitly excluded from the scope of ASU 2016-13. In May 2019, the FASB issued ASU 2019-05 to provide an option to irrevocably elect to measure certain individual financial assets at fair value instead of amortized cost. The Company must apply the amendments in these updates through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently assessing the impact of this standard on the consolidated financial statements. In general, the allowance for credit losses is expected to increase when changing from an incurred loss to expected loss methodology. The models and methodologies that are currently used in estimating the allowance for credit losses are being evaluated to identify the changes necessary to meet the requirements of the new standard.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement, (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, (“ASU 2018-13”). ASU 2018-13 eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-02 to have a material impact on its financial statements and related disclosures.

In October 2018, the FASB issued ASU 2018-17, *Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities*, (“ASU 2018-17”). ASU 2018-17 requires reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety for determining whether a decision-making fee is a variable interest. The standard is effective for all entities for financial statements issued for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. Entities are required to apply the amendments in ASU 2018-17 retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, (“ASU 2019-04”). ASU 2019-04 clarifies and improves areas of guidance related to the recently issued standards on credit losses (ASU 2016-13), hedging (ASU 2017-12), and recognition and measurement of financial instruments (ASU 2016-01). The amendments generally have the same effective dates as their related standards. If already adopted, the amendments of ASU 2016-01 and ASU 2016-13 are effective for fiscal years beginning after December 15, 2019 and the amendments of ASU 2017-12 are effective as of the beginning of the Company’s next annual reporting period; early adoption is permitted. The Company previously adopted ASU 2016-01 and does not expect the amendments of ASU 2019-04 to have a material impact on its consolidated financial statements.

Any new accounting standards not disclosed above that have been issued or proposed by FASB and that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

### 3. MORTGAGE LOAN RECEIVABLES

September 30, 2019 (\$ in thousands)

|   | Outstanding<br>Face Amount | Carrying<br>Value   | Weighted<br>Average<br>Yield (1) | Remaining<br>Maturity<br>(years) |
|---|----------------------------|---------------------|----------------------------------|----------------------------------|
| <b>Mortgage loan receivables held for investment, net, at amortized cost:</b> |                            |                     |                                  |                                  |
| Mortgage loans held by consolidated subsidiaries:                             |                            |                     |                                  |                                  |
| First mortgage loans(2)   | \$ 3,116,050               | \$ 3,098,241        | 7.14%                            | 1.27                             |
| Mezzanine loans   | 133,661                    | 133,202             | 10.87%                           | 3.76                             |
| Total mortgage loans held by consolidated subsidiaries                        | 3,249,711                  | 3,231,443           | 7.29%                            | 1.37                             |
| Provision for loan losses   | N/A                        | (18,500)            |                                  |                                  |
| Total mortgage loan receivables held for investment, net, at amortized cost   | 3,249,711                  | 3,212,943           |                                  |                                  |
| <b>Mortgage loan receivables held for sale:</b>                               |                            |                     |                                  |                                  |
| First mortgage loans  | 173,957                    | 174,214             | 4.59%                            | 9.68                             |
| <b>Total</b>  | <b>\$ 3,423,668</b>        | <b>\$ 3,387,157</b> | <b>7.19%</b>                     | <b>1.81</b>                      |

(1) September 30, 2019 London Interbank Offered Rate (“LIBOR”) rates are used to calculate weighted average yield for floating rate loans.

(2) Includes amounts relating to consolidated variable interest entities. See Note 10.

As of September 30, 2019, \$2.5 billion, or 78.4% of the outstanding face amount of our mortgage loan receivables held for investment, net, at amortized cost, were at variable interest rates, linked to LIBOR. Of this \$2.5 billion, 100% of these variable interest rate mortgage loan receivables were subject to interest rate floors. As of September 30, 2019, \$174.0 million, or 100%, of the outstanding face amount of our mortgage loan receivables held for sale were at fixed interest rates.

December 31, 2018 (\$ in thousands)

|   | Outstanding<br>Face Amount | Carrying<br>Value   | Weighted<br>Average<br>Yield (1) | Remaining<br>Maturity<br>(years) |
|---|----------------------------|---------------------|----------------------------------|----------------------------------|
| <b>Mortgage loan receivables held for investment, net, at amortized cost:</b> |                            |                     |                                  |                                  |
| Mortgage loans held by consolidated subsidiaries:                             |                            |                     |                                  |                                  |
| First mortgage loans(2)   | \$ 3,192,160               | \$ 3,170,788        | 7.70%                            | 1.18                             |
| Mezzanine loans   | 148,221                    | 147,602             | 10.89%                           | 4.35                             |
| Total mortgage loans held by consolidated subsidiaries                        | 3,340,381                  | 3,318,390           | 7.84%                            | 1.32                             |
| Provision for loan losses   | N/A                        | (17,900)            |                                  |                                  |
| Total mortgage loan receivables held for investment, net, at amortized cost   | 3,340,381                  | 3,300,490           |                                  |                                  |
| <b>Mortgage loan receivables held for sale:</b>                               |                            |                     |                                  |                                  |
| First mortgage loans  | 181,905                    | 182,439             | 5.46%                            | 9.75                             |
| <b>Total</b>  | <b>\$ 3,522,286</b>        | <b>\$ 3,482,929</b> | <b>7.76%</b>                     | <b>1.77</b>                      |

(1) December 31, 2018 LIBOR rates are used to calculate weighted average yield for floating rate loans.

(2) Includes amounts relating to consolidated variable interest entities. See Note 10.

As of December 31, 2018, \$2.5 billion, or 75.4%, of the outstanding principal of our mortgage loan receivables held for investment, net, at amortized cost, were at variable interest rates, linked to LIBOR. Of this \$2.5 billion, 100% of these variable rate mortgage loan receivables were subject to interest rate floors. As of December 31, 2018, \$182.4 million, or 100%, of the carrying value of our mortgage loan receivables held for sale were at fixed interest rates.

For the nine months ended September 30, 2019 and 2018, the activity in our loan portfolio was as follows (\$ in thousands):

|  | Mortgage loan receivables held for investment, net, at amortized cost: |  |                           | Mortgage loan receivables held for sale |
|--|--|--|---------------------------|---|
|  | Mortgage loans held by consolidated subsidiaries                       | Mortgage loans transferred but not considered sold | Provision for loan losses |   |
| <b>Balance, December 31, 2018</b>                          | \$ 3,318,390   | \$ —   | \$ (17,900)               | \$ 182,439                              |
| Origination of mortgage loan receivables                   | 985,825  | —  | —                         | 554,115                                 |
| Purchases of mortgage loan receivables                     | —  | —  | —                         | 9,934                                   |
| Repayment of mortgage loan receivables                     | (1,105,506)  | —  | —                         | (620)                                   |
| Proceeds from sales of mortgage loan receivables(1)        | —  | (15,504)   | —                         | (558,799)                               |
| Non-cash disposition of loans via foreclosure(2)           | (17,611)   | —  | —                         | —                                       |
| Sale of loans, net   | —  | —  | —                         | 38,589                                  |
| Transfer between held for investment and held for sale(1)  | 35,940   | 15,504   | —                         | (51,444)                                |
| Accretion/amortization of discount, premium and other fees | 14,405   | —  | —                         | —                                       |
| Provision for loan losses                                  | —  | —  | (600)                     | —                                       |
| <b>Balance, September 30, 2019</b>                         | <b>\$ 3,231,443</b>  | <b>\$ —</b>  | <b>\$ (18,500)</b>        | <b>\$ 174,214</b>                       |

- (1) During the three months ended March 31, 2019, the Company reclassified from mortgage loan receivables held for sale to mortgage loan receivables held for investment, net, at amortized cost, one loan with an outstanding face amount of \$15.4 million, a book value of \$15.5 million (fair value at the date of reclassification) and a remaining maturity of 9.8 years, which was sold to the WFCM 2019-C49 securitization trust. Subsequently, the controlling loan interest was sold to the UBS 2019-C16 securitization trust, and as a result, the loan previously sold during the three months ended March 31, 2019 was accounted for as a sale during the six months ended June 30, 2019.
- (2) Refer to Note 5 Real Estate and Related Lease Intangibles, Net for further detail on foreclosure of real estate.

|  | Mortgage loan receivables held for investment, net, at amortized cost: |                           |   |
|--|--|---------------------------|---|
|  | Mortgage loans held by consolidated subsidiaries                       | Provision for loan losses | Mortgage loan receivables held for sale |
| <b>Balance, December 31, 2017</b>                          | \$ 3,282,462   | \$ (4,000)                | \$ 230,180                              |
| Origination of mortgage loan receivables                   | 1,240,894  | —                         | 1,115,218                               |
| Repayment of mortgage loan receivables                     | (787,167)  | —                         | (1,324)                                 |
| Proceeds from sales of mortgage loan receivables           | —  | —                         | (926,402)                               |
| Sale of loans, net(1)                                      | —  | —                         | 12,893                                  |
| Transfer between held for investment and held for sale(2)  | 55,403   | —                         | (55,403)                                |
| Accretion/amortization of discount, premium and other fees | 13,795   | —                         | —                                       |
| Provision for loan losses(3)                               | —  | (13,600)                  | —                                       |
| <b>Balance, September 30, 2018</b>                         | <b>\$ 3,805,387</b>  | <b>\$ (17,600)</b>        | <b>\$ 375,162</b>                       |

- (1) Includes \$0.5 million of realized losses on loans related to lower of cost or market adjustments for the nine months ended September 30, 2018.

- (2) During the nine months ended September 30, 2018, the Company reclassified from mortgage loan receivables held for sale to mortgage loan receivables held for investment, net, at amortized cost, three loans with a combined outstanding face amount of \$57.6 million, a combined book value of \$55.4 million (fair value at date of reclassification) and a remaining maturity of 2.5 years. The loans had been recorded at lower of cost or market prior to their reclassification. The discount to fair value is the result of an increase in market interest rates since the loans' origination and not a deterioration in credit of the borrowers or collateral coverage and the Company expects to collect all amounts due under the loans.
- (3) As further discussed below, during the three and nine months ended September 30, 2018, the Company recorded asset-specific provisions on collateral dependent loans of \$10.0 million and \$12.7 million, respectively. In addition, the Company records a portfolio-based, general loan loss provision to provide reserves for expected losses over the remaining portfolio of mortgage loan receivables held for investment. During the three and nine months ended September 30, 2018, the Company recorded an additional general reserve of \$0.3 million and \$0.9 million, respectively.

During the nine months ended September 30, 2019 and September 30, 2018, the transfers of financial assets via sales of loans were treated as sales under ASC Topic 860 — *Transfers and Servicing*.

As of September 30, 2019 and December 31, 2018, there was \$0.1 million and \$0.5 million, respectively, of unamortized discounts included in our mortgage loan receivables held for investment, net, at amortized cost, on our consolidated balance sheets.

**Provision for Loan Losses and Non-Accrual Status (\$ in thousands)**

|  | <b>Three Months Ended September 30,</b> |                  | <b>Nine Months Ended September 30,</b> |                          |
|--|---|------------------|--|--------------------------|
|  | <b>2019</b>                             | <b>2018</b>      | <b>2019</b>                            | <b>2018</b>              |
| Allowance for loan losses at beginning of period           | \$ 18,500                               | \$ 7,300         | \$ 17,900                              | \$ 4,000                 |
| Provision for loan losses                                  | —                                       | 10,300           | 600                                    | 13,600                   |
| <b>Allowance for loan losses at end of period</b>          | <b>\$ 18,500</b>                        | <b>\$ 17,600</b> | <b>\$ 18,500</b>                       | <b>\$ 17,600</b>         |
|  |   |                  | <b>September 30, 2019</b>              | <b>December 31, 2018</b> |
| <b>Principal balance of loans on non-accrual status(1)</b> |   |                  | <b>\$ 37,161</b>                       | <b>\$ 36,850</b>         |

- (1) Represents two of the Company's loans, which were originated simultaneously as part of a single transaction and had a carrying value of \$26.9 million and one loan with a carrying value of \$45.0 million, as further discussed below.

The Company evaluates each of its loans for potential losses at least quarterly. Its loans are typically collateralized by real estate directly or indirectly. As a result, the Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash flow from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan at maturity, and/or (iii) the property's liquidation value. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector, and geographic sub-market in which the collateral property is located. Such impairment analyses are completed and reviewed by asset management personnel, who utilize various data sources, including (i) periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, the borrowers' business plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and other market data.

As a result of this analysis, the Company has concluded that none of its loans, other than the three loans discussed below, are individually impaired as of September 30, 2019 and December 31, 2018. It is probable, however, that Ladder's loan portfolio as a whole incurred an impairment due to common characteristics and shared inherent risks in the portfolio. The Company determined that a provision expense for loan losses of \$0.6 million was required for the nine months ended September 30, 2019. This provision consisted of a portfolio-based, general loan loss provision of \$0.6 million to provide reserves for expected losses over the remaining portfolio of mortgage loan receivables held for investment, and no additional asset-specific reserves.

As of September 30, 2019, two of the Company's loans, which were originated simultaneously as part of a single transaction and had a carrying value of \$26.9 million, were in default. These loans are directly and indirectly secured by the same property and are considered collateral dependent because repayment is expected to be provided solely by the underlying collateral. The Company placed these loans on non-accrual status in July 2017. In assessing these collateral dependent loans for impairment, the most significant consideration is the fair value of the underlying real estate collateral, which includes an in-place long-dated retail lease. The value of such property is most significantly affected by the contractual lease terms and the appropriate market capitalization rates, which are driven by the property's market strength, the general interest rate environment and the retail tenant's creditworthiness. In view of these considerations, the Company uses a direct capitalization rate valuation methodology to calculate the fair value of the underlying real estate collateral. These non-recurring fair values are considered Level 3 measurements in the fair value hierarchy. During the three months ended March 31, 2018, management believed these loans to be potentially impaired, reflecting a decline in collateral value attributable to: (i) on-going bankruptcy proceedings; (ii) rising interest rates; and (iii) the retail tenant's creditworthiness. As a result, on March 31, 2018, the Company recorded a provision for loss on these loans of \$2.7 million to reduce the carrying value of these loans to the fair value of the property less the cost to foreclose and sell the property utilizing direct capitalization rates of 4.70% to 5.00%. As of September 30, 2019, the Company believed no additional loss provision was necessary based on the application of direct capitalization rates of 4.60% to 4.90%.

During the year ended December 31, 2018, management identified a loan with a carrying value of \$45.0 million as potentially impaired, reflecting a decline in collateral value attributable to: (i) recent and near term tenant vacancies at the property; (ii) new information available during the three months ended September 30, 2018 regarding the addition of supply that will increase the local submarket vacancy rate; and (iii) declining market conditions. As part of the Company's evaluation, it obtained an external appraisal of the loan collateral. Based on this review, a reserve of \$10.0 million was recorded for this potentially impaired loan in the three months ended September 30, 2018 to reduce the carrying value of the loan to the estimated fair value of the collateral, less the estimated costs to sell. The Company has placed this loan on non-accrual status as of September 30, 2018. During the quarter ended December 31, 2018, this loan experienced a maturity default and its terms were modified in a Troubled Debt Restructuring ("TDR") on October 17, 2018. The terms of the TDR provided for, among other things, the restructuring of the Company's existing \$45.0 million first mortgage loan into a \$35.0 million A-Note and a \$10.0 million B-Note and a 19.0% equity interest which is not subject to dilution and that can be increased to 25% under certain conditions. Under certain conditions, the B-Note may be forgiven or reduced. The restructured loan was extended for up to 12 months, including extensions. There have been no additional changes during the nine months ended September 30, 2019. On October 4, 2019, the loan was extended for an additional one month period with a November 6, 2019 maturity. On November 6, 2019 the loan was extended for an additional three month period with a February 6, 2020 maturity.

Generally when granting concessions, the Company will seek to protect its position by requiring incremental pay downs, additional collateral or guarantees and in some cases lookback features or equity kickers to offset concessions granted should conditions impacting the loan improve. The Company's determination of credit losses is impacted by TDRs whereby loans that have gone through TDRs are considered impaired, assessed for specific reserves, and are not included in the Company's assessment of general loan loss reserves. Loans previously restructured under TDRs that subsequently default are reassessed to incorporate the Company's current assumptions on expected cash flows and additional provision expense is recorded to the extent necessary. As of September 30, 2019, there were no unfunded commitments associated with modified loans considered TDRs.

As of September 30, 2019 and December 31, 2018 there were no other loans on non-accrual status.

#### 4. REAL ESTATE SECURITIES

Commercial mortgage backed securities (“CMBS”), CMBS interest-only securities, Agency securities, Government National Mortgage Association (“GNMA”) construction securities, GNMA permanent securities and corporate bonds are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income. GNMA and Federal Home Loan Mortgage Corp (“FHLMC”) securities (collectively, “Agency interest-only securities”) are recorded at fair value with changes in fair value recorded in current period earnings. Equity securities are classified as available-for-sale and reported at fair value with changes in fair value recorded in current period earnings. The following is a summary of the Company’s securities at September 30, 2019 and December 31, 2018 (\$ in thousands):

##### September 30, 2019

| Asset Type                          | Outstanding Face Amount | Amortized Cost Basis/Purchase Price | Gross Unrealized |                   | Carrying Value      | # of Securities | Weighted Average |              |              | Remaining Duration (years) |
|-------------------------------------|-------------------------|-------------------------------------|------------------|-------------------|---------------------|-----------------|------------------|--------------|--------------|----------------------------|
|                                     |                         |                                     | Gains            | Losses            |                     |                 | Rating (1)       | Coupon %     | Yield %      |                            |
| CMBS(2)                             | \$ 1,779,458            | \$ 1,780,233                        | \$ 9,012         | \$ (533)          | \$ 1,788,712 (3)    | 139             | AAA              | 3.27%        | 3.14%        | 2.38                       |
| CMBS interest-only(2)(4)            | 2,139,357               | 39,961                              | 1,491            | (12)              | 41,440 (5)          | 18              | AAA              | 0.49%        | 3.65%        | 2.61                       |
| GNMA interest-only(4)(6)            | 113,096                 | 2,202                               | 119              | (295)             | 2,026               | 12              | AA+              | 0.51%        | 9.65%        | 2.73                       |
| Agency securities(2)                | 641                     | 652                                 | 2                | —                 | 654                 | 2               | AA+              | 2.67%        | 1.74%        | 1.97                       |
| GNMA permanent securities(2)        | 31,760                  | 31,984                              | 811              | —                 | 32,795              | 6               | AA+              | 3.92%        | 3.27%        | 4.55                       |
| Corporate bonds(2)                  | 32,088                  | 31,604                              | 768              | —                 | 32,372              | 1               | BB-              | 3.63%        | 4.81%        | 1.31                       |
| <b>Total debt securities</b>        | <b>\$ 4,096,400</b>     | <b>\$ 1,886,636</b>                 | <b>\$ 12,203</b> | <b>\$ (840)</b>   | <b>\$ 1,897,999</b> | <b>178</b>      |                  | <b>1.75%</b> | <b>3.17%</b> | <b>2.39</b>                |
| Equity securities(7)                | N/A                     | 13,720                              | 125              | (388)             | 13,457              | 3               | N/A              | N/A          | N/A          | N/A                        |
| <b>Total real estate securities</b> | <b>\$ 4,096,400</b>     | <b>\$ 1,900,356</b>                 | <b>\$ 12,328</b> | <b>\$ (1,228)</b> | <b>\$ 1,911,456</b> | <b>181</b>      |                  |              |              |                            |

- (1) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the highest rating is used. Ratings provided were determined by third-party rating agencies as of a particular date, may not be current and are subject to change (including the assignment of a “negative outlook” or “credit watch”) at any time.
- (2) CMBS, CMBS interest-only securities, Agency securities, GNMA permanent securities and corporate bonds are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income.
- (3) Includes \$11.6 million of restricted securities which are designated as risk retention securities under the Dodd-Frank Act and are therefore subject to transfer restrictions over the term of the securitization trust and are classified as held-to-maturity and reported at amortized cost.
- (4) The amounts presented represent the principal amount of the mortgage loans outstanding in the pool in which the interest-only securities participate.
- (5) Includes \$0.8 million of restricted securities which are designated as risk retention securities under the Dodd-Frank Act and are therefore subject to transfer restrictions over the term of the securitization trust and are classified as held-to-maturity and reported at amortized cost.
- (6) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings. The Company’s Agency interest-only securities are considered to be hybrid financial instruments that contain embedded derivatives. As a result, the Company has elected to account for them as hybrid instruments in their entirety at fair value with changes in fair value recognized in unrealized gain (loss) on Agency interest-only securities in the consolidated statements of income in accordance with ASC 815.
- (7) The Company has elected to account for equity securities at fair value with changes in fair value recorded in current period earnings.

December 31, 2018

| Asset Type                          | Outstanding Face Amount | Amortized Cost Basis | Gross Unrealized |                    | Carrying Value      | # of Securities | Weighted Average |          |              | Remaining Duration (years) |             |
|-------------------------------------|-------------------------|----------------------|------------------|--------------------|---------------------|-----------------|------------------|----------|--------------|----------------------------|-------------|
|                                     |                         |                      | Gains            | Losses             |                     |                 | Rating (1)       | Coupon % | Yield %      |                            |             |
| CMBS(2)                             | \$ 1,258,819            | \$ 1,257,801         | \$ 2,477         | \$ (7,638)         | \$ 1,252,640        | (3)             | 138              | AAA      | 3.32%        | 3.14%                      | 2.33        |
| CMBS interest-only(2)(4)            | 2,373,936               | 55,534               | 428              | (271)              | 55,691              | (5)             | 19               | AAA      | 0.57%        | 2.80%                      | 2.69        |
| GNMA interest-only(4)(6)            | 135,932                 | 2,862                | 93               | (307)              | 2,648               |                 | 12               | AA+      | 0.51%        | 6.30%                      | 4.11        |
| Agency securities(2)                | 668                     | 682                  | —                | (20)               | 662                 |                 | 2                | AA+      | 2.73%        | 1.83%                      | 2.36        |
| GNMA permanent securities(2)        | 32,633                  | 32,889               | 420              | (245)              | 33,064              |                 | 6                | AA+      | 3.94%        | 3.76%                      | 5.03        |
| Corporate bonds(2)                  | 55,305                  | 54,257               | —                | (386)              | 53,871              |                 | 2                | BB       | 4.08%        | 5.04%                      | 2.51        |
| <b>Total debt securities</b>        | <b>\$ 3,857,293</b>     | <b>\$ 1,404,025</b>  | <b>\$ 3,418</b>  | <b>\$ (8,867)</b>  | <b>\$ 1,398,576</b> |                 | <b>179</b>       |          | <b>1.54%</b> | <b>3.19%</b>               | <b>2.40</b> |
| Equity securities(7)                | N/A                     | 13,154               | —                | (1,604)            | 11,550              |                 | 3                | N/A      | N/A          | N/A                        | N/A         |
| <b>Total real estate securities</b> | <b>\$ 3,857,293</b>     | <b>\$ 1,417,179</b>  | <b>\$ 3,418</b>  | <b>\$ (10,471)</b> | <b>\$ 1,410,126</b> |                 | <b>182</b>       |          |              |                            |             |

- (1) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the highest rating is used. Ratings provided were determined by third-party rating agencies as of a particular date, may not be current and are subject to change (including the assignment of a “negative outlook” or “credit watch”) at any time.
- (2) CMBS, CMBS interest-only securities, Agency securities, GNMA permanent securities and corporate bonds are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income.
- (3) Includes \$11.3 million of restricted securities which are designated as risk retention securities under the Dodd-Frank Act and are therefore subject to transfer restrictions over the term of the securitization trust and are classified as held-to-maturity and reported at amortized cost.
- (4) The amounts presented represent the principal amount of the mortgage loans outstanding in the pool in which the interest-only securities participate.
- (5) Includes \$0.9 million of restricted securities which are designated as risk retention securities under the Dodd-Frank Act and are therefore subject to transfer restrictions over the term of the securitization trust and are classified as held-to-maturity and reported at amortized cost.
- (6) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings. The Company’s Agency interest-only securities are considered to be hybrid financial instruments that contain embedded derivatives. As a result, the Company accounts for them as hybrid instruments in their entirety at fair value with changes in fair value recognized in unrealized gain (loss) on Agency interest-only securities in the consolidated statements of income in accordance with ASC 815.
- (7) The Company has elected to account for equity securities at fair value with changes in fair value recorded in current period earnings.

The following is a breakdown of the carrying value of the Company's debt securities by remaining maturity based upon expected cash flows at September 30, 2019 and December 31, 2018 (\$ in thousands):

**September 30, 2019**

| Asset Type                   | Within 1 year     | 1-5 years           | 5-10 years        | After 10 years | Total               |
|------------------------------|-------------------|---------------------|-------------------|----------------|---------------------|
| CMBS(1)                      | \$ 395,377        | \$ 1,212,074        | \$ 181,261        | \$ —           | \$ 1,788,712        |
| CMBS interest-only(1)        | 645               | 40,795              | —                 | —              | 41,440              |
| GNMA interest-only(2)        | 250               | 1,515               | 261               | —              | 2,026               |
| Agency securities(1)         | —                 | 654                 | —                 | —              | 654                 |
| GNMA permanent securities(1) | 344               | 32,451              | —                 | —              | 32,795              |
| Corporate bonds(1)           | —                 | 32,372              | —                 | —              | 32,372              |
| <b>Total debt securities</b> | <b>\$ 396,616</b> | <b>\$ 1,319,861</b> | <b>\$ 181,522</b> | <b>\$ —</b>    | <b>\$ 1,897,999</b> |

- (1) CMBS, CMBS interest-only securities, Agency securities, GNMA permanent securities and corporate bonds are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income.
- (2) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

**December 31, 2018**

| Asset Type                   | Within 1 year     | 1-5 years         | 5-10 years        | After 10 years | Total               |
|------------------------------|-------------------|-------------------|-------------------|----------------|---------------------|
| CMBS(1)                      | \$ 342,121        | \$ 772,594        | \$ 137,925        | \$ —           | \$ 1,252,640        |
| CMBS interest-only(1)        | 1,145             | 54,546            | —                 | —              | 55,691              |
| GNMA interest-only(2)        | 17                | 2,276             | 353               | 2              | 2,648               |
| Agency securities(1)         | —                 | 662               | —                 | —              | 662                 |
| GNMA permanent securities(1) | 551               | 1,048             | 31,465            | —              | 33,064              |
| Corporate bonds(1)           | —                 | 53,871            | —                 | —              | 53,871              |
| <b>Total debt securities</b> | <b>\$ 343,834</b> | <b>\$ 884,997</b> | <b>\$ 169,743</b> | <b>\$ 2</b>    | <b>\$ 1,398,576</b> |

- (1) CMBS, CMBS interest-only securities, Agency securities, GNMA permanent securities and corporate bonds are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income.
- (2) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

During the three and nine months ended September 30, 2019, the Company realized a gain (loss) on sale of equity securities of none and \$0.1 million, respectively, which is included in realized gain (loss) on securities on the Company's consolidated statements of income. During the three and nine months ended September 30, 2018, the Company realized a gain (loss) on sale of equity securities of none and \$0.1 million, which is included in realized gain (loss) on securities on the Company's consolidated statements of income.

There were \$0.1 million realized losses on securities recorded as other than temporary impairments for the three and nine months ended September 30, 2019. During the three and nine months ended September 30, 2018 there were \$0.6 million and \$2.2 million, respectively, of realized losses on securities recorded as other than temporary impairments, which is included in realized gain (loss) on securities on the Company's consolidated statements of income.

## 5. REAL ESTATE AND RELATED LEASE INTANGIBLES, NET

The following tables present additional detail related to our real estate portfolio, net, including foreclosed properties (\$ in thousands):

|   | <u>September 30, 2019</u> | <u>December 31, 2018</u> |
|---|---------------------------|--------------------------|
| Land  | \$ 197,682                | \$ 195,644               |
| Building  | 820,783                   | 814,314                  |
| In-place leases and other intangibles                   | 159,721                   | 162,002                  |
| Less: Accumulated depreciation and amortization         | (196,853)                 | (173,938)                |
| Real estate and related lease intangibles, net          | <u>\$ 981,333</u>         | <u>\$ 998,022</u>        |
| <br>  |                           |                          |
| Below market lease intangibles, net (other liabilities) | <u>\$ (39,087)</u>        | <u>\$ (40,367)</u>       |

At September 30, 2019 and December 31, 2018, the Company held foreclosed properties included in real estate, net with a carrying value of \$23.9 million and \$6.3 million, respectively.

The following table presents depreciation and amortization expense on real estate recorded by the Company (\$ in thousands):

|  | <u>Three Months Ended September 30,</u> |                  | <u>Nine Months Ended September 30,</u> |                  |
|--|---|------------------|--|------------------|
|  | <u>2019</u>                             | <u>2018</u>      | <u>2019</u>                            | <u>2018</u>      |
| Depreciation expense(1)  | \$ 7,394                                | \$ 8,063         | \$ 22,776                              | \$ 24,058        |
| Amortization expense   | 1,612                                   | 2,336            | 6,342                                  | 7,782            |
| <b>Total real estate depreciation and amortization expense</b> | <u>\$ 9,006</u>                         | <u>\$ 10,399</u> | <u>\$ 29,118</u>                       | <u>\$ 31,840</u> |

- (1) Depreciation expense on the consolidated statements of income also includes \$24 thousand and \$18 thousand of depreciation on corporate fixed assets for the three months ended September 30, 2019 and 2018, respectively, and \$74 thousand and \$56 thousand of depreciation on corporate fixed assets for the nine months ended September 30, 2019 and 2018, respectively.

The Company's intangible assets are comprised of in-place leases, favorable leases compared to market leases and other intangibles. The following tables present additional detail related to our intangible assets (\$ in thousands):

|                            | <u>September 30, 2019</u> | <u>December 31, 2018</u> |
|----------------------------|---------------------------|--------------------------|
| Gross intangible assets(1) | \$ 159,721                | \$ 162,002               |
| Accumulated amortization   | 61,056                    | 57,712                   |
| Net intangible assets      | <u>\$ 98,665</u>          | <u>\$ 104,290</u>        |

- (1) Includes \$4.6 million and \$5.5 million of unamortized favorable lease intangibles which are included in real estate and related lease intangibles, net on the consolidated balance sheets as of September 30, 2019 and December 31, 2018, respectively.

|   | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|---|----------------------------------|----------|---------------------------------|----------|
|   | 2019                             | 2018     | 2019                            | 2018     |
| Reduction in operating lease income for amortization of above market lease intangibles acquired | \$ (94)                          | \$ (155) | \$ (727)                        | \$ (535) |
| Increase in operating lease income for amortization of below market lease intangibles acquired  | 564                              | 500      | 1,594                           | 1,821    |

The following table presents expected adjustment to operating lease income and expected amortization expense during the next five years and thereafter related to the above and below market leases and acquired in-place lease and other intangibles for property owned as of September 30, 2019 (\$ in thousands):

| Period Ending December 31, | Adjustment to Operating Lease Income | Amortization Expense |
|----------------------------|--------------------------------------|----------------------|
| 2019 (last 3 months)       | \$ 263                               | \$ 1,601             |
| 2020                       | 1,054                                | 6,403                |
| 2021                       | 1,054                                | 6,232                |
| 2022                       | 1,054                                | 6,232                |
| 2023                       | 1,054                                | 6,232                |
| Thereafter                 | 29,981                               | 67,233               |
| <b>Total</b>               | <b>\$ 34,460</b>                     | <b>\$ 93,933</b>     |

#### *Lease Prepayment by Lessor, Retirement of Related Mortgage Loan Financing and Impairment of Real Estate*

On January 10, 2019, the Company received \$10.0 million prepayment of a lease on a single-tenant two-story office building in Wayne, NJ. As of March 31, 2019, this property had a book value of \$5.6 million, which is net of accumulated depreciation and amortization of \$2.7 million. The Company recognized the \$10.0 million of operating lease income on a straight-line basis over the revised lease term. On February 6, 2019, the Company paid off \$6.6 million of mortgage loan financing related to the property, recognizing a loss on extinguishment of debt of \$1.1 million. During the three months ended March 31, 2019, the Company recorded a \$1.4 million impairment of real estate to reduce the carrying value of the real estate to the estimated fair value of the real estate. On May 1, 2019, the Company completed the sale of the property recognizing \$3.9 million of operating lease income, \$3.5 million realized loss on sale of real estate, net and \$0.4 million of depreciation and amortization expense, resulting in a net loss of \$20 thousand. See Note 15, Fair Value of Financial Instruments for further detail.

There were \$1.0 million and \$0.8 million of rent receivables included in other assets on the consolidated balance sheets as of September 30, 2019 and December 31, 2018, respectively.

There was unencumbered real estate of \$90.8 million and \$58.6 million as of September 30, 2019 and December 31, 2018, respectively.

During the three and nine months ended September 30, 2019, the Company recorded \$1.1 million and \$2.1 million of real estate operating income, respectively, which is included in operating lease income in the consolidated statements of income.

The following is a schedule of non-cancellable, contractual, future minimum rent under leases (excluding property operating expenses paid directly by tenant under net leases) at September 30, 2019 (\$ in thousands):

| Period Ending December 31, | Amount            |
|----------------------------|-------------------|
| 2019 (last 3 months)       | \$ 21,347         |
| 2020                       | 80,401            |
| 2021                       | 69,055            |
| 2022                       | 65,936            |
| 2023                       | 64,106            |
| Thereafter                 | 520,897           |
| <b>Total</b>               | <b>\$ 821,742</b> |

### Acquisitions

During the nine months ended September 30, 2019, the Company acquired the following properties (\$ in thousands):

| Acquisition Date                                  | Type        | Primary Location(s) | Purchase Price/Fair Value on the Date of Foreclosure | Ownership Interest (1) |
|---|-------------|---------------------|--|------------------------|
| <b>Purchases of real estate</b>                   |             |                     |  |                        |
| February 2019                                     | Net Lease   | Houghton Lake, MI   | \$ 1,242   | 100.0%                 |
| February 2019                                     | Net Lease   | Trenton, MO         | 1,164  | 100.0%                 |
| April 2019  | Net Lease   | Centralia, IL       | 1,242  | 100.0%                 |
| June 2019   | Net Lease   | Fayette, MO         | 1,423  | 100.0%                 |
| July 2019   | Net Lease   | Dexter, MO          | 1,150  | 100.0%                 |
| July 2019   | Net Lease   | Caledonia, MI       | 1,199  | 100.0%                 |
| August 2019                                       | Net Lease   | Poseyville, IN      | 1,220  | 100.0%                 |
| September 2019                                    | Net Lease   | Chillicothe, IL     | 1,445  | 100.0%                 |
| September 2019                                    | Net Lease   | Sullivan, IL        | 1,496  | 100.0%                 |
| September 2019                                    | Net Lease   | Becker, MN          | 1,185  | 100.0%                 |
| September 2019                                    | Net Lease   | Adrian, MO          | 1,138  | 100.0%                 |
| <b>Total purchases of real estate</b>             |             |                     | <b>13,904</b>  |                        |
| <b>Real estate acquired via foreclosure</b>       |             |                     |  |                        |
| February 2019                                     | Diversified | Omaha, NE           | 18,200   | 100.0%                 |
| <b>Total real estate acquired via foreclosure</b> |             |                     | <b>18,200</b>  |                        |
| <b>Total real estate acquisitions</b>             |             |                     | <b>\$ 32,104</b>                                     |                        |

(1) Properties were consolidated as of acquisition date.

During the nine months ended September 30, 2019, the Company acquired title to real estate in a foreclosure. The real estate had a fair value of \$18.2 million and previously served as collateral for a mortgage loan receivable held for investment, which was previously on non-accrual status. This loan had an amortized cost of \$17.8 million, accrued interest of \$0.2 million and an unamortized discount of \$0.1 million. The acquisition was accounted for in real estate, net, at fair value on the date of foreclosure. There was no gain or loss resulting from the foreclosure of the loan.

On October 1, 2016, the Company early adopted ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”). As a result of this adoption, acquisitions of real estate may not meet the revised definition of a business and may be treated as asset acquisitions rather than business combinations. The measurement of assets and liabilities acquired will no longer be recorded at fair value and the Company will now allocate purchase consideration based on relative fair values. Real estate acquisition costs, which are no longer expensed as incurred, will be capitalized as a component of the cost of the assets acquired. During the nine months ended September 30, 2019, all acquisitions were determined to be asset acquisitions.

The purchase prices were allocated to the asset acquisitions during the nine months ended September 30, 2019, as follows (\$ in thousands):

|                                | <b>Purchase Price<br/>Allocation</b> |
|--------------------------------|--------------------------------------|
| Land                           | \$ 4,969                             |
| Building                       | 25,571                               |
| Intangibles                    | 2,309                                |
| Below Market Lease Intangibles | (745)                                |
| <b>Total purchase price</b>    | <b>\$ 32,104</b>                     |

The weighted average amortization period for intangible assets acquired during the nine months ended September 30, 2019 was 38.3 years. The Company recorded \$167 thousand and \$246 thousand in revenues from its 2019 acquisitions for the three and nine months ended September 30, 2019, respectively, which is included in its consolidated statements of income. The Company recorded \$(1.0) million and \$(2.5) million in earnings (losses) from its 2019 acquisitions for the three and nine months ended September 30, 2019, respectively, which is included in its consolidated statements of income.

During the nine months ended September 30, 2018, the Company acquired the following properties (\$ in thousands):

| <b>Acquisition Date</b>               | <b>Type</b>    | <b>Primary Location(s)</b> | <b>Purchase Price</b> | <b>Ownership Interest (1)</b> |
|---------------------------------------|----------------|----------------------------|-----------------------|-------------------------------|
| March 2018                            | Diversified(2) | Lithia Springs, GA         | \$ 24,466             | 70.6%                         |
| April 2018                            | Net Lease      | Kirbyville, MO             | 1,156                 | 100.0%                        |
| April 2018                            | Net Lease      | Gladwin, MI                | 1,171                 | 100.0%                        |
| April 2018                            | Net Lease      | Foley, MN                  | 1,176                 | 100.0%                        |
| April 2018                            | Net Lease      | Moscow Mills, MO           | 1,237                 | 100.0%                        |
| April 2018                            | Net Lease      | Wonder Lake, IL            | 1,255                 | 100.0%                        |
| May 2018                              | Diversified(3) | Isla Vista, CA             | 85,087                | 75.0%                         |
| <b>Total real estate acquisitions</b> |                |                            | <b>\$ 115,548</b>     |                               |

- (1) Properties were consolidated as of acquisition date.
- (2) Joint venture partner contributed \$2.9 million to the partnership.
- (3) Joint venture partner contributed \$4.6 million to the partnership.

The purchase prices were allocated to the asset acquisitions during the nine months ended September 30, 2018, as follows (\$ in thousands):

|                                | <b>Purchase Price<br/>Allocation</b> |
|--------------------------------|--------------------------------------|
| Land                           | \$ 40,019                            |
| Building                       | 73,794                               |
| Intangibles                    | 2,065                                |
| Below Market Lease Intangibles | (330)                                |
| <b>Total purchase price</b>    | <b>\$ 115,548</b>                    |

The weighted average amortization period for intangible assets acquired during the nine months ended September 30, 2018 was 18.5 years. The Company recorded \$2.0 million and \$3.4 million revenues from its 2018 acquisitions for the three and nine months ended September 30, 2018, respectively. The Company recorded \$0.7 million and \$1.5 million in earnings (losses) from its 2018 acquisitions for the three and nine months ended September 30, 2018, respectively, which is included in its consolidated statements of income.

### Sales

The Company sold the following properties during the nine months ended September 30, 2019 (\$ in thousands):

| Sales Date    | Type        | Primary Location(s) | Net Sales Proceeds | Net Book Value   | Realized Gain/(Loss) | Properties | Units Sold | Units Remaining |
|---------------|-------------|---------------------|--------------------|------------------|----------------------|------------|------------|-----------------|
| N/A           | Condominium | Las Vegas, NV       | \$ —               | \$ —             | \$ —                 | —          | —          | 1               |
| Various       | Condominium | Miami, FL           | 4,195              | 3,796            | 399                  | —          | 14         | 8               |
| April 2019    | Diversified | Wayne, NJ           | 1,729              | 4,799            | (3,070)              | 1          | —          | —               |
| May 2019      | Diversified | Grand Rapids, MI    | 10,019             | 8,254            | 1,765                | 1          | —          | —               |
| August 2019   | Diversified | Grand Rapids, MI    | 6,970              | 4,920            | 2,050                | 1          | —          | —               |
| <b>Totals</b> |             |                     | <b>\$ 22,913</b>   | <b>\$ 21,769</b> | <b>\$ 1,144</b>      |            |            |                 |

The Company sold the following properties during the nine months ended September 30, 2018 (\$ in thousands):

| Sales Date     | Type        | Primary Location(s) | Net Sales Proceeds | Net Book Value    | Realized Gain/(Loss) | Properties | Units Sold | Units Remaining |
|----------------|-------------|---------------------|--------------------|-------------------|----------------------|------------|------------|-----------------|
| Various        | Condominium | Las Vegas, NV       | \$ 6,228           | \$ 3,116          | \$ 3,112             | —          | 8          | 5               |
| Various        | Condominium | Miami, FL           | 4,844              | 3,987             | 857                  | —          | 18         | 30              |
| March 2018     | Diversified | El Monte, CA        | 71,807             | 52,610            | 19,197 (1)           | 1          | —          | —               |
| March 2018     | Diversified | Richmond, VA        | 20,966             | 11,370            | 9,596 (2)            | 1          | —          | —               |
| September 2018 | Diversified | St. Paul, MN        | 109,275            | 47,627            | 61,648 (3)           | 4          | —          | —               |
| <b>Totals</b>  |             |                     | <b>\$ 213,120</b>  | <b>\$ 118,710</b> | <b>\$ 94,410</b>     |            |            |                 |

- (1) This property had a third party investor. The third party investor has been allocated \$7.0 million of the realized gain, which is included in net (income) loss attributable to noncontrolling interest in consolidated joint ventures, for the nine months ended September 30, 2018, on the consolidated statements of income.
- (2) This property had a third party investor. The third party investor has been allocated \$0.4 million of the realized gain, which is included in net (income) loss attributable to noncontrolling interest in consolidated joint ventures, for the nine months ended September 30, 2018, on the consolidated statements of income.
- (3) This property had a third party investor. The third party investor has been allocated \$7.9 million of the realized gain, which is included in net (income) loss attributable to noncontrolling interest in consolidated joint ventures, for the nine months ended September 30, 2018, on the consolidated statements of income.

**6. INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED JOINT VENTURES**

The following is a summary of the Company's investments in and advances to unconsolidated joint ventures, which we account for using the equity method, as of September 30, 2019 and December 31, 2018 (\$ in thousands):

| Entity   | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Grace Lake JV, LLC                                 | \$ 3,799           | \$ 5,316          |
| 24 Second Avenue Holdings LLC                      | 47,620             | 35,038            |
| <b>Investment in unconsolidated joint ventures</b> | <b>\$ 51,419</b>   | <b>\$ 40,354</b>  |

The following is a summary of the Company's allocated earnings (losses) based on its ownership interests from investment in unconsolidated joint ventures for the three and nine months ended September 30, 2019 and 2018 (\$ in thousands):

| Entity  | Three Months Ended September 30, |               | Nine Months Ended September 30, |               |
|---|----------------------------------|---------------|---------------------------------|---------------|
|   | 2019                             | 2018          | 2019                            | 2018          |
| Grace Lake JV, LLC  | \$ 517                           | \$ 605        | \$ 1,549                        | \$ 1,138      |
| 24 Second Avenue Holdings LLC   | 577                              | (204)         | 2,068                           | (672)         |
| <b>Earnings (loss) from investment in unconsolidated joint ventures</b> | <b>\$ 1,094</b>                  | <b>\$ 401</b> | <b>\$ 3,617</b>                 | <b>\$ 466</b> |

*Grace Lake JV, LLC*

In connection with the origination of a loan in April 2012, the Company received a 25% equity interest with the right to convert upon a capital event. On March 22, 2013, the loan was refinanced, and the Company converted its interest into a 19% limited liability company membership interest in Grace Lake JV, LLC ("Grace Lake LLC"), which holds an investment in an office building complex. After taking into account the preferred return of 8.25% and the return of all equity remaining in the property to the Company's operating partner, the Company is entitled to 25% of the distribution of all excess cash flows and all disposition proceeds upon any sale. The Company is not legally required to provide any future funding to Grace Lake JV. The Company accounts for its interest in Grace Lake JV using the equity method of accounting, as it has a 19% investment, compared to the 81% investment of its operating partner and does not control the entity.

The Company's investment in Grace Lake LLC is an unconsolidated joint venture, which is a VIE for which the Company is not the primary beneficiary. This joint venture was deemed to be a VIE primarily based on the fact there are disproportionate voting and economic rights within the joint venture. The Company determined that it was not the primary beneficiary of this VIE based on the fact that the Company has a passive investment and no control of this entity and therefore does not have controlling financial interests in this VIE. The Company's maximum exposure to loss is limited to its investment in the VIE. The Company has not provided financial support to this VIE that it was not previously contractually required to provide.

During the nine months ended September 30, 2019, the Company received \$3.1 million of distributions from its investment in Grace Lake JV, LLC. During the nine months ended September 30, 2018, the Company received \$1.3 million of distributions from its investment in Grace Lake JV, LLC.

*24 Second Avenue Holdings LLC*

On August 7, 2015, the Company entered into a joint venture, 24 Second Avenue Holdings LLC ("24 Second Avenue"), with an operating partner (the "Operating Partner") to invest in a ground-up residential/retail condominium development and construction project located at 24 Second Avenue, New York, NY. The Company accounted for its interest in 24 Second Avenue using the equity method of accounting as its joint venture partner was the managing member of 24 Second Avenue and had substantive management rights.

During the three months ended March 31, 2019, the Company converted its existing \$35.0 million common equity interest into a \$35.0 million priority preferred equity position. The Company also provided \$50.4 million in first mortgage financing in order to refinance the existing \$48.1 million first mortgage construction loan which was made by another lending institution. In addition to the new \$50.4 million first mortgage loan, the Company also funded a \$6.5 million mezzanine loan for use in completing the project. The Operating Partner must fully fund any and all additional capital for necessary expenses.

Due to the Company's non-controlling equity interest in 24 Second Avenue, the Company accounts for the new loans as additional investments in the joint venture.

During the three and nine months ended September 30, 2019, the Company recorded \$0.6 million and \$2.1 million, respectively, in income (expenses), each of which is recorded in earnings (loss) from investment in unconsolidated joint ventures in the consolidated statements of income. During the three and nine months ended September 30, 2018, the Company recorded \$(0.2) million and \$(0.7) million, respectively, in income (expenses), each of which is recorded in earnings (loss) from investment in unconsolidated joint ventures in the consolidated statements of income. During 2018, the Company capitalized interest related to the cost of its investment in 24 Second Avenue, as 24 Second Avenue had activities in progress necessary to construct and ultimately sell condominium units. During the nine months ended September 30, 2019, the Company capitalized \$0.1 million of interest expense, using a weighted average interest rate. During the three and nine months ended September 30, 2018, the Company recorded \$0.4 million and \$1.1 million, respectively, of interest expense, using a weighted average interest rate. The capitalized interest expense was recorded in investment in unconsolidated joint ventures in the consolidated balance sheets. As a result of the transactions described above, during the three months ended March 31, 2019, the Company no longer capitalizes interest related to this investment, and income generated from the new loans is accounted for as earnings from investment in unconsolidated joint ventures.

As of December 31, 2018, 24 Second Avenue had \$46.7 million of loans payable to a third party lender. 24 Second Avenue consists of 30 residential condominium units and one commercial condominium unit. 24 Second Avenue started closing on the existing sales contracts during the quarter ended March 31, 2019, upon receipt of New York City Building Department approvals and a temporary certificate of occupancy for a portion of the project. As of September 30, 2019, 24 Second Avenue sold 17 residential condominium units for \$47.3 million in total gross sale proceeds and one residential condominium unit was under contract for sale for \$1.2 million in gross sales proceeds. As of September 30, 2019, 24 Second Avenue is holding a 15% deposit on the sales contract. As of September 30, 2019, the Company had no additional remaining capital commitment to 24 Second Avenue.

The Company's investment in 24 Second Avenue is an unconsolidated joint venture, which is a VIE for which the Company is not the primary beneficiary. This joint venture was deemed to be a VIE primarily based on (i) the fact that the total equity investment at risk (inclusive of the additional financing the Company provided through the first mortgage and mezzanine loans) is sufficient to permit the entities to finance activities without additional subordinated financial support provided by any parties, including equity holders; and (ii) the voting and economic rights are not disproportionate within the joint venture. The Company determined that it was not the primary beneficiary of this VIE because it does not have a controlling financial interest.

The Company holds its investment in 24 Second Avenue in a TRS.

#### *Combined Summary Financial Information for Unconsolidated Joint Ventures*

The following is a summary of the combined financial position of the unconsolidated joint ventures in which the Company had investment interests as of September 30, 2019 and December 31, 2018 (\$ in thousands):

|                            | <u>September 30, 2019</u> | <u>December 31, 2018</u> |
|----------------------------|---------------------------|--------------------------|
| Total assets               | \$ 123,871                | \$ 167,837               |
| Total liabilities          | 80,333                    | 116,667                  |
| Partners'/members' capital | \$ 43,538                 | \$ 51,170                |

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The following is a summary of the combined results from operations of the unconsolidated joint ventures for the period in which the Company had investment interests during the nine months ended September 30, 2019 and 2018 (\$ in thousands):

|                          | <b>Three Months Ended September 30,</b> |               | <b>Nine Months Ended September 30,</b> |                 |
|--------------------------|---|---------------|--|-----------------|
|                          | <b>2019</b>                             | <b>2018</b>   | <b>2019</b>                            | <b>2018</b>     |
| Total revenues           | \$ 3,915                                | \$ 4,351      | \$ 14,945                              | \$ 13,671       |
| Total expenses           | 4,595                                   | 3,415         | 12,029                                 | 9,788           |
| <b>Net income (loss)</b> | <b>\$ (680)</b>                         | <b>\$ 936</b> | <b>\$ 2,916</b>                        | <b>\$ 3,883</b> |

## 7. DEBT OBLIGATIONS, NET

The details of the Company's debt obligations at September 30, 2019 and December 31, 2018 are as follows (\$ in thousands):

### September 30, 2019

| Debt Obligations                                  | Committed Financing | Debt Obligations Outstanding | Committed but Unfunded | Interest Rate at September 30, 2019(1) | Current Term Maturity | Remaining Extension Options | Eligible Collateral | Carrying Amount of Collateral | Fair Value of Collateral |
|---|---------------------|------------------------------|------------------------|--|-----------------------|-----------------------------|---------------------|-------------------------------|--------------------------|
| Committed Loan Repurchase Facility                | \$ 600,000          | \$ 191,031                   | \$ 408,969             | 3.78% - 4.28%                          | 2/24/2022             | (2)                         | (3)                 | \$ 283,517                    | \$ 283,746               |
| Committed Loan Repurchase Facility                | 350,000             | 63,996                       | 286,004                | 4.25% - 4.60%                          | 5/24/2020             | (4)                         | (5)                 | 100,354                       | 102,616                  |
| Committed Loan Repurchase Facility                | 300,000             | 211,350                      | 88,650                 | 4.00% - 4.53%                          | 4/10/2020             | (6)                         | (7)                 | 343,448                       | 343,448                  |
| Committed Loan Repurchase Facility                | 300,000             | 116,043                      | 183,957                | 3.81% - 4.06%                          | 5/6/2021              | (8)                         | (3)                 | 174,001                       | 174,353                  |
| Committed Loan Repurchase Facility                | 100,000             | 87,174                       | 12,826                 | 4.02% - 4.28%                          | 7/20/2021             | (9)                         | (3)                 | 135,373                       | 135,606                  |
| Committed Loan Repurchase Facility                | 100,000             | 90,927                       | 9,073                  | 4.03%                                  | 3/26/2020             | (10)                        | (11)                | 121,899                       | 121,899                  |
| <b>Total Committed Loan Repurchase Facilities</b> | <b>1,750,000</b>    | <b>760,521</b>               | <b>989,479</b>         |  |                       |                             |                     | <b>1,158,592</b>              | <b>1,161,668</b>         |
| Committed Securities Repurchase Facility          | 400,000             | 85,457                       | 314,543                | 2.38% - 2.87%                          | 3/4/2021              | N/A                         | (12)                | 103,547                       | 103,547                  |
| Uncommitted Securities Repurchase Facility        | N/A (12)            | 940,070                      | N/A (13)               | 2.45% - 3.78%                          | 10/2019 - 12/2019     | N/A                         | (12)                | 1,047,663                     | 1,047,663 (14)           |
| <b>Total Repurchase Facilities</b>                | <b>2,150,000</b>    | <b>1,786,048</b>             | <b>1,304,022</b>       |  |                       |                             |                     | <b>2,309,802</b>              | <b>2,312,878</b>         |
| Revolving Credit Facility                         | 266,430             | —                            | 266,430                | NA                                     | 2/11/2020             | (15)                        | N/A (16)            | N/A (16)                      | N/A (16)                 |
| Mortgage Loan Financing                           | 723,313             | 723,313                      | —                      | 4.25% - 6.75%                          | 2020 - 2029(17)       | N/A                         | (18)                | 902,656                       | 1,093,952 (19)           |
| CLO Debt  | 117,760             | 117,760 (20)                 | —                      | 3.40% - 5.62%                          | 2021-2034             | N/A                         | (21)                | 274,149                       | 274,523                  |
| Borrowings from the FHLB                          | 1,945,795           | 1,076,449                    | 869,346                | 1.47% - 2.95%                          | 2019 - 2024           | N/A                         | (22)                | 1,411,022                     | 1,422,246 (23)           |
| Senior Unsecured Notes                            | 1,166,201           | 1,157,117 (24)               | —                      | 5.250% - 5.875%                        | 2021 - 2025           | N/A                         | N/A (25)            | N/A (25)                      | N/A (25)                 |
| <b>Total Debt Obligations, Net</b>                | <b>\$ 6,369,499</b> | <b>\$ 4,860,687</b>          | <b>\$ 2,439,798</b>    |  |                       |                             |                     | <b>\$ 4,897,629</b>           | <b>\$ 5,103,599</b>      |

(1) September 2019 LIBOR rates are used to calculate interest rates for floating rate debt.

(2) Two additional 12-month periods at Company's option. No new advances are permitted after the initial maturity date.

(3) First mortgage commercial real estate loans and senior and pari passu interests therein. It does not include the real estate collateralizing such loans.

(4) One additional 12-month period at Company's option.

(5) First mortgage commercial real estate loans. It does not include the real estate collateralizing such loans.

(6) One additional 364-day period with Bank's consent.

(7) First mortgage and mezzanine commercial real estate loans and senior and pari passu interests therein. It does not include the real estate collateralizing such loans.

(8) One additional 12-month extension period and two additional 6-month extension periods at Company's option.

(9) One additional 12-month extension period at Company's option. No new advances are permitted after the initial maturity date.

(10) The Company may extend periodically with lender's consent. At no time can the maturity of the facility exceed 364 days from the date of determination.

(11) First mortgage, junior and mezzanine commercial real estate loans, and certain senior and/or pari passu interests therein.

(12) Commercial real estate securities. It does not include the real estate collateralizing such securities.

(13) Represents uncommitted securities repurchase facilities for which there is no committed amount subject to future advances.

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- (14) Includes \$2.3 million of restricted securities under the risk retention rules of Dodd-Frank Act. These securities are accounted for as held-to-maturity and recorded at amortized cost basis.
- (15) Three additional 12-month periods at Company's option.
- (16) The obligations under the Revolving Credit Facility are guaranteed by the Company and certain of its subsidiaries and secured by equity pledges in certain Company subsidiaries.
- (17) Anticipated repayment dates.
- (18) Certain of our real estate investments serve as collateral for our mortgage loan financing.
- (19) Using undepreciated carrying value of commercial real estate to approximate fair value.
- (20) Presented net of unamortized debt issuance costs of \$0.4 million at September 30, 2019.
- (21) First mortgage commercial real estate loans and pari passu interests therein. It does not include the real estate collateralizing such loans.
- (22) First mortgage commercial real estate loans and investment grade commercial real estate securities. It does not include the real estate collateralizing such loans and securities.
- (23) Includes \$9.9 million of restricted securities under the risk retention rules of Dodd-Frank Act. These securities are accounted for as held-to-maturity and recorded at amortized cost basis.
- (24) Presented net of unamortized debt issuance costs of \$9.1 million at September 30, 2019.
- (25) The obligations under the senior unsecured notes are guaranteed by the Company and certain of its subsidiaries.

**December 31, 2018**

| Debt Obligations                                   | Committed Financing | Debt Obligations Outstanding | Committed but Unfunded | Interest Rate at December 31, 2018(1) | Current Term Maturity | Remaining Extension Options | Eligible Collateral | Carrying Amount of Collateral | Fair Value of Collateral |
|--|---------------------|------------------------------|------------------------|---------------------------------------|-----------------------|-----------------------------|---------------------|-------------------------------|--------------------------|
| Committed Loan Repurchase Facility                 | \$ 600,000          | \$ 180,597                   | \$ 419,403             | 4.21% - 4.96%                         | 10/1/2020             | (2)                         | (3)                 | \$ 262,642                    | \$ 261,602               |
| Committed Loan Repurchase Facility                 | 350,000             | 63,679                       | 286,321                | 4.68% - 4.98%                         | 5/24/2019             | (4)                         | (5)                 | 87,385                        | 88,762                   |
| Committed Loan Repurchase Facility                 | 300,000             | 120,631                      | 179,369                | 4.46% - 4.96%                         | 4/7/2019              | (6)                         | (7)                 | 204,747                       | 205,219                  |
| Committed Loan Repurchase Facility                 | 300,000             | 79,886                       | 220,114                | 4.44% - 4.94%                         | 5/6/2021              | (8)                         | (3)                 | 117,382                       | 117,366                  |
| Committed Loan Repurchase Facility                 | 100,000             | 52,738                       | 47,262                 | 4.58% - 4.96%                         | 7/20/2021             | (9)                         | (3)                 | 72,154                        | 72,154                   |
| Committed Loan Repurchase Facility                 | 100,000             | —                            | 100,000                | NA                                    | 12/26/2019            | (10)                        | (11)                | —                             | —                        |
| <b>Total Committed Loan Repurchase Facilities</b>  | <b>1,750,000</b>    | <b>497,531</b>               | <b>1,252,469</b>       |                                       |                       |                             |                     | <b>744,310</b>                | <b>745,103</b>           |
| Committed Securities Repurchase Facility           | 400,000             | —                            | 400,000                | NA                                    | 9/30/2019             | N/A                         | (12)                | —                             | —                        |
| Uncommitted Securities Repurchase Facility         | N/A (12)            | 166,154                      | N/A (13)               | 2.99% - 4.55%                         | 1/2019 - 3/2019       | N/A                         | (12)                | 187,803                       | 187,803 (14)<br>(15)     |
| <b>Total Repurchase Facilities</b>                 | <b>2,150,000</b>    | <b>663,685</b>               | <b>1,652,469</b>       |                                       |                       |                             |                     | <b>932,113</b>                | <b>932,906</b>           |
| Revolving Credit Facility                          | 266,430             | —                            | 266,430                | NA                                    | 2/11/2019             | (16)                        | N/A (17)            | N/A (17)                      | N/A (17)                 |
| Mortgage Loan Financing                            | 743,902             | 743,902                      | —                      | 4.25% - 7.00%                         | 2020 - 2028(18)       | N/A                         | (19)                | 939,362                       | 1,108,968 (20)           |
| CLO Debt   | 601,543             | 601,543                      | (21)                   | 3.34% - 6.06%                         | 2021-2034             | N/A                         | (22)                | 710,502                       | 710,737                  |
| Participation Financing - Mortgage Loan Receivable | 2,453               | 2,453                        | —                      | 17.00%                                | 6/6/2019              | N/A                         | (3)                 | 2,453                         | 2,453                    |
| Borrowings from the FHLB                           | 1,933,522           | 1,286,000                    | 647,522                | 1.18% - 3.01%                         | 2019 - 2024           | N/A                         | (23)                | 1,652,952                     | 1,655,150 (24)           |
| Senior Unsecured Notes                             | 1,166,201           | 1,154,991                    | (25)                   | 5.250% - 5.875%                       | 2021 - 2025           | N/A                         | N/A (26)            | N/A (26)                      | N/A (26)                 |
| <b>Total Debt Obligations</b>                      | <b>\$ 6,864,051</b> | <b>\$ 4,452,574</b>          | <b>\$ 2,566,421</b>    |                                       |                       |                             |                     | <b>\$ 4,237,382</b>           | <b>\$ 4,410,214</b>      |

(1) December 31, 2018 LIBOR rates are used to calculate interest rates for floating rate debt.

- (2) Two additional 12-month periods at Company's option. No new advances are permitted after the initial maturity date.
- (3) First mortgage commercial real estate loans and senior and pari passu interests therein. It does not include the real estate collateralizing such loans.
- (4) Two additional 12-month periods at Company's option.
- (5) First mortgage commercial real estate loans. It does not include the real estate collateralizing such loans.
- (6) One additional 364-day periods at Company's option and one additional 364-day period with Bank's consent.
- (7) First mortgage and mezzanine commercial real estate loans and senior pari passu interests therein. It does not include the real estate collateralizing such loans.
- (8) One additional 12-month extension period and two additional 6-month extension periods at Company's option.
- (9) One additional 12-month extension period at Company's option. No new advances are permitted after the initial maturity date.
- (10) The Company may extend periodically with lender's consent. At no time can the maturity of the facility exceed 364 days from the date of determination.
- (11) First mortgage, junior and mezzanine commercial real estate loans, and certain senior and/or pari passu interests therein.
- (12) Commercial real estate securities. It does not include the real estate collateralizing such securities.
- (13) Represents uncommitted securities repurchase facilities for which there is no committed amount subject to future advances.
- (14) Includes \$3.0 million of restricted securities under the risk retention rules of Dodd-Frank Act. These securities are accounted for as held-to-maturity and recorded at amortized cost basis.
- (15) Includes \$6.0 million of securities purchased in the secondary market of the Company's October 2017 CLO issuance. These securities are not included in real estate securities but were rather considered a partial retirement of CLO debt.
- (16) Four additional 12-month periods at Company's option.
- (17) The obligations under the Revolving Credit Facility are guaranteed by the Company and certain of its subsidiaries and secured by equity pledges in certain Company subsidiaries.
- (18) Anticipated repayment dates.
- (19) Certain of our real estate investments serve as collateral for our mortgage loan financing.
- (20) Using undepreciated carrying value of commercial real estate to approximate fair value.
- (21) Presented net of unamortized debt issuance costs of \$2.6 million at December 31, 2018.
- (22) First mortgage commercial real estate loans and pari passu interests therein. It does not include the real estate collateralizing such loans.
- (23) First mortgage commercial real estate loans and investment grade commercial real estate securities. It does not include the real estate collateralizing such loans and securities.
- (24) Includes \$9.7 million of restricted securities under the risk retention rules of Dodd-Frank Act. These securities are accounted for as held-to-maturity and recorded at amortized cost basis.
- (25) Presented net of unamortized debt issuance costs of \$11.2 million at December 31, 2018.
- (26) The obligations under the senior unsecured notes are guaranteed by the Company and certain of its subsidiaries.

#### ***Committed Loan and Securities Repurchase Facilities***

The Company has entered into multiple committed master repurchase agreements in order to finance its lending activities. The Company has entered into six committed master repurchase agreements, as outlined in the September 30, 2019 table above, totaling \$1.8 billion of credit capacity. Assets pledged as collateral under these facilities are limited to whole mortgage loans or participation interests in mortgage loans collateralized by first liens on commercial properties and mezzanine debt. The Company also has a term master repurchase agreement with a major U.S. bank to finance CMBS totaling \$400.0 million. The Company's repurchase facilities include covenants covering net worth requirements, minimum liquidity levels, maximum leverage ratios, and minimum fixed charge coverage ratios. The Company believes it was in compliance with all covenants as of September 30, 2019 and December 31, 2018.

The Company has the option to extend some of the current facilities subject to a number of conditions, including satisfaction of certain notice requirements, no event of default exists, and no margin deficit exists, all as defined in the repurchase facility agreements. The lenders have sole discretion with respect to the inclusion of collateral in these facilities, to determine the market value of the collateral on a daily basis, to be exercised on a good faith basis, and have the right in certain cases to require additional collateral, a full and/or partial repayment of the facilities (margin call), or a reduction in unused availability under the facilities, sufficient to rebalance the facilities if the estimated market value of the included collateral declines.

On January 4, 2018, the Company exercised its option to extend one of its committed loan repurchase facilities with a major banking institution for a term of one year.

On April 3, 2018, the Company exercised its option to extend one of its credit facilities with a major banking institution for a term of one year and agreed with such banking institution to decrease the maximum funding capacity under such facility from \$450 million to \$350 million together with other related modifications, all of which will be memorialized in definitive documentation.

On May 7, 2018, the Company executed an amendment of one of its committed loan repurchase facilities with a major banking institution, providing for, among other things, the extension of the maximum term of the facility to May 6, 2023 and increasing the maximum funding capacity to \$300.0 million.

On July 20, 2018, the Company executed an amendment of one of its committed loan repurchase facilities with a major banking institution, providing for, among other things, the extension of the maximum term of the facility to July 20, 2021 and decreasing the interest rate spreads thereunder by 25 basis points.

On December 27, 2018, the Company executed a new \$100.0 million committed loan repurchase facility with a major banking institution to finance first mortgage, junior and mezzanine commercial real estate loans, and certain senior and/or pari passu interests therein. The facility has a one-year initial term and the Company may extend periodically with lender's consent, but at no time can the maturity of the facility exceed 364 days from the date of determination.

On February 26, 2019, the Company executed an amendment of one of its committed loan repurchase facilities with a major banking institution, providing for, among other things, the extension of the initial term of the facility to February 24, 2022. The facility has two additional 12-month extension periods at the Company's option. No new advances are permitted after the initial maturity date.

On March 4, 2019, the Company executed an amendment of its committed securities repurchase facility with a major banking institution, providing for, among other things, the extension of the initial term of the facility to March 4, 2021.

On May 1, 2019, the Company amended the pricing side letter related to one of its committed loan repurchase facilities with a major banking institution, providing for, among other things, the extension of the initial term of the facility to March 26, 2020.

On May 24, 2019, the Company exercised its option to extend one of its committed loan repurchase facilities with a major banking institution for a term of one year.

As of September 30, 2019, the Company had repurchase agreements with 10 counterparties, with total debt obligations outstanding of \$1.8 billion. As of September 30, 2019, two counterparties, JP Morgan and Wells Fargo, held collateral that exceeded the amounts borrowed under the related repurchase agreements by more than \$82.0 million, or 5% of our total equity. As of September 30, 2019, the weighted average haircut, or the percent of collateral value in excess of the loan amount, under our repurchase agreements was 22.8%. There have been no significant fluctuations in haircuts across asset classes on our repurchase facilities.

### ***Revolving Credit Facility***

The Company's revolving credit facility (the "Revolving Credit Facility") provides for an aggregate maximum borrowing amount of \$266.4 million, including a \$25.0 million sublimit for the issuance of letters of credit. The Revolving Credit Facility is available on a revolving basis to finance the Company's working capital needs and for general corporate purposes. On January 15, 2019, the Company extended the maturity date of the Revolving Credit Facility to February 11, 2020. The Company has additional one-year extension options to extend the final maturity date to February 2023. Interest on the Revolving Credit Facility is one-month LIBOR plus 3.25% per annum payable monthly in arrears.

The obligations under the Revolving Credit Facility are guaranteed by the Company and certain of its subsidiaries. The Revolving Credit Facility is secured by a pledge of the shares of (or other ownership or equity interests in) certain subsidiaries to the extent the pledge is not restricted under existing regulations, law or contractual obligations.

LCFH is subject to customary affirmative covenants and negative covenants, including limitations on the incurrence of additional debt, liens, restricted payments, sales of assets and affiliate transactions. In addition, under the Revolving Credit Facility, LCFH is required to comply with financial covenants relating to minimum net worth, maximum leverage, minimum liquidity, and minimum fixed charge coverage, consistent with our other credit facilities. The Company's ability to borrow under the Revolving Credit Facility is dependent on, among other things, LCFH's compliance with the financial covenants. The Revolving Credit Facility contains customary events of default, including non-payment of principal or interest, fees or other amounts, failure to perform or observe covenants, cross-default to other indebtedness, the rendering of judgments against the Company or certain of our subsidiaries to pay certain amounts of money and certain events of bankruptcy or insolvency.

### ***Debt Issuance Costs***

As discussed in Note 2, Significant Accounting Policies in the Annual Report, the Company considers its committed loan master repurchase facilities and Revolving Credit Facility to be revolving debt arrangements. As such, the Company continues to defer and present costs associated with these facilities as an asset, subsequently amortizing those costs ratably over the term of each revolving debt arrangement. As of September 30, 2019 and December 31, 2018, the amount of unamortized costs relating to such facilities are \$6.8 million and \$6.3 million, respectively, and are included in other assets in the consolidated balance sheets.

### ***Uncommitted Securities Repurchase Facilities***

The Company has also entered into multiple master repurchase agreements with several counterparties collateralized by real estate securities. The borrowings under these agreements have typical advance rates between 75% and 95% of the fair value of collateral.

### ***Mortgage Loan Financing***

These non-recourse debt agreements provide for fixed rate financing at rates, ranging from 4.25% to 6.75%, with anticipated maturity dates between 2020 - 2029 as of September 30, 2019. These loans have carrying amounts of \$723.3 million and \$743.9 million, net of unamortized premiums of \$5.3 million and \$5.8 million as of September 30, 2019 and December 31, 2018, respectively, representing proceeds received upon financing greater than the contractual amounts due under these agreements. The premiums are being amortized over the remaining life of the respective debt instruments using the effective interest method. The Company recorded \$0.5 million and \$1.3 million of premium amortization, which decreased interest expense, for the three and nine months ended September 30, 2019, respectively. The Company recorded \$0.3 million and \$0.8 million of premium amortization, which decreased interest expense, for the three and nine months ended September 30, 2018, respectively. The loans are collateralized by real estate and related lease intangibles, net, of \$902.7 million and \$939.4 million as of September 30, 2019 and December 31, 2018, respectively. During the nine months ended September 30, 2019 and 2018, the Company executed nine and eleven term debt agreements, respectively, to finance properties in its real estate portfolio.

On February 6, 2019, the Company paid off \$6.6 million of mortgage loan financing, recognizing a loss on extinguishment of debt of \$1.1 million.

### ***CLO Debt***

The Company completed CLO issuances in the two transactions described below. As of September 30, 2019 and December 31, 2018, the Company had a total of \$117.8 million and \$601.5 million, respectively, of floating rate, non-recourse CLO debt included in debt obligations on its consolidated balance sheets. Unamortized debt issuance costs of \$0.4 million and \$2.6 million are included in CLO debt as of September 30, 2019 and December 31, 2018, respectively. As of September 30, 2019, the CLO debt has interest rates of 3.4% to 5.62% (with a weighted average of 4.97%). As of September 30, 2019, collateral for the CLO debt comprised \$274.1 million of first mortgage commercial mortgage real estate loans. In October 2019, the Company redeemed all outstanding debt obligations related to the two CLO transactions.

On October 17, 2017, a consolidated subsidiary of the Company consummated a securitization of floating-rate commercial mortgage loans through a static CLO structure. Over \$456.9 million of balance sheet loans ("Contributed Loans") were contributed into the CLO. Certain of the Contributed Loans have future funding components that were not contributed to the CLO and that are retained by a consolidated subsidiary of the Company in the form of a participation interest or separate note. However, for a limited period of time, to the extent loans in the CLO are repaid, the CLO may acquire portions of the future fundings from the Company's consolidated subsidiary. A consolidated subsidiary of the Company retained an approximately 18.5% interest in the CLO by retaining the most subordinate classes of notes issued by the CLO. The Company retains control over major decisions made with respect to the administration of the Contributed Loans and appoints the special servicer under the CLO. The CLO is a VIE and the Company is the primary beneficiary and, therefore, consolidates the VIE - See Note 10.

On December 21, 2017, a subsidiary of the Company consummated a securitization of fixed and floating-rate commercial mortgage loans through a static CLO structure. Over \$431.5 million of Contributed Loans were contributed into the CLO. Certain of the Contributed Loans have future funding components that were not contributed to the CLO and that are retained by a consolidated subsidiary of the Company in the form of a participation interest or separate note. However, the CLO may acquire portions of the future fundings from the Company's consolidated subsidiary, as long as certain requirements are met. A consolidated subsidiary of the Company retained an approximately 25% interest in the CLO by retaining the most subordinate classes of notes issued by the CLO. The Company retains control over major decisions made with respect to the administration of the Contributed Loans and appoints the special servicer under the CLO. The CLO is a VIE and the Company is the primary beneficiary and, therefore, consolidates the VIE - See Note 10.

***Participation Financing - Mortgage Loan Receivable***

During the three months ended March 31, 2017, the Company sold a participating interest in a first mortgage loan receivable to a third party. The sales proceeds of \$4.0 million were considered non-recourse secured borrowings and were recognized in debt obligations on the Company's consolidated balance sheets with \$2.5 million outstanding as of December 31, 2018. There were no non-recourse secured borrowings recognized in debt obligations on the Company's consolidated balance sheets as of September 30, 2019, as the loan matured and was repaid during the three months ended June 30, 2019. The Company recorded \$0.2 million of interest expense for the nine months ended September 30, 2019. The Company recorded \$0.1 million and \$0.4 million of interest expense for the three and nine months ended September 30, 2018, respectively.

***Borrowings from the Federal Home Loan Bank ("FHLB")***

On July 11, 2012, Tuebor Captive Insurance Company LLC ("Tuebor"), a consolidated subsidiary of the Company, became a member of the FHLB and subsequently drew its first secured funding advances from the FHLB. On December 6, 2017, Tuebor's advance limit was updated by the FHLB to the lowest of a Set Dollar Limit (\$2.0 billion), 40% of Tuebor's total assets or 150% of the Company's total equity. Beginning April 1, 2020 through December 31, 2020, the Set Dollar Limit will be \$1.5 billion. Beginning January 1, 2021 through February 19, 2021, the Set Dollar Limit will be \$750.0 million. Tuebor is well-positioned to meet its obligations and pay down its advances in accordance with the scheduled reduction in the Set Dollar Limit, which remains subject to revision by the FHLB or as a result of any future changes in applicable regulations.

As of September 30, 2019, Tuebor had \$1.1 billion of borrowings outstanding (with an additional \$869.3 million of committed term financing available from the FHLB), with terms of overnight to 5.0 years (with a weighted average of 2.3 years), interest rates of 1.47% to 2.95% (with a weighted average of 2.50%), and advance rates of 61.0% to 95.7% of the collateral. As of September 30, 2019, collateral for the borrowings was comprised of \$721.5 million of CMBS and U.S. Agency Securities and \$689.5 million of first mortgage commercial real estate loans.

As of December 31, 2018, Tuebor had \$1.3 billion of borrowings outstanding (with an additional \$647.5 million of committed term financing available from the FHLB), with terms of overnight to 5.75 years (with a weighted average of 2.5 years), interest rates of 1.18% to 3.01% (with a weighted average of 2.55%), and advance rates of 56.4% to 95.2% of the collateral. As of December 31, 2018, collateral for the borrowings was comprised of \$1.0 billion of CMBS and U.S. Agency Securities and \$637.2 million of first mortgage commercial real estate loans.

Tuebor is subject to state regulations which require that dividends (including dividends to the Company as its parent) may only be made with regulatory approval. However, there can be no assurance that we would obtain such approval if sought. Largely as a result of this restriction, approximately \$1.9 billion of the member's capital was restricted from transfer via dividend to Tuebor's parent without prior approval of state insurance regulators at September 30, 2019. To facilitate intercompany cash funding of operations and investments, Tuebor and its parent maintain regulator-approved intercompany borrowing/lending agreements.

Effective February 19, 2016, the Federal Housing Finance Agency (the “FHFA”), regulator of the FHLB, adopted a final rule amending its regulation regarding the eligibility of captive insurance companies for FHLB membership. According to the final rule, Ladder’s captive insurance company subsidiary, Tuebor may remain as a member of the FHLB through February 19, 2021 (the “Transition Period”). During the Transition Period, Tuebor is eligible to continue to draw new additional advances, extend the maturities of existing advances, and pay off outstanding advances on the same terms as non-captive insurance company FHLB members with the following two exceptions:

1. New advances (including any existing advances that are extended during the Transition Period) will have maturity dates on or before February 19, 2021; and
2. The FHLB will make new advances to Tuebor subject to a requirement that Tuebor’s total outstanding advances do not exceed 40% of Tuebor’s total assets.

Tuebor has executed new advances since the effective date of the new rule in the ordinary course of business.

FHLB advances amounted to 22.1% of the Company’s outstanding debt obligations as of September 30, 2019. The Company does not anticipate that the FHFA’s final regulation will materially impact its operations as it will continue to access FHLB advances during the five-year Transition Period.

There is no assurance that the FHFA or the FHLB will not take actions that could adversely impact Tuebor’s membership in the FHLB and continuing access to new or existing advances prior to February 19, 2021.

### ***Senior Unsecured Notes***

LCFH issued the 2025 Notes, the 2022 Notes, the 2021 Notes and the 2017 Notes (each as defined below, and collectively, the “Notes”) with Ladder Capital Finance Corporation (“LCFC”), as co-issuers on a joint and several basis. LCFC is a 100% owned finance subsidiary of Series TRS of LCFH with no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the Notes. The Company and certain subsidiaries of LCFH currently guarantee the obligations under the Notes and the indenture. The Company is the general partner of LCFH and, through LCFH and its subsidiaries, operates the Ladder Capital business. As of September 30, 2019, the Company has a 89.8% economic and voting interest in LCFH and controls the management of LCFH as a result of its ability to appoint board members. Accordingly, the Company consolidates the financial results of LCFH and records noncontrolling interest for the economic interest in LCFH held by the Continuing LCFH Limited Partners. In addition, the Company, through certain subsidiaries which are treated as TRSs, is indirectly subject to U.S. federal, state and local income taxes. Other than the noncontrolling interest in the Operating Partnership and federal, state and local income taxes, there are no material differences between the Company’s consolidated financial statements and LCFH’s consolidated financial statements. The Company believes it was in compliance with all covenants of the Notes as of September 30, 2019 and December 31, 2018.

Unamortized debt issuance costs of \$9.1 million and \$11.2 million are included in senior unsecured notes as of September 30, 2019 and December 31, 2018, respectively, in accordance with GAAP.

### **2021 Notes**

On August 1, 2014, LCFH issued \$300.0 million in aggregate principal amount of 5.875% senior notes due August 1, 2021 (the “2021 Notes”). The 2021 Notes require interest payments semi-annually in cash in arrears on February 1 and August 1 of each year, beginning on February 1, 2015. The 2021 Notes will mature on August 1, 2021. The 2021 Notes are unsecured and are subject to incurrence-based covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type. At any time after August 1, 2017, the Company may redeem the 2021 Notes in whole or in part, upon not less than 30 nor more than 60 days’ notice, at redemption prices defined in the indenture governing the 2021 Notes, plus accrued and unpaid interest, if any, to the redemption date. On February 24, 2016, the board of directors authorized the Company to make up to \$100.0 million in repurchases of the 2021 Notes from time to time without further approval. On May 2, 2018, the board of the directors authorized the Company to repurchase any or all of the 2021 Notes from time to time without further approval.

During the year ended December 31, 2016, the Company retired \$33.8 million of principal of the 2021 Notes for a repurchase price of \$28.2 million, recognizing a \$5.1 million net gain on extinguishment of debt after recognizing \$(0.4) million of unamortized debt issuance costs associated with the retired debt. As of September 30, 2019, the remaining \$266.2 million in aggregate principal amount of the 2021 Notes is due August 1, 2021.

**2022 Notes**

On March 16, 2017, LCFH issued \$500.0 million in aggregate principal amount of 5.250% senior notes due March 15, 2022 (the “2022 Notes”). The 2022 Notes require interest payments semi-annually in cash in arrears on March 15 and September 15 of each year, beginning on September 15, 2017. The 2022 Notes will mature on March 15, 2022. The 2022 Notes are unsecured and are subject to an unencumbered assets to unsecured debt covenant. At any time on or after September 15, 2021, the 2022 Notes are redeemable at the option of the Company, in whole or in part, upon not less than 15 nor more than 60 days’ notice, without penalty. On May 2, 2018, the board of the directors authorized the Company to repurchase any or all of the 2022 Notes from time to time without further approval.

**2025 Notes**

On September 25, 2017, LCFH issued \$400.0 million in aggregate principal amount of 5.250% senior notes due October 1, 2025 (the “2025 Notes”). The 2025 Notes require interest payments semi-annually in cash in arrears on April 1 and October 1 of each year, beginning on April 1, 2018. The 2025 Notes will mature on October 1, 2025. The 2025 Notes are unsecured and are subject to an unencumbered assets to unsecured debt covenant. The Company may redeem the 2025 Notes, in whole, at any time, or from time to time, prior to their stated maturity. At any time after October 1, 2020, the Company may redeem the 2025 Notes in whole or in part, upon not less than 15 nor more than 60 days’ notice, at a redemption prices defined in the indenture governing the 2025 Notes, plus accrued and unpaid interest, if any, to the redemption date. On May 2, 2018, the board of the directors authorized the Company to repurchase any or all of the 2025 Notes from time to time without further approval.

**Combined Maturity of Debt Obligations**

The following schedule reflects the Company’s contractual payments under all borrowings by maturity (\$ in thousands):

| <b>Period ending December 31,</b>                       | <b>Borrowings by<br/>Maturity(1)</b> |
|---|--------------------------------------|
| 2019 (last 3 months)                                    | \$ 1,039,597                         |
| 2020  | 1,052,894                            |
| 2021  | 876,649                              |
| 2022  | 655,706                              |
| 2023  | 559,422                              |
| Thereafter  | 680,935                              |
| <b>Subtotal</b>   | <b>4,865,203</b>                     |
| Debt issuance costs included in senior unsecured notes  | (9,084)                              |
| Debt issuance costs included in CLO debt                | (394)                                |
| Debt issuance costs included in mortgage loan financing | (380)                                |
| Premiums included in mortgage loan financing(2)         | 5,342                                |
| <b>Total</b>  | <b>\$ 4,860,687</b>                  |

- (1) Contractual payments under current maturities, some of which are subject to extensions. The maturities listed above for 2019 relate to debt obligations that are subject to existing Company controlled extension options for one or more additional one year periods or could be refinanced by other existing facilities as of September 30, 2019.
- (2) Deferred gains on intercompany loans, secured by our own real estate, sold into securitizations. These premiums are amortized as a reduction to interest expense.

The Company’s debt facilities are subject to covenants which require the Company to maintain a minimum level of total equity. Largely as a result of this restriction, approximately \$829.3 million of the total equity is restricted from payment as a dividend by the Company at September 30, 2019.

## 8. DERIVATIVE INSTRUMENTS

The Company uses derivative instruments primarily to economically manage the fair value variability of fixed rate assets caused by interest rate fluctuations and overall portfolio market risk. The following is a breakdown of the derivatives outstanding as of September 30, 2019 and December 31, 2018 (\$ in thousands):

### September 30, 2019

| Contract Type                   | Notional          | Fair Value   |              | Remaining Maturity (years) |
|---------------------------------|-------------------|--------------|--------------|----------------------------|
|                                 |                   | Asset(1)     | Liability(1) |                            |
| <b>Caps</b>                     |                   |              |              |                            |
| 1 Month LIBOR                   | \$ 69,571         | \$ —         | \$ —         | 0.61                       |
| <b>Futures</b>                  |                   |              |              |                            |
| 5-year Swap                     | 49,200            | —            | 20           | 0.25                       |
| 10-year Swap                    | 149,500           | —            | 61           | 0.25                       |
| 5-year U.S. Treasury Note       | 2,200             | —            | 1            | 0.25                       |
| <b>Total futures</b>            | <b>200,900</b>    | <b>—</b>     | <b>82</b>    |                            |
| <b>Credit derivatives</b>       |                   |              |              |                            |
| S&P 500 Put Options             | 6,000             | 22           | —            | 0.30                       |
| <b>Total credit derivatives</b> | <b>6,000</b>      | <b>22</b>    | <b>—</b>     |                            |
| <b>Total derivatives</b>        | <b>\$ 276,471</b> | <b>\$ 22</b> | <b>\$ 82</b> |                            |

(1) Shown as derivative instruments, at fair value, in the accompanying consolidated balance sheets.

### December 31, 2018

| Contract Type             | Notional          | Fair Value  |               | Remaining Maturity (years) |
|---------------------------|-------------------|-------------|---------------|----------------------------|
|                           |                   | Asset(1)    | Liability(1)  |                            |
| <b>Caps</b>               |                   |             |               |                            |
| 1MO LIBOR                 | \$ 69,571         | \$ —        | \$ —          | 1.35                       |
| <b>Futures</b>            |                   |             |               |                            |
| 5-year Swap               | \$ 274,900        | \$ —        | \$ 526        | 0.25                       |
| 10-year Swap              | 227,700           | —           | 436           | 0.25                       |
| 5-year U.S. Treasury Note | 6,800             | —           | 13            | 0.25                       |
| <b>Total futures</b>      | <b>509,400</b>    | <b>—</b>    | <b>975</b>    |                            |
| <b>Total derivatives</b>  | <b>\$ 578,971</b> | <b>\$ —</b> | <b>\$ 975</b> |                            |

(1) Shown as derivative instruments, at fair value, in the accompanying consolidated balance sheets.

The following table indicates the net realized gains (losses) and unrealized appreciation (depreciation) on derivatives, by primary underlying risk exposure, as included in net result from derivatives transactions in the consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018 (\$ in thousands):

| Contract Type      | Three Months Ended September 30, 2019 |                      |   | Nine Months Ended September 30, 2019 |                      |   |
|--------------------|---------------------------------------|----------------------|---|--------------------------------------|----------------------|---|
|                    | Unrealized Gain/(Loss)                | Realized Gain/(Loss) | Net Result from Derivative Transactions | Unrealized Gain/(Loss)               | Realized Gain/(Loss) | Net Result from Derivative Transactions |
| Futures            | \$ (618)                              | \$ (8,868)           | \$ (9,486)                              | \$ 892                               | \$ (36,761)          | \$ (35,869)                             |
| Credit Derivatives | (3)                                   | 24                   | 21                                      | (3)                                  | (84)                 | (87)                                    |
| <b>Total</b>       | <b>\$ (621)</b>                       | <b>\$ (8,844)</b>    | <b>\$ (9,465)</b>                       | <b>\$ 889</b>                        | <b>\$ (36,845)</b>   | <b>\$ (35,956)</b>                      |

| Contract Type      | Three Months Ended September 30, 2018 |                      |   | Nine Months Ended September 30, 2018 |                      |   |
|--------------------|---------------------------------------|----------------------|---|--------------------------------------|----------------------|---|
|                    | Unrealized Gain/(Loss)                | Realized Gain/(Loss) | Net Result from Derivative Transactions | Unrealized Gain/(Loss)               | Realized Gain/(Loss) | Net Result from Derivative Transactions |
| Futures            | \$ (940)                              | \$ 8,099             | \$ 7,159                                | \$ (52)                              | \$ 28,985            | \$ 28,933                               |
| Swaps              | —                                     | —                    | —                                       | 1,403                                | (848)                | 555                                     |
| Credit Derivatives | (44)                                  | —                    | (44)                                    | 5                                    | (337)                | (332)                                   |
| <b>Total</b>       | <b>\$ (984)</b>                       | <b>\$ 8,099</b>      | <b>\$ 7,115</b>                         | <b>\$ 1,356</b>                      | <b>\$ 27,800</b>     | <b>\$ 29,156</b>                        |

The Company's counterparties held \$4.2 million and \$5.0 million of cash margin as collateral for derivatives as of September 30, 2019 and December 31, 2018, respectively, which is included in restricted cash in the consolidated balance sheets.

#### **Futures**

Collateral posted with our futures counterparties is segregated in the Company's books and records. Interest rate futures are centrally cleared by the Chicago Mercantile Exchange ("CME") through a Futures Commission Merchant. Interest rate futures that are governed by an ISDA agreement provide for bilateral collateral pledging based on the counterparties' market value. The counterparties have the right to re-pledge the collateral posted but have the obligation to return the pledged collateral, or substantially the same collateral, if agreed to by us, as the market value of the interest rate futures change.

The Company is required to post initial margin and daily variation margin for our interest rate futures that are centrally cleared by CME. CME determines the fair value of our centrally cleared futures, including daily variation margin. Effective January 3, 2017, CME amended their rulebooks to legally characterize daily variation margin payments for centrally cleared interest rate futures as settlement rather than collateral. As a result of this rule change, variation margin pledged on the Company's centrally cleared interest rate futures is settled against the realized results of these futures.

#### **Credit Risk-Related Contingent Features**

The Company has agreements with certain of its derivative counterparties that contain a provision whereby, if the Company defaults on certain of its indebtedness, the Company could also be declared in default on its derivatives, resulting in an acceleration of payment under the derivatives. As of September 30, 2019 and December 31, 2018, the Company was in compliance with these requirements and not in default on its indebtedness. As of September 30, 2019 and December 31, 2018, there was no cash collateral held by the derivative counterparties for these derivatives, included in restricted cash in the consolidated statements of financial condition. No additional cash would be required to be posted if the acceleration of payment under the derivatives was triggered.

**9. OFFSETTING ASSETS AND LIABILITIES**

The following tables present both gross information and net information about derivatives and other instruments eligible for offset in the statement of financial position as of September 30, 2019 and December 31, 2018. The Company's accounting policy is to record derivative asset and liability positions on a gross basis, therefore, the following tables present the gross derivative asset and liability positions recorded on the balance sheets, while also disclosing the eligible amounts of financial instruments and cash collateral to the extent those amounts could offset the gross amount of derivative asset and liability positions. The actual amounts of collateral posted by or received from counterparties may be in excess of the amounts disclosed in the following tables as the following only disclose amounts eligible to be offset to the extent of the recorded gross derivative positions.

**As of September 30, 2019**

**Offsetting of Financial Assets and Derivative Assets**

(\$ in thousands)

| Description  | Gross amounts of recognized assets | Gross amounts offset in the balance sheet | Net amounts of assets presented in the balance sheet | Gross amounts not offset in the balance sheet |                                      | Net amount   |
|--------------|------------------------------------|---|--|---|--------------------------------------|--------------|
|              |                                    |   |  | Financial instruments                         | Cash collateral received/(posted)(1) |              |
| Derivatives  | \$ 22                              | \$ —                                      | \$ 22  | \$ —  | \$ —                                 | \$ 22        |
| <b>Total</b> | <b>\$ 22</b>                       | <b>\$ —</b>                               | <b>\$ 22</b>   | <b>\$ —</b>                                   | <b>\$ —</b>                          | <b>\$ 22</b> |

(1) Included in restricted cash on consolidated balance sheets.

**As of September 30, 2019**

**Offsetting of Financial Liabilities and Derivative Liabilities**

(\$ in thousands)

| Description           | Gross amounts of recognized liabilities | Gross amounts offset in the balance sheet | Net amounts of liabilities presented in the balance sheet | Gross amounts not offset in the balance sheet |                                      | Net amount  |
|-----------------------|---|---|---|---|--------------------------------------|-------------|
|                       |   |   |   | Financial instruments collateral              | Cash collateral posted/(received)(1) |             |
| Derivatives           | \$ 82                                   | \$ —                                      | \$ 82   | \$ —  | \$ 82                                | \$ —        |
| Repurchase agreements | \$ 1,786,048                            | \$ —                                      | \$ 1,786,048  | \$ 1,786,048                                  | \$ —                                 | \$ —        |
| <b>Total</b>          | <b>\$ 1,786,130</b>                     | <b>\$ —</b>                               | <b>\$ 1,786,130</b>                                       | <b>\$ 1,786,048</b>                           | <b>\$ 82</b>                         | <b>\$ —</b> |

(1) Included in restricted cash on consolidated balance sheets.

**As of December 31, 2018**  
**Offsetting of Financial Liabilities and Derivative Liabilities**  
(\$ in thousands)

| Description           | Gross amounts of recognized liabilities | Gross amounts offset in the balance sheet | Net amounts of liabilities presented in the balance sheet | Gross amounts not offset in the balance sheet |                                   | Net amount  |
|-----------------------|---|---|---|---|-----------------------------------|-------------|
|                       |   |   |   | Financial instruments collateral              | Cash collateral posted/(received) |             |
| Derivatives           | \$ 975                                  | \$ —                                      | \$ 975  | \$ —  | \$ 975                            | \$ —        |
| Repurchase agreements | 663,685                                 | —   | 663,685   | 663,685                                       | —                                 | —           |
| <b>Total</b>          | <b>\$ 664,660</b>                       | <b>\$ —</b>                               | <b>\$ 664,660</b>   | <b>\$ 663,685</b>                             | <b>\$ 975</b>                     | <b>\$ —</b> |

(1) Included in restricted cash on consolidated balance sheets.

Master netting agreements that the Company has entered into with its derivative and repurchase agreement counterparties allow for netting of the same transaction, in the same currency, on the same date. Assets, liabilities, and collateral subject to master netting agreements as of September 30, 2019 and December 31, 2018 are disclosed in the tables above. The Company does not present its derivative and repurchase agreements net on the consolidated financial statements as it has elected gross presentation.

**10. CONSOLIDATED VARIABLE INTEREST ENTITIES**

FASB ASC *Topic 810 — Consolidation* (“ASC 810”), provides guidance on the identification of entities for which control is achieved through means other than voting rights (“variable interest entities” or “VIEs”) and the determination of which business enterprise, if any, should consolidate the VIEs. Generally, the consideration of whether an entity is a VIE applies when either: (1) the equity investors (if any) lack one or more of the essential characteristics of a controlling financial interest; (2) the equity investment at risk is insufficient to finance that entity’s activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The Company consolidates VIEs in which it is considered to be the primary beneficiary. The primary beneficiary is the entity that has both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the VIE’s performance; and (2) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. The Operating Partnership is a VIE and as such, substantially all of the consolidated balance sheet is a consolidated VIE. In addition, the Operating Partnership consolidates two collateralized loan obligation (“CLO”) VIEs with the following aggregate balance sheets (\$ in thousands):

|   | <b>September 30, 2019</b> | <b>December 31, 2018</b> |
|---|---------------------------|--------------------------|
|   | Notes 3 & 7               | Notes 3 & 7              |
| Mortgage loan receivables held for investment, net, at amortized cost | \$ 274,149                | \$ 710,502               |
| Accrued interest receivable   | 1,363                     | 3,921                    |
| Other assets(1)   | —                         | 81,390                   |
| <b>Total assets</b>   | <b>\$ 275,512</b>         | <b>\$ 795,813</b>        |
| Senior and unsecured debt obligations                                 | \$ 117,760                | \$ 607,440               |
| Accrued expenses  | 306                       | 1,471                    |
| Other liabilities   | 2                         | 2                        |
| <b>Total liabilities</b>  | <b>118,068</b>            | <b>608,913</b>           |
| Net equity in VIEs (eliminated in consolidation)                      | 157,444                   | 186,900                  |
| <b>Total equity</b>   | <b>157,444</b>            | <b>186,900</b>           |
| <b>Total liabilities and equity</b>                                   | <b>\$ 275,512</b>         | <b>\$ 795,813</b>        |

(1) Primarily consists of loan repayments in transit as of December 31, 2018.

## 11. EQUITY STRUCTURE AND ACCOUNTS

The Company has two classes of common stock, Class A and Class B, which are described as follows:

### **Class A Common Stock**

#### *Voting Rights*

Holders of shares of Class A common stock are entitled to one vote per share on all matters to be voted upon by the shareholders. The holders of Class A common stock do not have cumulative voting rights in the election of directors.

#### *Dividend Rights*

Subject to the rights of the holders of any preferred stock that may be outstanding and any contractual or statutory restrictions, holders of Class A common stock are entitled to receive equally and ratably, share for share, dividends as may be declared by the board of directors out of funds legally available to pay dividends. Dividends upon Class A common stock may be declared by the board of directors at any regular or special meeting and may be paid in cash, in property, or in shares of capital stock. Before payment of any dividend, there may be set aside out of any funds available for dividends, such sums as the board of directors deems proper as reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any of the Company's property, or for any proper purpose, and the board of directors may modify or abolish any such reserve.

#### *Liquidation Rights*

Upon liquidation, dissolution, distribution of assets or other winding up, the holders of Class A common stock are entitled to receive ratably the assets available for distribution to the shareholders after payment of liabilities and the liquidation preference of any outstanding shares of preferred stock.

#### *Other Matters*

The shares of Class A common stock have no preemptive or conversion rights and are not subject to further calls or assessment by the Company. There are no redemption or sinking fund provisions applicable to the Class A common stock. All outstanding shares of Class A common stock are fully paid and non-assessable.

#### *Allocation of Income and Loss*

Income and losses are allocated among the shareholders based upon the number of shares outstanding.

### **Class B Common Stock**

#### *Voting Rights*

Holders of shares of Class B common stock are entitled to one vote for each share held of record by such holder and all matters submitted to a vote of shareholders. Holders of shares of our Class A common stock and Class B common stock vote together as a single class on all matters presented to our shareholders for their vote or approval, except as otherwise required by applicable law.

#### *No Dividend or Liquidation Rights*

Holders of Class B common stock do not have any right to receive dividends or to receive a distribution upon a liquidation or winding up of Ladder Capital Corp.

#### *Exchange for Class A Common Stock*

Pursuant to the Third Amended and Restated LLLP Agreement of LCFH, the Continuing LCFH Limited Partners may from time to time, subject to certain conditions, receive one share of the Company's Class A common stock in exchange for (i) one share of the Company's Class B common stock, (ii) one Series REIT LP Unit and (iii) either one Series TRS LP Unit or one TRS Share, subject to equitable adjustments for stock splits, stock dividends and reclassifications.

During the nine months ended September 30, 2019, 1,140,000 Series REIT LP Units and 1,140,000 Series TRS LP Units were collectively exchanged for 1,140,000 shares of Class A common stock and 1,140,000 shares of Class B common stock were canceled. We received no other consideration in connection with these exchanges.

During the nine months ended September 30, 2018, 4,549,832 Series REIT LP Units and 4,549,832 Series TRS LP Units were collectively exchanged for 4,549,832 shares of Class A common stock; and 4,549,832 shares of Class B common stock were canceled. We received no other consideration in connection with these exchanges.

### Stock Repurchases

On October 30, 2014, the board of directors authorized the Company to repurchase up to \$50.0 million of the Company's Class A common stock from time to time without further approval. Stock repurchases by the Company are generally made for cash in open market transactions at prevailing market prices but may also be made in privately negotiated transactions or otherwise. The timing and amount of purchases are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. During the nine months ended September 30, 2019, the Company repurchased 40,065 shares of Class A common stock. As of September 30, 2019, the Company has a remaining amount available for repurchase of \$41.1 million, which represents 2.2% in the aggregate of its outstanding Class A common stock, based on the closing price of \$17.27 per share on such date.

The following table is a summary of the Company's repurchase activity of its Class A common stock during the nine months ended September 30, 2019 and 2018 (\$ in thousands):

|  | <u>Shares</u> | <u>Amount(1)</u> |
|--|---------------|------------------|
| Authorizations remaining as of December 31, 2018         |               | \$ 41,769        |
| Additional authorizations                                |               | —                |
| Repurchases paid   | 40,065        | (637)            |
| Repurchases unsettled                                    |               | —                |
| <b>Authorizations remaining as of September 30, 2019</b> |               | <b>\$ 41,132</b> |

(1) Amount excludes commissions paid associated with share repurchases.

|  | <u>Shares</u> | <u>Amount(1)</u> |
|--|---------------|------------------|
| Authorizations remaining as of December 31, 2017         |               | \$ 41,769        |
| Additional authorizations                                |               | —                |
| Repurchases paid   | —             | —                |
| Repurchases unsettled                                    |               | —                |
| <b>Authorizations remaining as of September 30, 2018</b> |               | <b>\$ 41,769</b> |

(1) Amount excludes commissions paid associated with share repurchases.

### Dividends

In order for the Company to maintain its qualification as a REIT under the Code, it must annually distribute at least 90% of its taxable income. The Company has paid and in the future intends to declare regular quarterly distributions to its shareholders in an amount approximating the REIT's net taxable income.

Consistent with IRS guidance, the Company may, subject to a cash/stock election by its shareholders, pay a portion of its dividends in stock, to provide for meaningful capital retention; however, the REIT distribution requirements limit its ability to retain earnings and thereby replenish or increase capital for operations. The timing and amount of future distributions is based on a number of factors, including, among other things, the Company's future operations and earnings, capital requirements and surplus, general financial condition and contractual restrictions. All dividend declarations are subject to the approval of the Company's board of directors. Generally, the Company expects its distributions to be taxable as ordinary dividends to its shareholders, whether paid in cash or a combination of cash and common stock, and not as a tax-free return of capital or a capital gain (although for taxable years beginning after December 31, 2017 and before January 1, 2026, generally stockholders that are individuals, trusts or estates may deduct 20% of the aggregate amount of ordinary dividends distributed by us, subject to certain limitations). The Company believes that its significant capital resources and access to financing will provide the financial flexibility at levels sufficient to meet current and anticipated capital requirements, including funding new investment opportunities, paying distributions to its shareholders and servicing our debt obligations.

The following table presents dividends declared (on a per share basis) of Class A common stock for the nine months ended September 30, 2019 and 2018:

| Declaration Date  | Dividend per Share |
|-------------------|--------------------|
| February 27, 2019 | \$ 0.340           |
| May 30, 2019      | 0.340              |
| August 22, 2019   | 0.340              |
| <b>Total</b>      | <b>\$ 1.020</b>    |
| February 27, 2018 | \$ 0.315           |
| May 30, 2018      | 0.325              |
| September 5, 2018 | 0.325              |
| <b>Total</b>      | <b>\$ 0.965</b>    |

#### Changes in Accumulated Other Comprehensive Income

The following table presents changes in accumulated other comprehensive income related to the cumulative difference between the fair market value and the amortized cost basis of securities classified as available for sale for the nine months ended September 30, 2019 and 2018 (\$ in thousands):

|   | Accumulated Other<br>Comprehensive Income<br>(Loss) | Accumulated Other<br>Comprehensive Income<br>(Loss) of Noncontrolling<br>Interests | Total Accumulated<br>Other Comprehensive<br>Income (Loss) |
|---|---|--|---|
| <b>December 31, 2018</b>  | <b>\$ (4,649)</b>                                   | <b>\$ (588)</b>  | <b>\$ (5,237)</b>   |
| Other comprehensive income (loss)   | 14,935  | 1,840  | 16,775  |
| Exchange of noncontrolling interest for common stock                          | 64  | (64)   | —   |
| Rebalancing of ownership percentage between Company and Operating Partnership | 17  | (17)   | —   |
| <b>September 30, 2019</b>   | <b>\$ 10,367</b>                                    | <b>\$ 1,171</b>  | <b>\$ 11,538</b>  |

|   | Accumulated Other<br>Comprehensive Income<br>(Loss) | Accumulated Other<br>Comprehensive Income<br>(Loss) of Noncontrolling<br>Interests | Total Accumulated<br>Other Comprehensive<br>Income (Loss) |
|---|---|--|---|
| <b>December 31, 2017</b>  | <b>\$ (212)</b>                                     | <b>\$ 116</b>  | <b>\$ (96)</b>  |
| Other comprehensive income (loss)   | (8,230)   | (1,428)  | (9,658)   |
| Exchange of noncontrolling interest for common stock                          | (167)   | 167  | —   |
| Rebalancing of ownership percentage between Company and Operating Partnership | 27  | (27)   | —   |
| <b>September 30, 2018</b>   | <b>\$ (8,582)</b>                                   | <b>\$ (1,172)</b>  | <b>\$ (9,754)</b>   |

## 12. NONCONTROLLING INTERESTS

There are two main types of noncontrolling interest reflected in the Company's consolidated financial statements (i) noncontrolling interest in the operating partnership and (ii) noncontrolling interest in consolidated joint ventures.

### *Noncontrolling Interest in the Operating Partnership*

As more fully described in Note 1, certain of the predecessor equity owners continue to own interests in the Operating Partnership as modified by the IPO Transactions. These interests were subsequently further modified by the REIT Structuring Transactions (also described in Note 1). These interests, along with the Class B shares held by these investors, are exchangeable for Class A shares of the Company. The roll-forward of the Operating Partnership's LP Units follow the Class B common stock of the Company as disclosed in the consolidated statements of changes in equity.

Pursuant to ASC 810, *Consolidation*, on the accounting and reporting for noncontrolling interests and changes in ownership interests of a subsidiary, changes in a parent's ownership interest (and transactions with noncontrolling interest unitholders in the subsidiary), while the parent retains its controlling interest in its subsidiary, should be accounted for as equity transactions. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary, with the offset to equity attributable to the parent. Accordingly, as a result of Continuing LCFH Limited Partners exchanges which caused changes in ownership percentages between the Company's Class A shareholders and the noncontrolling interests in the Operating Partnership that occurred during the nine months ended September 30, 2019, the Company has increased noncontrolling interests in the Operating Partnership and decreased additional paid-in capital and accumulated other comprehensive income in the Company's shareholders' equity by \$0.1 million as of September 30, 2019.

### **Distributions to Noncontrolling Interest in the Operating Partnership**

Notwithstanding the foregoing, subject to any restrictions in applicable debt financing agreements and available liquidity as determined by the board of directors of each of Series REIT of LCFH and Series TRS of LCFH, each Series must use commercially reasonable efforts to make quarterly distributions to each of its partners (including the Company) at least equal to such partner's "Quarterly Estimated Tax Amount," which shall be computed (as more fully described in LCFH's Third Amended and Restated LLLP Agreement) for each partner as the product of (x) the U.S. federal taxable income (or alternative minimum taxable income, if higher) allocated by such Series to such partner in respect of the Series REIT LP Units and Series TRS LP Units held by such partner and (y) the highest marginal blended U.S. federal, state and local income tax rate (or alternative minimum taxable rate, as applicable) applicable to an individual residing in New York, NY, taking into account, for U.S. federal income tax purposes, the deductibility of state and local taxes; provided that Series TRS of LCFH may take into account, in determining the amount of tax distributions to holders of Series TRS LP Units, the amount of any distributions each such holder received from Series REIT of LCFH in excess of tax distributions. In addition, to the extent the Company requires an additional distribution from the Series of LCFH in excess of its quarterly tax distribution in order to pay its quarterly cash dividend, the Series of LCFH will be required to make a corresponding distribution of cash to each of their partners (other than the Company) on a pro-rata basis.

**Allocation of Income and Loss**

Income and losses and comprehensive income are allocated among the partners in a manner to reflect as closely as possible the amount each partner would be distributed under the Third Amended and Restated LLLP Agreement of LCFH upon liquidation of the Operating Partnership's assets.

*Noncontrolling Interest in Consolidated Joint Ventures*

As of September 30, 2019, the Company consolidates seven ventures in which there are other noncontrolling investors, which own between 1.2% - 29.4% of such ventures. These ventures hold investments in a 40 property student housing portfolio, 20 office buildings, one industrial property, one condominium complex and one apartment complex. The Company makes distributions and allocates income from these ventures to the noncontrolling interests in accordance with the terms of the respective governing agreements.

**13. EARNINGS PER SHARE**

The Company's net income (loss) and weighted average shares outstanding for the three and nine months ended September 30, 2019 and 2018 consist of the following:

| (\$ in thousands except share amounts)                              | Three Months Ended September 30, |             | Nine Months Ended September 30, |             |
|---|----------------------------------|-------------|---------------------------------|-------------|
|   | 2019                             | 2018        | 2019                            | 2018        |
| Basic Net income (loss) available for Class A common shareholders   | \$ 27,576                        | \$ 66,630   | \$ 81,996                       | \$ 155,911  |
| Diluted Net income (loss) available for Class A common shareholders | \$ 27,576                        | \$ 74,038   | \$ 81,996                       | \$ 177,875  |
| Weighted average shares outstanding                                 |                                  |             |                                 |             |
| Basic   | 106,004,152                      | 96,935,986  | 105,264,752                     | 96,317,513  |
| Diluted   | 106,603,713                      | 110,650,253 | 106,232,581                     | 110,482,991 |

The calculation of basic and diluted net income (loss) per share amounts for the three and nine months ended September 30, 2019 and 2018 are described and presented below.

***Basic Net Income (Loss) per Share***

*Numerator:* utilizes net income (loss) available for Class A common shareholders for the three and nine months ended September 30, 2019 and 2018, respectively.

*Denominator:* utilizes the weighted average shares of Class A common stock for the three and nine months ended September 30, 2019 and 2018, respectively.

***Diluted Net Income (Loss) per Share***

*Numerator:* utilizes net income (loss) available for Class A common shareholders for the three and nine months ended September 30, 2019 and 2018, respectively, for the basic net income (loss) per share calculation described above, adding net income (loss) amounts attributable to the noncontrolling interest in the Operating Partnership using the as-if converted method for the Class B common shareholders while adjusting for additional corporate income tax expense (benefit) for the described net income (loss) add-back.

*Denominator:* utilizes the weighted average number of shares of Class A common stock for the three and nine months ended September 30, 2019 and 2018, respectively, for the basic net income (loss) per share calculation described above adding the dilutive effect of shares issuable relating to Operating Partnership exchangeable interests and the incremental shares of unvested Class A restricted stock using the treasury method.

| (In thousands except share amounts)                                   | Three Months Ended September 30, |                | Nine Months Ended September 30, |                |
|---|----------------------------------|----------------|---------------------------------|----------------|
|   | 2019                             | 2018           | 2019                            | 2018           |
| <b>Basic Net Income (Loss) Per Share of Class A Common Stock</b>      |                                  |                |                                 |                |
| Numerator:  |                                  |                |                                 |                |
| Net income (loss) attributable to Class A common shareholders         | \$ 27,576                        | \$ 66,630      | \$ 81,996                       | \$ 155,911     |
| Denominator:  |                                  |                |                                 |                |
| Weighted average number of shares of Class A common stock outstanding | 106,004,152                      | 96,935,986     | 105,264,752                     | 96,317,513     |
| Basic net income (loss) per share of Class A common stock             | <u>\$ 0.26</u>                   | <u>\$ 0.69</u> | <u>\$ 0.78</u>                  | <u>\$ 1.62</u> |

|  |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|
| <b>Diluted Net Income (Loss) Per Share of Class A Common Stock</b>                             |                    |                    |                    |                    |
| Numerator:   |                    |                    |                    |                    |
| Net income (loss) attributable to Class A common shareholders                                  | \$ 27,576          | \$ 66,630          | \$ 81,996          | \$ 155,911         |
| Add (deduct) - dilutive effect of:   |                    |                    |                    |                    |
| Amounts attributable to operating partnership's share of Ladder Capital Corp net income (loss) | —                  | 8,991              | —                  | 22,786             |
| Additional corporate tax (expense) benefit   | —                  | (1,583)            | —                  | (822)              |
| Diluted net income (loss) attributable to Class A common shareholders                          | <u>27,576</u>      | <u>74,038</u>      | <u>81,996</u>      | <u>177,875</u>     |
| Denominator:   |                    |                    |                    |                    |
| Basic weighted average number of shares of Class A common stock outstanding                    | 106,004,152        | 96,935,986         | 105,264,752        | 96,317,513         |
| Add - dilutive effect of:  |                    |                    |                    |                    |
| Shares issuable relating to converted Class B common shareholders                              | —                  | 13,202,202         | —                  | 13,800,597         |
| Incremental shares of unvested Class A restricted stock  | 599,561            | 512,065            | 967,829            | 364,881            |
| Diluted weighted average number of shares of Class A common stock outstanding                  | <u>106,603,713</u> | <u>110,650,253</u> | <u>106,232,581</u> | <u>110,482,991</u> |
| Diluted net income (loss) per share of Class A common stock                                    | <u>\$ 0.26</u>     | <u>\$ 0.67</u>     | <u>\$ 0.77</u>     | <u>\$ 1.61</u>     |

- (1) For three and nine months ended September 30, 2019, shares issuable relating to converted Class B common shareholders are excluded from the calculation of diluted EPS as the inclusion of such potential common shares in the calculation would be anti-dilutive.

The shares of Class B common stock do not share in the earnings of Ladder Capital Corp and are, therefore, not participating securities. Accordingly, basic and diluted net income (loss) per share of Class B common stock has not been presented, although the assumed conversion of Class B common stock has been included in the presented diluted net income (loss) per share of Class A common stock.

#### 14. STOCK BASED AND OTHER COMPENSATION PLANS

The following table summarizes the impact on the consolidated statement of operations of the various stock based compensation plans described in this note (\$ in thousands):

|   | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                  |
|---|----------------------------------|-----------------|---------------------------------|------------------|
|   | 2019                             | 2018            | 2019                            | 2018             |
| <b>Stock Based Compensation Expense:</b>                                    |                                  |                 |                                 |                  |
| Annual Incentive Awards Granted in 2015 with Respect to 2014 Performance    | \$ —                             | \$ —            | \$ —                            | \$ 172           |
| Annual Incentive Awards Granted in 2016 with Respect to 2015 Performance    | —                                | 323             | 131                             | 971              |
| Annual Incentive Awards Granted in 2017 with Respect to 2016 Performance(1) | 280                              | 524             | 955                             | 1,655            |
| Other 2017 Restricted Stock Awards(1)                                       | 25                               | 76              | 102                             | 257              |
| Annual Incentive Awards Granted in 2017 with Respect to 2017 Performance(1) | 596                              | 1,122           | 1,961                           | 3,325            |
| 2018 Restricted Stock Awards  | —                                | 95              | 32                              | 230              |
| Other 2018 Restricted Stock Awards(1)                                       | 11                               | 9               | 31                              | 12               |
| Annual Incentive Awards Granted in 2019 with Respect to 2018 Performance(1) | 2,509                            | —               | 14,804                          | —                |
| 2019 Restricted Stock Awards  | 148                              | —               | 297                             | —                |
| Other Employee/Director Awards  | 6                                | 13              | 23                              | 45               |
| <b>Total Stock Based Compensation Expense</b>                               | <b>\$ 3,575</b>                  | <b>\$ 2,162</b> | <b>\$ 18,336</b>                | <b>\$ 6,667</b>  |
| <b>Phantom Equity Investment Plan</b>                                       | <b>\$ 343</b>                    | <b>\$ —</b>     | <b>\$ 1,047</b>                 | <b>\$ —</b>      |
| <b>Ladder Capital Corp Deferred Compensation Plan</b>                       | <b>\$ —</b>                      | <b>\$ 601</b>   | <b>\$ —</b>                     | <b>\$ 1,519</b>  |
| <b>Bonus Expense</b>  | <b>\$ 6,533</b>                  | <b>\$ 9,210</b> | <b>\$ 21,035</b>                | <b>\$ 26,772</b> |

(1) Includes immediate vesting of retirement eligible employees, including Brian Harris, our Chief Executive Officer.

#### Summary of Restricted Stock and Stock and Shares/Options Nonvested/Outstanding

A summary of the grants is presented below:

|   | Three Months Ended September 30, |                                       |                  |                                       | Nine Months Ended September 30, |                                       |                          |                                       |
|---|----------------------------------|---------------------------------------|------------------|---------------------------------------|---------------------------------|---------------------------------------|--------------------------|---------------------------------------|
|   | 2019                             |                                       | 2018             |                                       | 2019                            |                                       | 2018                     |                                       |
|   | Number of Shares/Options         | Weighted Average Fair Value Per Share | Number of Shares | Weighted Average Fair Value Per Share | Number of Shares/Options        | Weighted Average Fair Value Per Share | Number of Shares/Options | Weighted Average Fair Value Per Share |
| <b>Grants - Class A Common Stock (restricted)</b>           | 23,443                           | \$ 16.58                              | 4,720            | \$ 15.89                              | 1,569,694                       | \$ 17.54                              | 33,656                   | \$ 14.86                              |
| <b>Grants - Class A Common Stock (restricted) dividends</b> | —                                | —                                     | —                | —                                     | 11,113                          | 16.61                                 | —                        | —                                     |
| <b>Stock Options</b>  | —                                | —                                     | —                | —                                     | 12,073                          | —                                     | —                        | —                                     |

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The table below presents the number of unvested shares and outstanding stock options at September 30, 2019 and changes during 2019 of the Class A Common stock and Stock Options of Ladder Capital Corp granted under the 2014 Omnibus Incentive Plan:

|  | <u>Restricted Stock</u> | <u>Stock Options</u> |
|--|-------------------------|----------------------|
| <b>Nonvested/Outstanding at December 31, 2018</b>  | <b>1,118,194</b>        | <b>982,135</b>       |
| Granted  | 1,580,807               | 12,073               |
| Exercised  |                         | —                    |
| Vested   | (1,122,107)             |                      |
| Forfeited  | (8,702)                 | —                    |
| Expired  |                         | —                    |
| <b>Nonvested/Outstanding at September 30, 2019</b> | <b>1,568,192</b>        | <b>994,208</b>       |
| <b>Exercisable at September 30, 2019</b>           |                         | <b>994,208</b>       |

At September 30, 2019 there was \$14.8 million of total unrecognized compensation cost related to certain share-based compensation awards that is expected to be recognized over a period of up to 34 months, with a weighted-average remaining vesting period of 25.8 months.

The table below presents the number of unvested shares and outstanding stock options at September 30, 2018 and changes during 2018 of the Class A Common stock and Stock Options of Ladder Capital Corp granted under the 2014 Omnibus Incentive Plan:

|  | <u>Restricted Stock</u> | <u>Stock Options</u> |
|--|-------------------------|----------------------|
| <b>Nonvested/Outstanding at December 31, 2017</b>  | <b>1,252,365</b>        | <b>982,135</b>       |
| Granted  | 33,656                  | —                    |
| Exercised  |                         | —                    |
| Vested   | (138,216)               |                      |
| Forfeited  | (26,061)                | —                    |
| Expired  |                         | —                    |
| <b>Nonvested/Outstanding at September 30, 2018</b> | <b>1,121,744</b>        | <b>982,135</b>       |
| <b>Exercisable at September 30, 2018</b>           |                         | <b>929,701</b>       |

As of September 30, 2018 there was \$8.0 million of total unrecognized compensation cost related to certain share-based compensation awards that is expected to be recognized over a period of up to 34 months, with a weighted-average remaining vesting period of 21.2 months.

#### 2014 Omnibus Incentive Plan

In connection with the IPO Transactions, the 2014 Ladder Capital Corp Omnibus Incentive Equity Plan (the “2014 Omnibus Incentive Plan”) was adopted by the board of directors on February 11, 2014, and provides certain members of management, employees and directors of the Company or its affiliates with additional incentives including grants of stock options, stock appreciation rights, restricted stock, other stock-based awards and other cash-based awards.

*Annual Incentive Awards Granted in 2017 with Respect to 2016 Performance*

For 2016 performance, management received stock-based incentive equity (the “Annual Restricted Stock Awards”). On February 18, 2017, Annual Restricted Stock Awards were granted to Management Grantees with an aggregate value of \$10.2 million which represents 736,461 shares of restricted Class A common stock in connection with 2016 compensation. In accordance with the Harris Employment Agreement, Mr. Harris’ annual awards were fully vested at grant. For other Management Grantees, 50% of each restricted stock award granted is subject to time-based vesting criteria, and the remaining 50% of each restricted stock award is subject to attainment of the Performance Target for the applicable years. The time-vesting restricted stock will vest in three installments on each of the first three anniversaries of the date of grant, subject to continued employment on the applicable vesting dates and subject to the applicable Retirement Eligibility Date. The performance-vesting restricted stock will vest in three equal installments upon the compensation committee’s confirmation that the Company achieves a return on equity, based on core earnings divided by the Company’s average book value of equity, equal to or greater than 8% for such year (the “Performance Target”) for those years. If the Company misses the Performance Target during either the first or second calendar year but meets the Performance Target for a subsequent year during the 3 year performance period and the Company’s return on equity for such subsequent year and any years for which it missed its Performance Target equals or exceeds the compounded return on equity of 8%, based on core earnings divided by the Company’s average book value of equity, the performance-vesting restricted stock which failed to vest because the Company previously missed its Performance Target will vest on the last day of such subsequent year (the “Catch-Up Provision”). If the term “core earnings” is no longer used in the Company’s SEC filings and approved by the compensation committee, then the Performance Target will be calculated using such other pre-tax performance measurement defined in the Company’s SEC filings, as determined by the compensation committee. The Company met the Performance Target for the years ended December 31, 2018 and 2017.

The Company has elected to recognize the compensation expense related to the time-based vesting of the Annual Restricted Stock Awards for the entire award on a straight-line basis over the requisite service period for the entire award. As such, the compensation expense related to the February 18, 2017 Annual Restricted Stock Awards to Management Grantees shall be recognized as follows:

1. Compensation expense for stock granted to Brian Harris will be expensed immediately in accordance with the Harris Retirement Eligibility Date.
2. Compensation expense for restricted stock subject to time-based vesting criteria granted to Pamela McCormack will be expensed 1/3 each year, for three years, on an annual basis in advance of the McCormack Retirement Eligibility Date.
3. Compensation expense for restricted stock subject to time-based vesting criteria granted to Michael Mazzei will be expensed 1/3 each year, for three years, on an annual basis.
4. Compensation expense for restricted stock subject to time-based vesting criteria granted to the Management Grantees other than Mr. Harris, Ms. McCormack and Mr. Mazzei will be expensed 1/3 each year, for three years, on an annual basis in advance of the Executive Retirement Eligibility Date.

Accruals of compensation cost for an award with a performance condition is accrued if it is probable that the performance condition will be achieved and shall not be accrued if it is not probable that the performance condition will be achieved.

Upon a change in control (as defined in the respective award agreements), all restricted stock and option awards will become fully vested, if (1) the Management Grantee continues to be employed through the closing of the change in control or (2) after the signing of definitive documentation related to the change in control, but prior to its closing, the Management Grantee’s employment is terminated without cause or due to death or disability or the Management Grantee resigns for Good Reason. The compensation committee retains the right, in its sole discretion, to provide for the accelerated vesting (in whole or in part) of the restricted stock and option awards granted.

On February 11, 2017 (the “Harris Retirement Eligibility Date”), all outstanding Annual Restricted Stock Awards, including the time-vesting portion and the performance-vesting portion, and all outstanding Annual Option Awards granted to Mr. Harris became fully vested, and any Annual Restricted Stock Awards and Annual Option Awards granted after the Harris Retirement Eligibility Date will be fully vested at grant. The Executive Retirement Eligibility Date for Pamela McCormack is December 8, 2019 (the “McCormack Retirement Eligibility Date”). For Management Grantees other than Harris and McCormack, the Executive Retirement Eligibility Date is February 11, 2019, when the time-vesting portion of the Annual Restricted Stock Awards and the Annual Option Awards will become fully vested, and the time-vesting portion of any Annual Restricted Stock Awards and Annual Option Awards granted after the Executive Retirement Eligibility Date will be fully vested at grant. Upon the occurrence of the respective Executive Retirement Eligibility Dates for each of the Management Grantees except Mr. Harris, the performance-vesting portion of such Management Grantee’s Annual Restricted Stock Awards will remain outstanding for the performance period and will vest to the extent we meet the Performance Target, including via the Catch-Up Provision described above, regardless of continued employment with our subsidiaries following the Executive Retirement Eligibility Date.

*Other 2017 Restricted Stock Awards*

On January 24, 2017, Management Grantees received a Restricted Stock Award with a grant date fair value of \$30,455, representing 2,191 shares of restricted Class A common stock. These shares represent stock dividends paid on the number of shares subject to the 2016 options (had such shares been outstanding) and vest with the time-vesting 2016 options they are associated with, subject to the Retirement Eligibility Date of the respective member of management. Compensation expense shall be recognized on a straight-line basis over the requisite service period.

On February 18, 2017, a new employee of the Company received a Restricted Stock Award with a grant date fair value of \$0.4 million, representing 28,881 shares of restricted Class A common stock, which vested in two equal installments on each of the first two anniversaries of the date of grant, subject to continued employment on the applicable vesting dates. Compensation expense was recognized on a straight-line basis over the requisite service period.

On February 18, 2017, Management Grantees received cash of \$1.0 million and a Stock Award with a grant date fair value of \$48,475, representing 3,500 shares of Class A common stock, intended to represent dividends in type and amount that the 2015 stock option grant to management would have received had such options had dividend equivalent rights since grant. This grant also provides for future dividend equivalents that vest according to the vesting schedule of the 2015 stock option grant. Compensation expense shall be recognized on a straight-line basis over the requisite service period.

On February 18, 2017, certain members of the board of directors each received Annual Restricted Stock Awards with a grant date fair value of \$0.2 million, representing 16,245 shares of restricted Class A common stock, which vested in full on the first anniversary of the date of grant, subject to continued service on the board of directors. Compensation expense related to the time-based vesting criteria of the award was recognized on a straight-line basis over the one year vesting period.

On February 18, 2017, Restricted Stock Awards were granted to certain non-management employees (each, a “Non-Management Grantee”) with an aggregate value of \$0.6 million which represents 40,000 shares of restricted Class A common stock in connection with 2016 compensation. Fifty percent of each Restricted Stock Award granted is subject to time-based vesting criteria, and the remaining 50% of each Restricted Stock Award is subject to attainment of the Performance Target for the applicable years. The time-vesting restricted stock granted to Non-Management Grantees will vest in three installments on each of the first three anniversaries of June 1, 2017, subject to continued employment on the applicable vesting dates. The performance-vesting restricted stock will vest in three equal installments on June 1 of each of 2018, 2019 and 2020 (subject to the performance target being achieved). The Catch-Up Provision applies to the performance vesting portion of this award. The Company has elected to recognize the compensation expense related to the time-based vesting criteria of these Restricted Stock Awards for the entire award on a straight-line basis over the requisite service period. As such, the compensation expense related to the February 18, 2017 Restricted Stock Awards to Non-Management Grantees for time-based vesting shall be recognized 1/3 for the period February 18, 2017 through June 1, 2018, 1/3 for the period June 2, 2018 through June 1, 2019 and 1/3 for the period June 2, 2019 through June 1, 2020.

Accruals of compensation cost for an award with a performance condition shall be based on the probable outcome of that performance condition. Therefore, compensation cost shall be accrued if it is probable that the performance condition will be achieved and shall not be accrued if it is not probable that the performance condition will be achieved.

On March 3, 2017, a new member of the board of directors received a Restricted Stock Award with a grant date fair value of \$0.1 million, representing 5,130 shares of restricted Class A common stock, which was scheduled to vest in three equal installments on each of the first three anniversaries of the date of grant, subject to continued service on the board of directors. Compensation expense for restricted stock subject to time-based vesting criteria granted to the director will be expensed 1/3 each year, for three years on an annual basis following such grant.

On June 19, 2017, Restricted Stock Awards were granted to a Non-Management Grantee with an aggregate value of \$0.3 million, which represents 21,307 shares of time-based restricted Class A common stock. One-third of this amount will vest on the first anniversary date of the grant date and 1,775 shares will vest on each of October 1, 2018, December 31, 2018, April 1, 2019, July 1, 2019, September 30, 2019, December 31, 2019 and March 31, 2020. The remaining 1,780 shares of the grant will vest on July 1, 2020, subject to the Non-Management Grantee's continued employment with the Company. The Company has elected to recognize the compensation expense related to the time-based vesting criteria of this Restricted Stock Award for the entire award on a straight-line basis over the requisite service period.

In connection with Mr. Mazzei's retirement as President, Ladder Capital Finance LLC, a subsidiary of Ladder, and Mr. Mazzei entered into a separation agreement, dated June 22, 2017 (the "Separation Agreement"). Pursuant to the Separation Agreement, Mr. Mazzei was appointed as a Class III director of Ladder and, subject to certain exceptions, Mr. Mazzei's unvested stock and stock options will continue to vest as they would have had he continued to be employed with Ladder as long as he continues to serve on the Board of Directors. Such unvested stock and stock options will not be subject to the original retirement eligibility date provided for in his employment agreement. On June 22, 2017, in connection with his appointment to the board of directors, Mr. Mazzei received a Restricted Stock Award with a grant date fair value of \$0.1 million, representing 5,346 shares of restricted Class A common stock, which will vest in three equal installments on each of the first three anniversaries of the date of grant, subject to continued service on the board of directors. Compensation expense for restricted stock subject to time-based vesting criteria granted to the director will be expensed 1/3 each year, for three years on an annual basis following such grant.

#### *Annual Incentive Awards Granted in 2017 with Respect to 2017 Performance*

For 2017 performance, management received stock-based incentive equity. On December 21, 2017, Annual Restricted Stock Awards were granted to Management Grantees with an aggregate value of \$10.5 million which represents 768,205 shares of restricted Class A common stock in connection with 2017 compensation. In accordance with the Harris Employment Agreement, Mr. Harris' annual awards were fully vested at grant. For other Management Grantees, 50% of each restricted stock award granted is subject to time-based vesting criteria, and the remaining 50% of each restricted stock award is subject to attainment of the Performance Target for the applicable years. The time-vesting restricted stock will vest in three installments on each of February 18, 2019, February 18, 2020 and February 18, 2021, subject to continued employment on the applicable vesting dates and subject to the applicable Retirement Eligibility Date. The performance-vesting restricted stock will vest in three equal installments upon the compensation committee's confirmation that the Company achieves the Performance Target for the years ended December 31, 2018, 2019 and 2020, respectively. The Catch-Up Provision applies to the performance vesting portion of this award.

The Company has elected to recognize the compensation expense related to the time-based vesting of the Annual Restricted Stock Awards for the entire award on a straight-line basis over the requisite service period for the entire award. As such, the compensation expense related to the December 21, 2017 Annual Restricted Stock Awards to Management Grantees shall be recognized as follows:

1. Compensation expense for stock granted to Brian Harris will be expensed immediately in accordance with the Harris Retirement Eligibility Date.
2. Compensation expense for restricted stock subject to time-based vesting criteria granted to Pamela McCormack will be expensed 1/3 each year, for three years, on an annual basis in advance of the McCormack Retirement Eligibility Date.
3. Compensation expense for restricted stock subject to time-based vesting criteria granted to the Management Grantees other than Mr. Harris and Ms. McCormack will be expensed 1/3 each year, for three years, on an annual basis in advance of the Executive Retirement Eligibility Date.

Compensation cost for an award with a performance condition is accrued if it is probable that the performance condition will be achieved and shall not be accrued if it is not probable that the performance condition will be achieved.

Upon a change in control (as defined in the respective award agreements), all restricted stock awards will become fully vested, if (1) the Management Grantee continues to be employed through the closing of the change in control or (2) after the signing of definitive documentation related to the change in control, but prior to its closing, the Management Grantee's employment is terminated without cause or due to death or disability or the Management Grantee resigns for Good Reason. The compensation committee retains the right, in its sole discretion, to provide for the accelerated vesting (in whole or in part) of the restricted stock and option awards granted.

On December 21, 2017, Restricted Stock Awards were granted to certain non-management employees (each, a "Non-Management Grantee") with an aggregate value of \$5.0 million which represents 369,328 shares of restricted Class A common stock in connection with 2017 compensation. Fifty percent of each Restricted Stock Award granted is subject to time-based vesting criteria, and the remaining 50% of each Restricted Stock Award is subject to attainment of the Performance Target for the applicable years. The time-vesting restricted stock granted to Non-Management Grantees will vest in three installments on February 18 of each of 2019, 2020 and 2021 subject to continued employment on the applicable vesting dates. The performance-vesting restricted stock will vest in three equal installments upon the compensation committee's confirmation that the Company achieves the Performance Target for the years ended December 31, 2018, 2019 and 2020, respectively. The Catch-Up Provision applies to the performance vesting portion of this award. The Company has elected to recognize the compensation expense related to the time-based vesting criteria of these Restricted Stock Awards for the entire award on a straight-line basis over the requisite service period. As such, the compensation expense related to the December 21, 2017 Restricted Stock Awards to Non-Management Grantees shall be recognized 1/3 for the period December 21, 2017 through February 18, 2019, 1/3 for the period February 19, 2019 through February 18, 2020 and 1/3 for the period February 19, 2020 through February 18, 2021.

In the event a Non-Management Grantee is terminated by the Company without cause within six months of certain changes in control, all unvested time shares shall vest on the termination date and all unvested performance shares shall remain outstanding and be eligible to vest (and be forfeited) in accordance with the performance conditions; provided that if such change in control is for more than 50% of the shares of the Company, then all restricted stock awards will become fully vested if the Non-Management Grantee continues to be employed through the closing of the change in control.

Accruals of compensation cost for an award with a performance condition shall be based on the probable outcome of that performance condition. Therefore, compensation cost shall be accrued if it is probable that the performance condition will be achieved and shall not be accrued if it is not probable that the performance condition will be achieved.

#### *2018 Restricted Stock Awards*

On February 18, 2018, certain members of the board of directors each received Annual Restricted Stock Awards with a grant date fair value of \$0.4 million, representing 25,370 shares of restricted Class A common stock, which vested in full on the first anniversary of the date of grant, subject to continued service on the board of directors. Compensation expense related to the time-based vesting criteria of the award was recognized on a straight-line basis over the one year vesting period.

#### *Other 2018 Restricted Stock Awards*

On April 23, 2018, a new employee of the Company received a Restricted Stock Award with a grant date fair value of \$0.1 million, representing 3,566 shares of restricted Class A common stock, which will vest in three equal installments on each of the first three anniversaries of the date of grant, subject to continued employment on the applicable vesting dates. Compensation expense shall be recognized on a straight-line basis over the requisite service period.

On July 19, 2018, a new member of the board of directors received a Restricted Stock Award with a grant date fair value of \$0.1 million, representing 4,720 shares of restricted Class A common stock, which will vest in three equal installments on each of the first three anniversaries of the date of grant, subject to continued service on the board of directors. Compensation expense for restricted stock subject to time-based vesting criteria granted to the director will be expensed 1/3 each year, for three years on an annual basis following such grant.

*Annual Incentive Awards Granted in 2019 with Respect to 2018 Performance*

For 2018 performance, management received stock-based incentive equity. On February 18, 2019, Annual Restricted Stock Awards were granted to Management Grantees with an aggregate value of \$11.7 million which represents 666,288 shares of restricted Class A common stock in connection with 2018 compensation. In accordance with the Harris Employment Agreement, Mr. Harris' annual awards were fully vested at grant. Having attained their Executive Retirement Eligibility Date, fifty percent of the annual awards (representing the portion of the Annual Restricted Stock Awards historically subject to time-based vesting) to Messrs. Fox, Harney, and Perelman was fully vested at grant and the remaining fifty percent of each of their Annual Restricted Stock Awards is subject to performance-based criteria. For Ms. McCormack, the vesting of her annual awards is the same as described for the Annual Restricted Stock Awards with respect to 2017 performance. Subject to the McCormack Retirement Eligibility Date, her time-vesting restricted stock will vest in three installments on each of February 18, 2020, February 18, 2021 and February 18, 2022, subject to continued employment on the applicable vesting dates and subject to the applicable Retirement Eligibility Date. The performance-vesting restricted stock for the Management Grantees other than Mr. Harris will vest in three equal installments upon the compensation committee's confirmation that the Company achieves the Performance Target for the years ended December 31, 2019, 2020 and 2021, respectively. The Catch-Up Provision applies to the performance vesting portion of this award.

The Company has elected to recognize the compensation expense related to the time-based vesting of the Annual Restricted Stock Awards for the entire award on a straight-line basis over the requisite service period for the entire award. As such, the compensation expense related to the February 18, 2019 Annual Restricted Stock Awards to Management Grantees shall be recognized as follows:

1. Compensation expense for stock granted to Brian Harris will be expensed immediately in accordance with the Harris Retirement Eligibility Date.
2. Compensation expense for restricted stock subject to time-based vesting criteria granted to Pamela McCormack will be expensed 1/3 each year, for three years, on an annual basis in advance of the McCormack Retirement Eligibility Date.
3. Having attained their Executive Retirement Eligibility Date, compensation expense for restricted stock subject to time-based vesting criteria granted to Messrs. Fox, Harney, and Perelman was fully vested at grant date.

Compensation cost for an award with a performance condition is accrued if it is probable that the performance condition will be achieved and shall not be accrued if it is not probable that the performance condition will be achieved.

Upon a change in control (as defined in the respective award agreements), all restricted stock awards will become fully vested, if (1) the Management Grantee continues to be employed through the closing of the change in control or (2) after the signing of definitive documentation related to the change in control, but prior to its closing, the Management Grantee's employment is terminated without cause or due to death or disability or the Management Grantee resigns for Good Reason. The compensation committee retains the right, in its sole discretion, to provide for the accelerated vesting (in whole or in part) of the restricted stock and option awards granted.

On February 18, 2019, Restricted Stock Awards were granted to certain non-management employees (each, a "Non-Management Grantee") with an aggregate value of \$14.9 million which represents 849,087 shares of restricted Class A common stock in connection with 2018 compensation. Fifty percent of each Restricted Stock Award granted is subject to time-based vesting criteria, and the remaining 50% of each Restricted Stock Award is subject to attainment of the Performance Target for the applicable years. The time-vesting restricted stock granted to Non-Management Grantees will vest in three installments on February 18 of each of 2020, 2021 and 2022 subject to continued employment on the applicable vesting dates. The performance-vesting restricted stock will vest in three equal installments upon the compensation committee's confirmation that the Company achieves the Performance Target for the years ended December 31, 2019, 2020 and 2021, respectively. The Catch-Up Provision applies to the performance vesting portion of this award. The Company has elected to recognize the compensation expense related to the time-based vesting criteria of these Restricted Stock Awards for the entire award on a straight-line basis over the requisite service period. As such, the compensation expense related to the February 18, 2019 Restricted Stock Awards to Non-Management Grantees shall be recognized 1/3 for the period February 18, 2019 through February 18, 2020, 1/3 for the period February 19, 2020 through February 18, 2021 and 1/3 for the period February 19, 2021 through February 18, 2022.

In the event a Non-Management Grantee is terminated by the Company without cause within six months of certain changes in control, all unvested time shares shall vest on the termination date and all unvested performance shares shall remain outstanding and be eligible to vest (and be forfeited) in accordance with the performance conditions; provided that if such change in control is for more than 50% of the shares of the Company, then all restricted stock awards will become fully vested if the Non-Management Grantee continues to be employed through the closing of the change in control.

Accruals of compensation cost for an award with a performance condition shall be based on the probable outcome of that performance condition. Therefore, compensation cost shall be accrued if it is probable that the performance condition will be achieved and shall not be accrued if it is not probable that the performance condition will be achieved.

*2019 Restricted Stock Awards*

On February 18, 2019, certain members of the board of directors each received Annual Restricted Stock Awards with a grant date fair value of \$0.4 million, representing 25,626 shares of restricted Class A common stock, which will vest in full on the first anniversary of the date of grant, subject to continued service on the board of directors. Compensation expense related to the time-based vesting criteria of the award shall be recognized on a straight-line basis over the one year vesting period.

*Other 2019 Restricted Stock Awards*

On January 24, 2019, Management Grantees received a Restricted Stock Award with a grant date fair value of \$11,328, representing 682 shares of restricted Class A common stock. These shares represent stock dividends paid on the number of shares subject to the 2016 options (had such shares been outstanding) and vest with the time-vesting 2016 options they are associated with, subject to the Retirement Eligibility Date of the respective member of management. Compensation expense shall be recognized on a straight-line basis over the requisite service period.

An equitable adjustment was also made to outstanding options in the first quarter of 2019 for the Company's stock dividend paid on January 24, 2019. Those additional options are reflected in the summary of grants table above.

On June 4, 2019, a new member of the board of directors received a Restricted Stock Award with a grant date fair value of \$0.1 million, representing 4,568 shares of restricted Class A common stock, which will vest in three equal installments on each of the first three anniversaries of the date of grant, subject to continued service on the board of directors. These shares of restricted Class A common stock were a re-issuance of treasury stock. Compensation expense for restricted stock subject to time-based vesting criteria granted to the director will be expensed 1/3 each year, for three years on an annual basis following such grant.

On July 1, 2019, a new employee of the Company received a Restricted Stock Award with a grant date fair value of \$0.4 million, representing 24,125 shares of restricted Class A common stock. Fifty percent of this Restricted Stock Award granted is subject to time-based vesting criteria, and the remaining 50% of this Restricted Stock Award is subject to attainment of the Performance Target for the applicable years. The time-vesting restricted stock granted will vest in three installments on July 1 of each of 2020, 2021 and 2022 subject to continued employment on the applicable vesting dates. The performance-vesting restricted stock will vest in three equal installments on July 1 of each of 2020, 2021 and 2022 upon the Compensation Committee's confirmation that the Company achieves the Performance Target for the years ended December 31, 2019, 2020 and 2021, respectively. The Catch-Up Provision applies to the performance vesting portion of this award. The Company has elected to recognize the compensation expense related to the time-based vesting criteria of these Restricted Stock Award on a straight-line basis over the requisite service period.

### **Ladder Capital Corp Deferred Compensation Plan**

On July 3, 2014, the Company adopted a nonqualified deferred compensation plan, which was amended and restated on March 17, 2015 (the “2014 Deferred Compensation Plan”), in which certain eligible employees participate. On February 22, 2018, the Board of Directors froze the 2014 Deferred Compensation Plan. Pursuant to the 2014 Deferred Compensation Plan, participants elected, or in some cases non-management participants were required, to defer all or a portion of their annual cash performance-based bonuses into the 2014 Deferred Compensation Plan. Generally, if a participant’s total compensation was in excess of a certain threshold, a portion of a participant’s performance-based annual bonus was required to be deferred into the 2014 Deferred Compensation Plan. Otherwise, a portion of the participant’s annual bonus could have been deferred into the 2014 Deferred Compensation Plan at the election of the participant, so long as such elections were timely made in accordance with the terms and procedures of the 2014 Deferred Compensation Plan.

In the event that a participant elected to (or was required to) defer a portion of his or her compensation pursuant to the 2014 Deferred Compensation Plan, such amount was not paid to the participant and was instead credited to such participant’s notional account under the 2014 Deferred Compensation Plan. Such amounts were then invested on a phantom basis in Class A common stock of the Company, or the phantom units, and a participant’s account is credited with any dividends or other distributions received by holders of Class A common stock of the Company, which are subject to the same vesting and payment conditions as the applicable contributions. Elective contributions were immediately vested upon contribution. Mandatory contributions are subject to one-third vesting over three years on a straight-line basis following the applicable year in which the related compensation was earned and mandatory contributions for compensation earned in 2016 and 2017 remain in the 2014 Deferred Compensation Plan, subject to vesting in 2019 and 2020, respectively.

If a participant’s employment with the Company is terminated by the Company other than for cause and such termination is within six months following a change in control (each, as defined in the 2014 Deferred Compensation Plan), then the participant will fully vest in his or her unvested account balances. Furthermore, the unvested account balances will fully vest in the event of the participant’s death, disability, retirement (as defined in the 2014 Deferred Compensation Plan) or in the event of certain hostile takeovers of the board of directors of the Company. In the event that a participant’s employment is terminated by the Company other than for cause, the participant will vest in the portion of the participant’s account that would have vested had the participant remained employed through the end of the year in which such termination occurs, subject to, in such case or in the case of retirement, the participant’s timely execution of a general release of claims in favor of the Company. Unvested amounts are otherwise generally forfeited upon the participant’s resignation or termination of employment, and vested mandatory contributions are generally forfeited upon the participant’s termination for cause.

Amounts deferred into the 2014 Deferred Compensation Plan are paid upon the earliest to occur of (1) a change in control, (2) within sixty days following the end of the participant’s employment with the Company, or (3) the date of payment of the annual bonus payments following December 31 of the third calendar year following the applicable year to which the underlying deferred annual compensation relates. Payment is made in cash equal to the fair market value of the number of phantom units credited to a participant’s account, provided that, if the participant’s termination was by the Company for cause or was a voluntary resignation other than on account of such participant’s retirement, the amount paid is based on the lowest fair market value of a share of Class A common stock during the forty-five day period following such termination of employment. The amount of the final cash payment may be more or less than the amount initially deferred into the 2014 Deferred Compensation Plan, depending upon the change in the value of the Class A common stock of the Company during such period.

As of September 30, 2019, there are 260,200 phantom units outstanding in the 2014 Deferred Compensation Plan, of which 138,583 are unvested, resulting in a liability of \$4.6 million, which is included in accrued expenses on the consolidated balance sheets. As of December 31, 2018, there were 380,662 phantom units outstanding in the 2014 Deferred Compensation Plan, of which 130,389 were unvested, resulting in a liability of \$5.9 million, which is included in accrued expenses on the consolidated balance sheets.

**Bonus Payments**

On February 7, 2019, the board of directors of Ladder Capital Corp approved 2018 bonus payments to employees, including officers, totaling \$61.4 million, which included \$26.6 million of equity based compensation. The bonuses were accrued for as of December 31, 2018 and paid to employees in full on February 15, 2019. On December 19, 2017, the board of directors of Ladder Capital Corp approved 2017 bonus payments to employees, including officers, totaling \$49.3 million, which included \$15.5 million of equity based compensation, which was granted on December 21, 2017. Cash bonuses of \$17.1 million were paid on December 29, 2017. The remaining \$16.8 million of cash bonuses were accrued for as of December 31, 2017 and paid to employees in full on January 5, 2018. During the three and nine months ended September 30, 2019, the Company recorded compensation expense of \$6.5 million and \$21.0 million, respectively, related to bonuses. During the three and nine months ended September 30, 2018, the Company recorded compensation expense of \$9.2 million and \$26.8 million, respectively, related to bonuses.

## 15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is based upon internal models, using market quotations, broker quotations, counterparty quotations or pricing services quotations, which provide valuation estimates based upon reasonable market order indications and are subject to significant variability based on market conditions, such as interest rates, credit spreads and market liquidity. The fair value of the mortgage loan receivables held for sale is based upon a securitization model utilizing market data from recent securitization spreads and pricing.

### Fair Value Summary Table

The carrying values and estimated fair values of the Company's financial instruments, which are both reported at fair value on a recurring basis (as indicated) or amortized cost/par, at September 30, 2019 and December 31, 2018 are as follows (\$ in thousands):

#### September 30, 2019

|  | Outstanding<br>Face Amount | Amortized<br>Cost Basis/Purchase<br>Price | Fair Value   | Fair Value Method                     | Weighted Average |  |
|--|----------------------------|---|--------------|---------------------------------------|------------------|--|
|  |                            |   |              |                                       | Yield<br>%       | Remaining<br>Maturity/Duration (years) |
| <b>Assets:</b>   |                            |   |              |                                       |                  |  |
| CMBS(1)  | \$ 1,779,458               | \$ 1,780,233                              | \$ 1,788,712 | Internal model, third-party inputs    | 3.14%            | 2.38                                   |
| CMBS interest-only(1)  | 2,139,357 (2)              | 39,961                                    | 41,440       | Internal model, third-party inputs    | 3.65%            | 2.61                                   |
| GNMA interest-only(3)  | 113,096 (2)                | 2,202                                     | 2,026        | Internal model, third-party inputs    | 9.65%            | 2.73                                   |
| Agency securities(1)   | 641                        | 652                                       | 654          | Internal model, third-party inputs    | 1.74%            | 1.97                                   |
| GNMA permanent securities(1)   | 31,760                     | 31,984                                    | 32,795       | Internal model, third-party inputs    | 3.27%            | 4.55                                   |
| Corporate bonds(1)   | 32,088                     | 31,604                                    | 32,372       | Internal model, third-party inputs    | 4.81%            | 1.31                                   |
| Equity securities(3)   | N/A                        | 13,720                                    | 13,457       | Observable market prices              | N/A              | N/A                                    |
| Mortgage loan receivables held for investment, net, at amortized cost: |                            |   |              |                                       |                  |  |
| Mortgage loan receivables held for investment, net, at amortized cost  | 3,249,711                  | 3,231,443                                 | 3,249,383    | Discounted Cash Flow(4)               | 7.29%            | 1.37                                   |
| Provision for loan losses  | N/A                        | (18,500)                                  | (18,500)     | (5)                                   | N/A              | N/A                                    |
| Mortgage loan receivables held for sale                                | 173,957                    | 174,214                                   | 182,716      | Internal model, third-party inputs(6) | 4.59%            | 9.68                                   |
| FHLB stock(7)  | 61,619                     | 61,619                                    | 61,619       | (7)                                   | 5.50%            | N/A                                    |
| Nonhedge derivatives(1)(8)   | 6,000                      | N/A                                       | 22           | Counterparty quotations               | N/A              | 0.30                                   |
| <b>Liabilities:</b>  |                            |   |              |                                       |                  |  |
| Repurchase agreements - short-term                                     | 1,486,049                  | 1,486,049                                 | 1,486,049    | Discounted Cash Flow(9)               | 2.65%            | 0.18                                   |
| Repurchase agreements - long-term                                      | 299,999                    | 299,999                                   | 299,999      | Discounted Cash Flow(10)              | 3.20%            | 1.28                                   |
| Mortgage loan financing  | 718,351                    | 723,313                                   | 748,489      | Discounted Cash Flow(10)              | 4.96%            | 1.51                                   |
| CLO debt   | 117,760                    | 117,760                                   | 117,760      | Discounted Cash Flow(9)               | 4.97%            | 5.91                                   |
| Borrowings from the FHLB   | 1,076,449                  | 1,076,449                                 | 1,084,876    | Discounted Cash Flow                  | 2.50%            | 2.32                                   |
| Senior unsecured notes   | 1,166,201                  | 1,157,117                                 | 1,201,973    | Broker quotations, pricing services   | 5.39%            | 3.53                                   |
| Nonhedge derivatives(1)(8)   | 270,471                    | N/A                                       | 82           | Counterparty quotations               | N/A              | 0.25                                   |

(1) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded as a component of other comprehensive income (loss) in equity.

(2) Represents notional outstanding balance of underlying collateral.

(3) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded in current period earnings.

(4) Fair value for floating rate mortgage loan receivables, held for investment is estimated to approximate the outstanding face amount given the short interest rate reset risk (30 days) and no significant change in credit risk. Fair value for fixed rate mortgage loan receivables, held for investment is measured using a discounted cash flow model.

(5) Fair value is estimated to equal par value.

(6) Fair value for mortgage loan receivables, held for sale is measured using a hypothetical securitization model utilizing market data from recent securitization spreads and pricing.

(7) Fair value of the FHLB stock approximates outstanding face amount as the Company's captive insurance subsidiary is restricted from trading the stock and can only put the stock back to the FHLB, at the FHLB's discretion, at par.

(8) The outstanding face amount of the nonhedge derivatives represents the notional amount of the underlying contracts.

(9) Fair value for repurchase agreement liabilities and CLO debt is estimated to approximate carrying amount primarily due to the short interest rate reset risk (30 days) of the financings and the high credit quality of the assets collateralizing these positions. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.

- (10) For repurchase agreements - long term and mortgage loan financing, the carrying value approximates the fair value discounting the expected cash flows at current market rates. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.

**December 31, 2018**

|  | Outstanding<br>Face Amount | Amortized<br>Cost Basis | Fair Value   | Fair Value Method                     | Weighted Average |  |
|--|----------------------------|-------------------------|--------------|---------------------------------------|------------------|--|
|  |                            |                         |              |                                       | Yield<br>%       | Remaining<br>Maturity/Duration (years) |
| <b>Assets:</b>   |                            |                         |              |                                       |                  |  |
| CMBS(1)  | \$ 1,258,819               | \$ 1,257,801            | \$ 1,252,640 | Internal model, third-party inputs    | 3.14%            | 2.33                                   |
| CMBS interest-only(1)  | 2,373,936 (2)              | 55,534                  | 55,691       | Internal model, third-party inputs    | 2.80%            | 2.69                                   |
| GNMA interest-only(3)  | 135,932 (2)                | 2,862                   | 2,648        | Internal model, third-party inputs    | 6.30%            | 4.11                                   |
| Agency securities(1)   | 668                        | 682                     | 662          | Internal model, third-party inputs    | 1.83%            | 2.36                                   |
| GNMA permanent securities(1)   | 32,633                     | 32,889                  | 33,064       | Internal model, third-party inputs    | 3.76%            | 5.03                                   |
| Corporate bonds(1)   | 55,305                     | 54,257                  | 53,871       | Internal model, third-party inputs    | 5.04%            | 2.51                                   |
| Equity securities(3)   | N/A                        | 13,154                  | 11,550       | Observable market prices              | N/A              | N/A                                    |
| Mortgage loan receivables held for investment, net, at amortized cost: |                            |                         |              |                                       |                  |  |
| Mortgage loan receivables held for investment, net, at amortized cost  | 3,340,381                  | 3,318,390               | 3,324,588    | Discounted Cash Flow(4)               | 7.84%            | 1.32                                   |
| Provision for loan losses  | N/A                        | (17,900)                | (17,900)     | (5)                                   | N/A              | N/A                                    |
| Mortgage loan receivables held for sale                                | 181,905                    | 182,439                 | 187,870      | Internal model, third-party inputs(6) | 5.46%            | 9.75                                   |
| FHLB stock(7)  | 57,915                     | 57,915                  | 57,915       | (7)                                   | 4.50%            | N/A                                    |
| Nonhedge derivatives(1)(8)   | —                          | N/A                     | —            | Counterparty quotations               | N/A              | 0.00                                   |
| <b>Liabilities:</b>  |                            |                         |              |                                       |                  |  |
| Repurchase agreements - short-term                                     | 436,957                    | 436,957                 | 436,957      | Discounted Cash Flow(9)               | 3.42%            | 0.23                                   |
| Repurchase agreements - long-term                                      | 226,728                    | 226,728                 | 226,728      | Discounted Cash Flow(10)              | 3.47%            | 1.73                                   |
| Mortgage loan financing  | 738,825                    | 743,902                 | 735,662      | Discounted Cash Flow(10)              | 5.09%            | 2.61                                   |
| CLO debt   | 601,543                    | 601,543                 | 601,543      | Discounted Cash Flow(9)               | 4.41%            | 9.40                                   |
| Participation Financing - Mortgage Loan Receivable                     | 2,453                      | 2,453                   | 2,453        | Discounted Cash Flow(11)              | 17.00%           | 0.43                                   |
| Borrowings from the FHLB   | 1,286,000                  | 1,286,000               | 1,286,664    | Discounted Cash Flow                  | 2.55%            | 2.46                                   |
| Senior unsecured notes   | 1,166,201                  | 1,154,991               | 1,111,288    | Broker quotations, pricing services   | 5.39%            | 4.28                                   |
| Nonhedge derivatives(1)(8)   | 578,971                    | N/A                     | 975          | Counterparty quotations               | N/A              | 0.25                                   |

- (1) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded as a component of other comprehensive income (loss) in equity.
- (2) Represents notional outstanding balance of underlying collateral.
- (3) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded in current period earnings.
- (4) Fair value for floating rate mortgage loan receivables, held for investment is estimated to approximate the outstanding face amount given the short interest rate reset risk (30 days) and no significant change in credit risk. Fair value for fixed rate mortgage loan receivables, held for investment is measured using a discounted cash flow.
- (5) Fair value is estimated to equal par value.
- (6) Fair value for mortgage loan receivables, held for sale is measured using a hypothetical securitization model utilizing market data from recent securitization spreads and pricing.
- (7) Fair value of the FHLB stock approximates outstanding face amount as the Company's captive insurance subsidiary is restricted from trading the stock and can only put the stock back to the FHLB, at the FHLB's discretion, at par.
- (8) The outstanding face amount of the nonhedge derivatives represents the notional amount of the underlying contracts.
- (9) Fair value for repurchase agreement liabilities and CLO debt is estimated to approximate carrying amount primarily due to the short interest rate reset risk (30 days) of the financings and the high credit quality of the assets collateralizing these positions. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.
- (10) For repurchase agreements - long term and mortgage loan financing, the carrying value approximates the fair value discounting the expected cash flows at current market rates. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.
- (11) Fair value for Participation Financing - Mortgage Loan Receivable approximates amortized cost as this is a loan participation to a third party.

The following table summarizes the Company's financial assets and liabilities, which are both reported at fair value on a recurring basis (as indicated) or amortized cost/par, at September 30, 2019 and December 31, 2018 (\$ in thousands):

**September 30, 2019**

| Financial Instruments Reported at Fair Value on Consolidated Statements of Financial Condition            | Outstanding Face Amount | Fair Value       |              |                     |                     |
|---|-------------------------|------------------|--------------|---------------------|---------------------|
|   |                         | Level 1          | Level 2      | Level 3             | Total               |
| <b>Assets:</b>  |                         |                  |              |                     |                     |
| CMBS(1)   | \$ 1,767,314            | \$ —             | \$ —         | \$ 1,777,085        | \$ 1,777,085        |
| CMBS interest-only(1)   | 2,128,234 (2)           | —                | —            | 40,601              | 40,601              |
| GNMA interest-only(3)   | 113,096 (2)             | —                | —            | 2,026               | 2,026               |
| Agency securities(1)  | 641                     | —                | —            | 654                 | 654                 |
| GNMA permanent securities(1)  | 31,760                  | —                | —            | 32,795              | 32,795              |
| Corporate bonds(1)  | 32,088                  | —                | —            | 32,372              | 32,372              |
| Equity securities   | N/A                     | 13,457           | —            | —                   | 13,457              |
| Nonhedge derivatives(4)   | 6,000                   | —                | 22           | —                   | 22                  |
|   |                         | <u>\$ 13,457</u> | <u>\$ 22</u> | <u>\$ 1,885,533</u> | <u>\$ 1,899,012</u> |
| <b>Liabilities:</b>   |                         |                  |              |                     |                     |
| Nonhedge derivatives(4)   | 270,471                 | \$ —             | \$ 82        | \$ —                | \$ 82               |
| <b>Financial Instruments Not Reported at Fair Value on Consolidated Statements of Financial Condition</b> |                         |                  |              |                     |                     |
| Financial Instruments Not Reported at Fair Value on Consolidated Statements of Financial Condition        | Outstanding Face Amount | Fair Value       |              |                     |                     |
|   |                         | Level 1          | Level 2      | Level 3             | Total               |
| <b>Assets:</b>  |                         |                  |              |                     |                     |
| Mortgage loan receivable held for investment, net, at amortized cost:                                     |                         |                  |              |                     |                     |
| Mortgage loans held by consolidated subsidiaries  | \$ 3,249,711            | \$ —             | \$ —         | \$ 3,249,383        | \$ 3,249,383        |
| Provision for loan losses   | N/A                     | —                | —            | (18,500)            | (18,500)            |
| Mortgage loan receivable held for sale  | 173,957                 | —                | —            | 182,716             | 182,716             |
| CMBS(5)   | 12,144                  | —                | —            | 11,627              | 11,627              |
| CMBS interest-only(5)   | 11,123 (2)              | —                | —            | 839                 | 839                 |
| FHLB stock  | 61,619                  | —                | —            | 61,619              | 61,619              |
|   |                         | <u>\$ —</u>      | <u>\$ —</u>  | <u>\$ 3,487,684</u> | <u>\$ 3,487,684</u> |
| <b>Liabilities:</b>   |                         |                  |              |                     |                     |
| Repurchase agreements - short-term  | 1,486,049               | \$ —             | \$ —         | \$ 1,486,049        | \$ 1,486,049        |
| Repurchase agreements - long-term   | 299,999                 | —                | —            | 299,999             | 299,999             |
| Mortgage loan financing   | 718,351                 | —                | —            | 748,489             | 748,489             |
| CLO debt  | 117,760                 | —                | —            | 117,760             | 117,760             |
| Borrowings from the FHLB  | 1,076,449               | —                | —            | 1,084,876           | 1,084,876           |
| Senior unsecured notes  | 1,166,201               | —                | —            | 1,201,973           | 1,201,973           |
|   |                         | <u>\$ —</u>      | <u>\$ —</u>  | <u>\$ 4,939,146</u> | <u>\$ 4,939,146</u> |

- (1) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded as a component of other comprehensive income (loss) in equity.
- (2) Represents notional outstanding balance of underlying collateral.
- (3) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded in current period earnings.
- (4) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded in current period earnings. The outstanding face amount of the nonhedge derivatives represents the notional amount of the underlying contracts.
- (5) Restricted securities which are designated as risk retention securities under the Dodd-Frank Act and are therefore subject to transfer restrictions over the term of the securitization trust, which are classified as held-to-maturity and reported at amortized cost.

December 31, 2018

| Financial Instruments Reported at Fair Value on Consolidated Statements of Financial Condition | Outstanding Face Amount | Fair Value       |             |                     |                     |
|--|-------------------------|------------------|-------------|---------------------|---------------------|
|  |                         | Level 1          | Level 2     | Level 3             | Total               |
| <b>Assets:</b>   |                         |                  |             |                     |                     |
| CMBS(1)  | \$ 1,246,609            | \$ —             | \$ —        | \$ 1,241,334        | \$ 1,241,334        |
| CMBS interest-only(1)  | 2,362,747 (2)           | —                | —           | 54,789              | 54,789              |
| GNMA interest-only(3)  | 135,932 (2)             | —                | —           | 2,648               | 2,648               |
| Agency securities(1)   | 668                     | —                | —           | 662                 | 662                 |
| GNMA permanent securities(1)   | 32,633                  | —                | —           | 33,064              | 33,064              |
| Corporate bonds(1)   | 55,305                  | —                | —           | 53,871              | 53,871              |
| Equity securities  | N/A                     | 11,550           | —           | —                   | 11,550              |
|  |                         | <u>\$ 11,550</u> | <u>\$ —</u> | <u>\$ 1,386,368</u> | <u>\$ 1,397,918</u> |
| <b>Liabilities:</b>  |                         |                  |             |                     |                     |
| Nonhedge derivatives(4)  | \$ 605,871              | \$ —             | \$ 975      | \$ —                | \$ 975              |

| Financial Instruments Not Reported at Fair Value on Consolidated Statements of Financial Condition | Outstanding Face Amount | Fair Value  |             |                     |                     |
|--|-------------------------|-------------|-------------|---------------------|---------------------|
|  |                         | Level 1     | Level 2     | Level 3             | Total               |
| <b>Assets:</b>   |                         |             |             |                     |                     |
| Mortgage loan receivable held for investment, net, at amortized cost:                              |                         |             |             |                     |                     |
| Mortgage loans held by consolidated subsidiaries   | \$ 3,340,381            | \$ —        | \$ —        | \$ 3,324,588        | \$ 3,324,588        |
| Provision for loan losses  | N/A                     | —           | —           | (17,900)            | (17,900)            |
| Mortgage loan receivables held for sale  | 181,905                 | —           | —           | 187,870             | 187,870             |
| CMBS(5)  | 12,210                  | —           | —           | 11,306              | 11,306              |
| CMBS interest-only(5)  | 11,189 (2)              | —           | —           | 902                 | 902                 |
| FHLB stock   | 57,915                  | —           | —           | 57,915              | 57,915              |
|  |                         | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 3,564,681</u> | <u>\$ 3,564,681</u> |
| <b>Liabilities:</b>  |                         |             |             |                     |                     |
| Repurchase agreements - short-term   | 436,957                 | \$ —        | \$ —        | \$ 436,957          | \$ 436,957          |
| Repurchase agreements - long-term  | 226,728                 | —           | —           | 226,728             | 226,728             |
| Mortgage loan financing  | 738,825                 | —           | —           | 735,662             | 735,662             |
| CLO debt   | 601,543                 | —           | —           | 601,543             | 601,543             |
| Participation Financing - Mortgage Loan Receivable   | 2,453                   | —           | —           | 2,453               | 2,453               |
| Borrowings from the FHLB   | 1,286,000               | —           | —           | 1,286,664           | 1,286,664           |
| Senior unsecured notes   | 1,166,201               | —           | —           | 1,111,288           | 1,111,288           |
|  |                         | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 4,401,295</u> | <u>\$ 4,401,295</u> |

- (1) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded as a component of other comprehensive income (loss) in equity.
- (2) Represents notional outstanding balance of underlying collateral.
- (3) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded in current period earnings.
- (4) Measured at fair value on a recurring basis with the net unrealized gains or losses recorded in current period earnings. The outstanding face amount of the nonhedge derivatives represents the notional amount of the underlying contracts.
- (5) Restricted securities which are designated as risk retention securities under the Dodd-Frank Act and are therefore subject to transfer restrictions over the term of the securitization trust, which are classified as held-to-maturity and reported at amortized cost.

The following table summarizes changes in Level 3 financial instruments reported at fair value on the consolidated statements of financial condition for the nine months ended September 30, 2019 and 2018 (\$ in thousands):

| Level 3                          | Nine Months Ended September 30, |                     |
|----------------------------------|---------------------------------|---------------------|
|                                  | 2019                            | 2018                |
| <b>Balance at January 1,</b>     | <b>\$ 1,385,957</b>             | <b>\$ 1,106,517</b> |
| Transfer from level 2            | —                               | —                   |
| Purchases                        | 1,193,671                       | 303,007             |
| Sales                            | (533,811)                       | (306,109)           |
| Paydowns/maturities              | (178,402)                       | (93,185)            |
| Amortization of premium/discount | (9,333)                         | (17,842)            |
| Unrealized gain/(loss)           | 16,813                          | (9,203)             |
| Realized gain/(loss) on sale(1)  | 10,639                          | (4,896)             |
| <b>Balance at September 30,</b>  | <b>\$ 1,885,534</b>             | <b>\$ 978,289</b>   |

(1) Includes realized losses on securities recorded as other than temporary impairments.

The following is quantitative information about significant unobservable inputs in our Level 3 measurements for those assets and liabilities measured at fair value on a recurring basis (\$ in thousands):

**September 30, 2019**

| Financial Instrument         | Carrying Value      | Valuation Technique  | Unobservable Input        | Minimum | Weighted Average | Maximum |
|------------------------------|---------------------|----------------------|---------------------------|---------|------------------|---------|
| CMBS(1)                      | \$ 1,788,712        | Discounted cash flow | Yield (4)                 | 1.68 %  | 3.1%             | 20.55%  |
|                              |                     |                      | Duration (years)(5)       | 0.00    | 1.54             | 7.10    |
| CMBS interest-only(1)        | 41,440 (2)          | Discounted cash flow | Yield (4)                 | 1.79 %  | 3.73%            | 6.35%   |
|                              |                     |                      | Duration (years)(5)       | 0.08    | 2.61             | 3.85    |
|                              |                     |                      | Prepayment speed (CPY)(5) | 100.00  | 100.00           | 100.00  |
| GNMA interest-only(3)        | 2,026 (2)           | Discounted cash flow | Yield (4)                 | (7.19)% | 14.44%           | 44.47%  |
|                              |                     |                      | Duration (years)(5)       | 0.00    | 2.78             | 8.61    |
|                              |                     |                      | Prepayment speed (CPJ)(5) | 5.00    | 11.57            | 15.00   |
| Agency securities(1)         | 654                 | Discounted cash flow | Yield (4)                 | — %     | 1.43%            | 1.85%   |
|                              |                     |                      | Duration (years)(5)       | 0.00    | 2.46             | 3.17    |
| GNMA permanent securities(1) | 32,795              | Discounted cash flow | Yield (4)                 | 3.43 %  | 18.72%           | 84.30%  |
|                              |                     |                      | Duration (years)(5)       | 1.15    | 7.76             | 13.99   |
| Corporate bonds(1)           | 32,372              | Discounted cash flow | Yield (4)                 | 2.79 %  | 2.79%            | 2.79%   |
|                              |                     |                      | Duration (years)(5)       | 1.05    | 1.05             | 1.05    |
| <b>Total</b>                 | <b>\$ 1,897,999</b> |                      |                           |         |                  |         |

- (1) CMBS, CMBS interest-only securities, Agency securities, GNMA construction securities, GNMA permanent securities and corporate bonds are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income.
- (2) The amounts presented represent the principal amount of the mortgage loans outstanding in the pool in which the interest-only securities participate.
- (3) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

**Sensitivity of the Fair Value to Changes in the Unobservable Inputs**

- (4) Significant increase (decrease) in the unobservable input in isolation would result in significantly lower (higher) fair value measurement.  
 (5) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (lower or higher) fair value measurement depending on the structural features of the security in question.

**December 31, 2018**

| <u>Financial Instrument</u>  | <u>Carrying Value</u> | <u>Valuation Technique</u> | <u>Unobservable Input</u>  | <u>Minimum</u> | <u>Weighted Average</u> | <u>Maximum</u> |
|------------------------------|-----------------------|----------------------------|----------------------------|----------------|-------------------------|----------------|
| CMBS(1)                      | \$ 1,252,640          | Discounted cash flow       | Yield (3)                  | —%             | 3.54%                   | 21.67%         |
|                              |                       |                            | Duration (years)(4)        | 0.00           | 2.50                    | 7.78           |
| CMBS interest-only(1)        | 55,691 (2)            | Discounted cash flow       | Yield (3)                  | 0.87%          | 4.71%                   | 8.11%          |
|                              |                       |                            | Duration (years)(4)        | 0.14           | 2.96                    | 6.86           |
|                              |                       |                            | Prepayment speed (CPY) (4) | 100.00         | 100.00                  | 100.00         |
| GNMA interest-only(3)        | 2,648 (2)             | Discounted cash flow       | Yield (4)                  | 1.21%          | 5.54%                   | 10.21%         |
|                              |                       |                            | Duration (years)(5)        | 0.04           | 3.13                    | 4.77           |
|                              |                       |                            | Prepayment speed (CPJ)(5)  | 5.00           | 6.58                    | 15.00          |
| Agency securities(1)         | 662                   | Discounted cash flow       | Yield (4)                  | —%             | 2.1%                    | 2.84%          |
|                              |                       |                            | Duration (years)(5)        | 0.00           | 2.83                    | 3.82           |
| GNMA permanent securities(1) | 33,064                | Discounted cash flow       | Yield (4)                  | —%             | 3.51%                   | 4%             |
|                              |                       |                            | Duration (years)(5)        | 0.00           | 5.62                    | 5.88           |
| Corporate bonds(1)           | 53,871                | Discounted cash flow       | Yield (4)                  | 5.3%           | 5.35%                   | 5.46%          |
|                              |                       |                            | Duration (years)(5)        | 1.94           | 2.19                    | 2.70           |
| <b>Total</b>                 | <b>\$ 1,398,576</b>   |                            |                            |                |                         |                |

- (1) CMBS, CMBS interest-only securities, Agency securities, GNMA construction securities, GNMA permanent securities and corporate bonds are classified as available-for-sale and reported at fair value with changes in fair value recorded in the current period in other comprehensive income.  
 (2) The amounts presented represent the principal amount of the mortgage loans outstanding in the pool in which the interest-only securities participate.  
 (3) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

**Sensitivity of the Fair Value to Changes in the Unobservable Inputs**

- (4) Significant increase (decrease) in the unobservable input in isolation would result in significantly lower (higher) fair value measurement.  
 (5) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (lower or higher) fair value measurement depending on the structural features of the security in question.

**Nonrecurring Fair Values**

The Company measures fair value of certain assets on a nonrecurring basis when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Adjustments to fair value generally result from the application of lower of amortized cost or fair value accounting for assets held for sale or write-down of assets value due to impairment.

There were no assets carried at fair value on a nonrecurring basis at September 30, 2019 and December 31, 2018.

The following table summarizes the fair value write-downs to assets carried at fair value on a nonrecurring basis (\$ in thousands):

|                                  | Three Months Ended September 30, |      | Nine Months Ended September 30, |      |
|----------------------------------|----------------------------------|------|---------------------------------|------|
|                                  | 2019                             | 2018 | 2019                            | 2018 |
| <b>Impairment of real estate</b> |                                  |      |                                 |      |
| Real estate, net(1)(2)           | \$ —                             | \$ — | \$ 1,350                        | \$ — |

- (1) The write down to fair value was recorded based on contracted sales price and classified as Level 2 of the fair valuation hierarchy. On May 1, 2019, the Company completed the sale of the property recognizing \$3.9 million of operating lease income, \$3.5 million realized loss on sale of real estate, net and \$0.4 million of depreciation and amortization expense, resulting in a \$20 thousand loss on sale of real estate, net.
- (2) Impairment is discussed in further detail in Note 5, Real Estate and Related Lease Intangibles, Net.

## 16. INCOME TAXES

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”), commencing with the taxable year ended December 31, 2015 (the REIT Election”). As such, the Company’s income is generally not subject to U.S. Federal, state and local corporate income taxes other than as described below.

Certain of the Company’s subsidiaries have elected to be treated as TRSs. TRSs permit the Company to participate in certain activities from which REITs are generally precluded, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Code, and are conducted in entities which elect to be treated as taxable subsidiaries under the Code. To the extent these criteria are met, the Company will continue to maintain its qualification as a REIT. The Company’s TRSs are not consolidated for U.S. federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by the Company with respect to its interest in TRSs. Current income tax expense (benefit) was \$0.4 million and \$(6.9) million for the three and nine months ended September 30, 2019, respectively. Current income tax expense (benefit) was \$7.2 million and \$10.2 million for the three and nine months ended September 30, 2018, respectively.

As of September 30, 2019 and December 31, 2018, the Company’s net deferred tax assets (liabilities) were \$(4.7) million and \$2.3 million, respectively, and are included in other assets (other liabilities) in the Company’s consolidated balance sheets. Deferred income tax expense (benefit) included within the provision for income taxes was \$0.7 million and \$7.4 million for the three and nine months ended September 30, 2019, respectively. Deferred income tax expense (benefit) included within the provision for income taxes was \$(6.0) million and \$(4.5) million for the three and nine months ended September 30, 2018, respectively. The Company’s net deferred tax liability is comprised of deferred tax assets and deferred tax liabilities. The Company believes it is more likely than not that the deferred tax assets (aside from the exception noted below) will be realized in the future. Realization of the deferred tax assets is dependent upon our generation of sufficient taxable income in future years in appropriate tax jurisdictions to obtain benefit from the reversal of temporary differences. The amount of deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

As of September 30, 2019, the Company has a deferred tax asset of \$10.0 million relating to capital losses which it may only use to offset capital gains. These tax attributes will begin to expire if unused in 2020. As the realization of these assets are not more likely than not before their expiration, the Company has provided a full valuation allowance against this deferred tax asset.

The Company’s tax returns are subject to audit by taxing authorities. Generally, as of September 30, 2019, the tax years 2015-2018 remain open to examination by the major taxing jurisdictions in which the Company is subject to taxes. The Company acquired certain corporate entities at the time of its IPO. The related acquisition agreements provided an indemnification to the Company by each transferor of any amounts due for any potential tax liabilities owed by these entities for tax years prior to their acquisition. In January 2019, a settlement was reached with New York State pertaining to an audit of these corporate entities for the years 2013-2015. As a result of the settlement, during the year ended December 31, 2018, management recorded income tax expense in the amount of \$3.3 million and a corresponding payable to the State of New York. Pursuant to the indemnification, management expects to recover \$2.5 million of such amounts and, accordingly, recorded fee and other income in the amount of \$2.5 million as well as a corresponding receivable from the indemnity counterparties. As of July 31, 2019, the Company collected all amounts owed by the indemnity counterparties related to the 2013-2015 audit. The IRS recently completed its audit of the 2014 tax year and did not recommend any changes to the Company’s tax return. The Company is currently under New York City audit for tax years 2012-2014. The Company does not expect the audit to result in any material changes to the Company’s financial position. The Company does not expect tax expense to have an impact on either short or long-term liquidity or capital needs.

Under U.S. GAAP, a tax benefit related to an income tax position may be recognized when it is more likely than not that the position will be sustained upon examination by the tax authorities based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. As of September 30, 2019 and December 31, 2018, the Company's unrecognized tax benefit is a liability for \$0.2 million and \$0.8 million, respectively, and is included in the accrued expenses in the Company's consolidated balance sheets. This unrecognized tax benefit, if recognized, would have a favorable impact on our effective income tax rate in future periods. As of September 30, 2019, the Company has not recognized a significant amount of any interest or penalties related to uncertain tax positions. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record a significant liability for unrecognized tax benefits within the next twelve months. The statute of limitations for the federal portion of the \$0.8 million unrecognized tax benefit as of December 31, 2018 had expired as of September 30, 2019. This expiration allowed us to release \$0.6 million of the unrecognized tax benefit liability.

### **Tax Receivable Agreement**

Upon consummation of the IPO, the Company entered into a Tax Receivable Agreement with the Continuing LCFH Limited Partners. Under the Tax Receivable Agreement the Company generally is required to pay to those Continuing LCFH Limited Partners that exchange their interests in LCFH and Class B shares of the Company for Class A shares of the Company, 85% of the applicable cash savings, if any, in U.S. federal, state and local income tax that the Company realizes (or is deemed to realize in certain circumstances) as a result of (i) the increase in tax basis in its proportionate share of LCFH's assets that is attributable to the Company as a result of the exchanges and (ii) payments under the Tax Receivable Agreement, including any tax benefits related to imputed interest deemed to be paid by the Company as a result of such agreement. The Company may make future payments under the Tax Receivable Agreement if the tax benefits are realized. We would then benefit from the remaining 15% of cash savings in income tax that we realize. For purposes of the Tax Receivable Agreement, cash savings in income tax will be computed by comparing our actual income tax liability to the amount of such taxes that we would have been required to pay had there been no increase to the tax basis of the assets of LCFH as a result of the exchanges and had we not entered into the Tax Receivable Agreement.

Payments to a Continuing LCFH Limited Partner under the Tax Receivable Agreement are triggered by each exchange and are payable annually commencing following the Company's filing of its income tax return for the year of such exchange. The timing of the payments may be subject to certain contingencies, including the Company having sufficient taxable income to utilize all of the tax benefits defined in the Tax Receivable Agreement.

As of September 30, 2019 and December 31, 2018, pursuant to the Tax Receivable Agreement, the Company recorded a liability of \$1.6 million, included in amount payable pursuant to tax receivable agreement in the consolidated balance sheets for Continuing LCFH Limited Partners. The amount and timing of any payments may vary based on a number of factors, including the absence of any material change in the relevant tax law, the Company continuing to earn sufficient taxable income to realize all tax benefits, and assuming no additional exchanges that are subject to the Tax Receivable Agreement. Depending upon the outcome of these factors, the Company may be obligated to make substantial payments pursuant to the Tax Receivable Agreement. The actual payment amounts may differ from these estimated amounts, as the liability will reflect changes in prevailing tax rates, the actual benefit the Company realizes on its annual income tax returns, and any additional exchanges.

To determine the current amount of the payments due, the Company estimates the amount of the Tax Receivable Agreement payments that will be made within twelve months of the balance sheet date. As described in Note 1 above, the Tax Receivable Agreement was amended and restated in connection with our REIT Election, effective as of December 31, 2014 (the "TRA Amendment"), in order to preserve a portion of the potential tax benefits currently existing under the Tax Receivable Agreement that would otherwise be reduced in connection with our REIT Election. The purpose of the TRA Amendment was to preserve the benefits of the Tax Receivable Agreement to the extent possible in a REIT, although, as a result, the amount of payments made to the TRA Members under the TRA Amendment is expected to be less than the amount that would have been paid under the original Tax Receivable Agreement. The TRA Amendment continues to share such benefits in the same proportions and otherwise has substantially the same terms and provisions as the prior Tax Receivable Agreement.

## 17. RELATED PARTY TRANSACTIONS

### ***Ladder Select Bond Fund***

On October 18, 2016, Ladder Capital Asset Management LLC (“LCAM”), a subsidiary of the Company and a registered investment adviser, launched the Ladder Select Bond Fund (the “Fund”), a mutual fund. In addition, on October 18, 2016, the Company made a \$10.0 million investment in the Fund, which is included in other assets in the consolidated balance sheets. As of September 30, 2019, members of senior management have \$0.8 million invested in the Fund. LCAM earns a 0.75% fee on assets under management, which may be reduced for expenses incurred in excess of the Fund’s expense cap of 0.95%.

### ***Stockholders Agreement***

On March 3, 2017, Ladder, RREF II Ladder LLC, an entity affiliated with The Related Companies (“Related”), and certain pre-IPO stockholders of Ladder, including affiliates of TowerBrook Capital Partners, L.P. and GI Partners L.P., closed a purchase by Related of \$80.0 million of Ladder’s Class A common stock from the pre-IPO stockholders. As part of the closing of the transaction, Ladder and Related entered into a Stockholders Agreement, dated as of March 3, 2017, pursuant to which Jonathan Bilzin resigned from the Board, and all committees thereof, and Ladder appointed Richard O’Toole to replace Mr. Bilzin as a Class II Director on Ladder’s Board, each effective as of March 3, 2017. Pursuant to the Stockholders Agreement, Ladder granted to Related a right of first offer with respect to certain horizontal risk retention investments in which Ladder intends to retain an interest and Related agreed to certain standstill provisions.

### ***Commercial Real Estate Loans***

From time to time, the Company may provide commercial real estate loans to entities affiliated with certain of our directors, officers or large shareholders who are, as part of their ordinary course of business, commercial real estate investors. These loans are made in the ordinary course of the Company’s business on the same terms and conditions as would be offered to any other borrower of similar type and standing on a similar property.

On March 13, 2017, Related Reserve IV LLC, an affiliate of Related Fund Management LLC (the “B Participation Holder”), purchased a \$4.0 million subordinate participation interest (the “B Participation Interest”) in the up to \$136.5 million mortgage loan (the “Loan”) secured by the Conrad hotels and condominiums in Fort Lauderdale, Florida from a subsidiary of the Company. The B Participation Interest earns interest at an annual rate of 17%, with the Company’s participation interest (the “A Participation Interest”) receiving the balance of all interest paid under the Loan. Upon an event of default under the Loan, all receipts will be applied to the payment of interest and principal on the Company’s share of the principal balance before the B Participation Holder receives any sums. The Company retains all control over the administration and servicing of the whole loan, except that upon the occurrence of certain Loan defaults and other events, the B Participation Holder will have the option to trigger a buy-sell option, whereupon the Company shall have the right to either repurchase the B Participation Interest at par or sell the A Participation Interest to the B Participation Holder at par plus exit fees that would have been payable upon a borrower repayment. Because the participation interest was not *pari passu* and effective control continued to reside with the retained portions of the loans the transfers of any portion of this loan asset is considered a non-recourse secured borrowing in which the full loan asset remains on the Company’s consolidated balance sheets in mortgage loan receivables held for investment, net, at amortized cost and the sale proceeds are reported as debt obligations. The loan was repaid during the three months ended June 30, 2019. See Note 7, Debt Obligations, Net for further detail. The Company recorded \$0.2 million of interest expense for the nine months ended September 30, 2019, which is included in accrued expenses on the consolidated balance sheets. The Company recorded \$0.1 million and \$0.4 million of interest expense for the three and nine months ended September 30, 2018, respectively, which is included in accrued expenses on the consolidated balance sheets.

On December 12, 2018, Ladder provided a \$6.4 million first mortgage interest-only loan to a borrower affiliated with principals of Related to facilitate the acquisition of a gym facility and associated parking located in Woodbury, New York. The borrowing entity is owned directly or indirectly by certain investors, including, among other principals of Related, Richard O’Toole, who owns an approximate 12% interest in the borrowing entity and is a member of Ladder’s board of directors. For the nine months ended September 30, 2019, the Company earned \$0.1 million in interest income related to this loan. The loan was sold into a securitization trust during the three months ended June 30, 2019.

On March 5, 2019, Ladder provided a \$14.3 million first mortgage interest-only loan to a borrower affiliated with principals of Related to refinance a gym facility and associated parking located in Bloomfield Heights, Michigan. The borrowing entity is owned directly or indirectly by certain investors, including, among other principals of Related, Richard O'Toole, who owns an approximate 0.7% interest in the borrowing entity and is a member of Ladder's board of directors. For the nine months ended September 30, 2019, the Company earned \$0.3 million in interest income related to this loan. The loan was sold into a securitization trust during the three months ended June 30, 2019.

## 18. COMMITMENTS AND CONTINGENCIES

### *Leases*

The Company adopted ASC Topic 842 on January 1, 2019. The primary impact of applying ASC Topic 842 was the initial recognition of a \$3.5 million lease liability and a \$3.3 million right of use asset (including previously accrued straight line rent) on the Company's consolidated financial statements, for leases classified as operating leases under ASC Topic 840, primarily for the Company's corporate headquarters and other identified leases. There is no cumulative effect on retained earnings or other components of equity recognized as of January 1, 2019. As of September 30, 2019, the Company had a \$2.7 million lease liability and a \$2.7 million right-of-use asset on its consolidated balance sheets. Tenant reimbursements, which consist of real estate taxes and other municipal charges paid by us which were reimbursable by our tenants pursuant to the terms of triple-net lease agreements, were \$1.3 million and \$4.6 million for the three and nine months ended September 30, 2019, respectively, and are included in operating lease income on the Company's consolidated statements of income, compared to \$2.3 million and \$7.8 million of tenant reimbursements for the three and nine months ended September 30, 2018, respectively.

### *Investments in Unconsolidated Joint Ventures*

We have made investments in various unconsolidated joint ventures. See Note 6, Investment in and Advances to Unconsolidated Joint Ventures for further details of our unconsolidated investments. Our maximum exposure to loss from these investments is limited to the carrying value of our investments.

### *Unfunded Loan Commitments*

As of September 30, 2019, the Company's off-balance sheet arrangements consisted of \$257.7 million of unfunded commitments on mortgage loan receivables held for investment to provide additional first mortgage loan financing, at rates to be determined at the time of funding. As of December 31, 2018, the Company's off-balance sheet arrangements consisted of \$379.8 million of unfunded commitments of mortgage loan receivables held for investment to provide additional first mortgage loan financing, at rates to be determined at the time of funding. Such commitments are subject to our loan borrowers' satisfaction of certain financial and nonfinancial covenants and may or may not be funded depending on a variety of circumstances including timing, credit metric hurdles, and other nonfinancial events occurring. These commitments are not reflected on the consolidated balance sheets.

## 19. SEGMENT REPORTING

The Company has determined that it has three reportable segments based on how the chief operating decision maker reviews and manages the business. These reportable segments include loans, securities, and real estate. The loans segment includes mortgage loan receivables held for investment (balance sheet loans) and mortgage loan receivables held for sale (conduit loans). The securities segment is composed of all of the Company's activities related to commercial real estate securities, which include investments in CMBS, U.S. Agency Securities, corporate bonds and equity securities. The real estate segment includes net leased properties, office buildings, a student housing portfolio, industrial buildings, a shopping center and condominium units. Corporate/other includes the Company's investments in joint ventures, other asset management activities and operating expenses.

The Company evaluates performance based on the following financial measures for each segment (\$ in thousands):

|  | Loans               | Securities          | Real<br>Estate(1)   | Corporate/Other(2) | Company<br>Total    |
|--|---------------------|---------------------|---------------------|--------------------|---------------------|
| <b>Three months ended September 30, 2019</b>                     |                     |                     |                     |                    |                     |
| Interest income  | \$ 66,422           | \$ 15,515           | \$ 7                | \$ 307             | \$ 82,251           |
| Interest expense   | (12,063)            | (5,632)             | (9,646)             | (24,056)           | (51,397)            |
| Net interest income (expense)                                    | 54,359              | 9,883               | (9,639)             | (23,749)           | 30,854              |
| Provision for loan losses  | —                   | —                   | —                   | —                  | —                   |
| Net interest income (expense) after provision for loan losses    | 54,359              | 9,883               | (9,639)             | (23,749)           | 30,854              |
| Operating lease income   | —                   | —                   | 24,405              | —                  | 24,405              |
| Sale of loans, net   | 11,247              | —                   | —                   | —                  | 11,247              |
| Realized gain (loss) on securities                               | —                   | 3,396               | —                   | —                  | 3,396               |
| Unrealized gain (loss) on equity securities                      | —                   | 254                 | —                   | —                  | 254                 |
| Unrealized gain (loss) on Agency interest-only securities        | —                   | 16                  | —                   | —                  | 16                  |
| Realized gain on sale of real estate, net                        | —                   | —                   | 2,082               | —                  | 2,082               |
| Fee and other income   | 3,839               | 428                 | —                   | 899                | 5,166               |
| Net result from derivative transactions                          | (6,557)             | (2,908)             | —                   | —                  | (9,465)             |
| Earnings (loss) from investment in unconsolidated joint ventures | —                   | —                   | 1,094               | —                  | 1,094               |
| Total other income (loss)  | 8,529               | 1,186               | 27,581              | 899                | 38,195              |
| Salaries and employee benefits                                   | —                   | —                   | —                   | (14,319)           | (14,319)            |
| Operating expenses   | —                   | —                   | —                   | (5,314) (3)        | (5,314)             |
| Real estate operating expenses                                   | —                   | —                   | (6,270)             | —                  | (6,270)             |
| Fee expense  | (1,264)             | (92)                | (700)               | —                  | (2,056)             |
| Depreciation and amortization                                    | —                   | —                   | (9,005)             | (25)               | (9,030)             |
| Total costs and expenses   | (1,264)             | (92)                | (15,975)            | (19,658)           | (36,989)            |
| Income tax (expense) benefit                                     | —                   | —                   | —                   | (1,112)            | (1,112)             |
| <b>Segment profit (loss)</b>                                     | <b>\$ 61,624</b>    | <b>\$ 10,977</b>    | <b>\$ 1,967</b>     | <b>\$ (43,620)</b> | <b>\$ 30,948</b>    |
| <b>Total assets as of September 30, 2019</b>                     | <b>\$ 3,387,157</b> | <b>\$ 1,911,456</b> | <b>\$ 1,032,752</b> | <b>\$ 288,509</b>  | <b>\$ 6,619,874</b> |

|  | Loans               | Securities          | Real<br>Estate(1)   | Corporate/Other(2) | Company<br>Total    |
|--|---------------------|---------------------|---------------------|--------------------|---------------------|
| <b>Three months ended September 30, 2018</b>                     |                     |                     |                     |                    |                     |
| Interest income  | \$ 81,779           | \$ 8,541            | \$ 6                | \$ 60              | \$ 90,386           |
| Interest expense   | (17,232)            | (1,482)             | (9,213)             | (23,549)           | (51,476)            |
| Net interest income (expense)                                    | 64,547              | 7,059               | (9,207)             | (23,489)           | 38,910              |
| Provision for loan losses  | (10,300)            | —                   | —                   | —                  | (10,300)            |
| Net interest income (expense) after provision for loan losses    | 54,247              | 7,059               | (9,207)             | (23,489)           | 28,610              |
| Operating lease income   | —                   | —                   | 24,997              | —                  | 24,997              |
| Sale of loans, net   | 1,861               | —                   | —                   | —                  | 1,861               |
| Realized gain (loss) on securities                               | —                   | (2,554)             | —                   | —                  | (2,554)             |
| Unrealized gain (loss) on Agency interest-only securities        | —                   | 142                 | —                   | —                  | 142                 |
| Realized gain on sale of real estate, net                        | —                   | —                   | 63,704              | —                  | 63,704              |
| Fee and other income   | 3,895               | —                   | —                   | 956                | 4,851               |
| Net result from derivative transactions                          | 3,741               | 3,374               | —                   | —                  | 7,115               |
| Earnings (loss) from investment in unconsolidated joint ventures | —                   | —                   | 401                 | —                  | 401                 |
| Gain (loss) on extinguishment/defeasance of debt                 | —                   | —                   | (4,323)             | —                  | (4,323)             |
| Total other income (loss)  | 9,497               | 962                 | 84,779              | 956                | 96,194              |
| Salaries and employee benefits                                   | —                   | —                   | —                   | (15,792)           | (15,792)            |
| Operating expenses   | 61                  | —                   | —                   | (5,525) (3)        | (5,464)             |
| Real estate operating expenses                                   | —                   | —                   | (7,152)             | —                  | (7,152)             |
| Fee expense  | (928)               | (91)                | (292)               | —                  | (1,311)             |
| Depreciation and amortization                                    | —                   | —                   | (10,398)            | (19)               | (10,417)            |
| Total costs and expenses   | (867)               | (91)                | (17,842)            | (21,336)           | (40,136)            |
| Income tax (expense) benefit                                     | —                   | —                   | —                   | (1,204)            | (1,204)             |
| <b>Segment profit (loss)</b>                                     | <b>\$ 62,877</b>    | <b>\$ 7,930</b>     | <b>\$ 57,730</b>    | <b>\$ (45,073)</b> | <b>\$ 83,464</b>    |
| <b>Total assets as of December 31, 2018</b>                      | <b>\$ 3,482,929</b> | <b>\$ 1,410,126</b> | <b>\$ 1,038,376</b> | <b>\$ 341,441</b>  | <b>\$ 6,272,872</b> |

|  | Loans               | Securities          | Real<br>Estate(1)   | Corporate/Other(2)  | Company<br>Total    |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Nine months ended September 30, 2019</b>                      |                     |                     |                     |                     |                     |
| Interest income  | \$ 209,369          | \$ 43,844           | \$ 21               | \$ 806              | \$ 254,040          |
| Interest expense   | (41,043)            | (12,250)            | (27,620)            | (74,102)            | (155,015)           |
| Net interest income (expense)                                    | 168,326             | 31,594              | (27,599)            | (73,296)            | 99,025              |
| Provision for loan losses  | (600)               | —                   | —                   | —                   | (600)               |
| Net interest income (expense) after provision for loan losses    | 167,726             | 31,594              | (27,599)            | (73,296)            | 98,425              |
| Operating lease income   | —                   | —                   | 81,106              | —                   | 81,106              |
| Sale of loans, net   | 38,589              | —                   | —                   | —                   | 38,589              |
| Realized gain (loss) on securities                               | —                   | 10,726              | —                   | —                   | 10,726              |
| Unrealized gain (loss) on equity securities                      | —                   | 1,341               | —                   | —                   | 1,341               |
| Unrealized gain (loss) on Agency interest-only securities        | —                   | 38                  | —                   | —                   | 38                  |
| Realized gain on sale of real estate, net                        | —                   | —                   | 963                 | —                   | 963                 |
| Impairment of real estate  | —                   | —                   | (1,350)             | —                   | (1,350)             |
| Fee and other income   | 13,095              | 1,165               | 7                   | 2,780               | 17,047              |
| Net result from derivative transactions                          | (20,273)            | (15,683)            | —                   | —                   | (35,956)            |
| Earnings (loss) from investment in unconsolidated joint ventures | —                   | —                   | 3,617               | —                   | 3,617               |
| Gain (loss) on extinguishment of debt                            | —                   | —                   | (1,070)             | —                   | (1,070)             |
| Total other income (loss)  | 31,411              | (2,413)             | 83,273              | 2,780               | 115,051             |
| Salaries and employee benefits                                   | —                   | —                   | —                   | (52,800)            | (52,800)            |
| Operating expenses   | —                   | —                   | —                   | (16,727) (3)        | (16,727)            |
| Real estate operating expenses                                   | —                   | —                   | (17,776)            | —                   | (17,776)            |
| Fee expense  | (3,516)             | (280)               | (1,155)             | —                   | (4,951)             |
| Depreciation and amortization                                    | —                   | —                   | (29,118)            | (74)                | (29,192)            |
| Total costs and expenses   | (3,516)             | (280)               | (48,049)            | (69,601)            | (121,446)           |
| Income tax (expense) benefit                                     | —                   | —                   | —                   | (478)               | (478)               |
| <b>Segment profit (loss)</b>                                     | <b>\$ 195,621</b>   | <b>\$ 28,901</b>    | <b>\$ 7,625</b>     | <b>\$ (140,595)</b> | <b>\$ 91,552</b>    |
| <b>Total assets as of September 30, 2019</b>                     | <b>\$ 3,387,157</b> | <b>\$ 1,911,456</b> | <b>\$ 1,032,752</b> | <b>\$ 288,509</b>   | <b>\$ 6,619,874</b> |

|  | Loans               | Securities          | Real<br>Estate(1)   | Corporate/Other(2)  | Company<br>Total    |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Nine months ended September 30, 2018</b>                      |                     |                     |                     |                     |                     |
| Interest income  | \$ 228,273          | \$ 25,217           | \$ 16               | \$ 316              | \$ 253,822          |
| Interest expense   | (46,286)            | (3,423)             | (25,799)            | (69,098)            | (144,606)           |
| Net interest income (expense)                                    | 181,987             | 21,794              | (25,783)            | (68,782)            | 109,216             |
| Provision for loan losses  | (13,600)            | —                   | —                   | —                   | (13,600)            |
| Net interest income (expense) after provision for loan losses    | 168,387             | 21,794              | (25,783)            | (68,782)            | 95,616              |
| Operating lease income   | —                   | —                   | 79,306              | —                   | 79,306              |
| Sale of loans, net   | 12,893              | —                   | —                   | —                   | 12,893              |
| Realized gain (loss) on securities                               | —                   | (4,896)             | —                   | —                   | (4,896)             |
| Unrealized gain (loss) on Agency interest-only securities        | —                   | 456                 | —                   | —                   | 456                 |
| Realized gain on sale of real estate, net                        | —                   | —                   | 96,341              | —                   | 96,341              |
| Fee and other income   | 10,823              | 72                  | 3,416               | 3,268               | 17,579              |
| Net result from derivative transactions                          | 14,516              | 14,640              | —                   | —                   | 29,156              |
| Earnings (loss) from investment in unconsolidated joint ventures | —                   | —                   | 466                 | —                   | 466                 |
| Gain (loss) on extinguishment of debt                            | (69)                | —                   | (4,323)             | —                   | (4,392)             |
| Total other income (loss)  | 38,163              | 10,272              | 175,206             | 3,268               | 226,909             |
| Salaries and employee benefits                                   | —                   | —                   | —                   | (46,754)            | (46,754)            |
| Operating expenses   | 61                  | —                   | —                   | (16,669) (3)        | (16,608)            |
| Real estate operating expenses                                   | —                   | —                   | (23,806)            | —                   | (23,806)            |
| Fee expense  | (2,160)             | (297)               | (496)               | —                   | (2,953)             |
| Depreciation and amortization                                    | —                   | —                   | (31,840)            | (56)                | (31,896)            |
| Total costs and expenses   | (2,099)             | (297)               | (56,142)            | (63,479)            | (122,017)           |
| Income tax (expense) benefit                                     | —                   | —                   | —                   | (5,679)             | (5,679)             |
| <b>Segment profit (loss)</b>                                     | <b>\$ 204,451</b>   | <b>\$ 31,769</b>    | <b>\$ 93,281</b>    | <b>\$ (134,672)</b> | <b>\$ 194,829</b>   |
| <b>Total assets as of December 31, 2018</b>                      | <b>\$ 3,482,929</b> | <b>\$ 1,410,126</b> | <b>\$ 1,038,376</b> | <b>\$ 341,441</b>   | <b>\$ 6,272,872</b> |

- (1) Includes the Company's investment in unconsolidated joint ventures that held real estate of \$51.4 million and \$40.4 million as of September 30, 2019 and December 31, 2018, respectively.
- (2) Corporate/Other represents all corporate level and unallocated items including any intercompany eliminations necessary to reconcile to consolidated Company totals. This segment also includes the Company's investment in unconsolidated joint ventures and strategic investments that are not related to the other reportable segments above, including the Company's investment in FHLB stock of \$61.6 million and \$57.9 million as of September 30, 2019 and December 31, 2018, respectively, the Company's deferred tax asset (liability) of \$(4.7) million and \$2.3 million as of September 30, 2019 and December 31, 2018, respectively and the Company's senior unsecured notes of \$1.2 billion as of September 30, 2019 and December 31, 2018.
- (3) Includes \$3.0 million and \$9.1 million of professional fees for the three and nine months ended September 30, 2019, respectively. Includes \$2.9 million and \$8.7 million of professional fees for the three and nine months ended September 30, 2018, respectively.

## **20. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the issuance date of the financial statements and determined that no disclosure is necessary.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes of Ladder Capital Corp included within this Quarterly Report and the Annual Report. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See "Cautionary Statement Regarding Forward-Looking Statements" within this Quarterly Report and "Risk Factors" within the Annual Report for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements as a result of various factors, including but not limited to, those in "Risk Factors" set forth within the Annual Report.*

*References to "Ladder," the "Company," and "we," "our" and "us" refer to Ladder Capital Corp, a Delaware corporation incorporated in 2013, and its consolidated subsidiaries.*

*Ladder Capital Corp is the sole general partner of Ladder Capital Finance Holdings LLLP ("LCFH") and, as a result of the serialization of LCFH on December 31, 2014, became the sole general partner of Series REIT of LCFH. LC TRS I LLC, a wholly-owned subsidiary of Series REIT of LCFH, is the general partner of Series TRS of LCFH. Ladder Capital Corp has a controlling interest in Series REIT of LCFH, and through such controlling interest, also has a controlling interest in Series TRS of LCFH. Ladder Capital Corp's only business is to act as the sole general partner of LCFH and Series REIT of LCFH, and, as a result of the foregoing, Ladder Capital Corp directly and indirectly operates and controls all of the business and affairs of LCFH, and each Series thereof, and consolidates the financial results of LCFH, and each Series thereof, into Ladder Capital Corp's consolidated financial statements.*

### Overview

Ladder is an internally-managed real estate investment trust that is a leader in commercial real estate finance. Ladder originates and invests in a diverse portfolio of commercial real estate and real estate-related assets, focusing on senior secured assets. Ladder's investment activities include: (i) direct origination of commercial real estate first mortgage loans; (ii) investments in investment grade securities secured by first mortgage loans on commercial real estate; and (iii) investments in net leased and other commercial real estate equity. We believe that our in-house origination platform, ability to flexibly allocate capital among complementary product lines, credit-centric underwriting approach, access to diversified financing sources, and experienced management team position us well to deliver attractive returns on equity to our shareholders through economic and credit cycles.

Our businesses, including balance sheet lending, conduit lending, securities investments, and real estate investments, provide for a stable base of net interest and rental income. We have originated \$24.4 billion of commercial real estate loans from our inception through September 30, 2019. During this timeframe, we also acquired \$11.8 billion of predominantly investment grade-rated securities secured by first mortgage loans on commercial real estate and \$1.7 billion of selected net leased and other real estate assets.

As part of our commercial mortgage lending operations, we originate conduit loans, which are first mortgage loans on stabilized, income producing commercial real estate properties that we intend to make available for sale in commercial mortgage-backed securities ("CMBS") securitizations. From our inception in October 2008 through September 30, 2019, we originated \$16.0 billion of conduit loans, \$15.9 billion of which were sold into 63 CMBS securitizations, making us, by volume, the second largest non-bank contributor of loans to CMBS securitizations in the United States in such period. Our sales of loans into securitizations are generally accounted for as true sales, not financings, and we generally retain no ongoing interest in loans which we securitize unless we are required to do so as issuer pursuant to the risk retention requirements of the Dodd-Frank Act. The securitization of conduit loans enables us to reinvest our equity capital into new loan originations or allocate it to other investments.

As of September 30, 2019, we had \$6.6 billion in total assets and \$1.6 billion of total equity. Our assets included \$3.4 billion of loans, \$1.9 billion of securities, and \$1.0 billion of real estate.

We have a diversified and flexible financing strategy supporting our business operations, including unsecured debt and significant committed term financing from leading financial institutions. As of September 30, 2019, we had \$1.2 billion of unsecured debt financing outstanding. This unsecured financing was comprised of \$266.2 million in aggregate principal amount of 5.875% senior notes due 2021 (the "2021 Notes"), \$500.0 million in aggregate principal amount of 5.25% senior notes due 2022 (the "2022 Notes") and \$400.0 million in aggregate principal amount of 5.25% senior notes due 2025 (the "2025 Notes," collectively with the 2021 Notes and the 2022 Notes, the "Notes"), and there were no borrowings outstanding under our \$266.4 million Revolving Credit Facility.

In addition, as of September 30, 2019, we had \$3.7 billion of secured debt financing outstanding. This financing was comprised of \$1.1 billion of financing from the Federal Home Loan Bank (the “FHLB”), \$846.0 million of committed secured term repurchase agreement financing, \$940.1 million of other securities financing, \$723.3 million of third-party, non-recourse mortgage debt and \$117.8 million of collateralized loan obligation (“CLO”) debt.

As of September 30, 2019, we had \$2.4 billion of committed, undrawn total funding capacity available, consisting of \$266.4 million of availability under our \$266.4 million Revolving Credit Facility, \$869.3 million of undrawn committed FHLB financing and \$1.3 billion of other undrawn committed financings. As of September 30, 2019, our debt-to-equity ratio was 3.0:1.0, as we employ leverage prudently to maximize financial flexibility. Our adjusted leverage, a non-GAAP financial measure, was 2.9:1.0 as of September 30, 2019. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of adjusted leverage and a reconciliation to debt obligations, net.

Ladder was founded in October 2008 and we completed our IPO in February 2014. We are led by a disciplined and highly aligned management team. As of September 30, 2019, our management team and directors held interests in our Company comprising 11.3% of our total equity. On average, our management team members have 26 years of experience in the industry. Our management team includes Brian Harris, Chief Executive Officer; Pamela McCormack, President; Marc Fox, Chief Financial Officer; Robert Perelman, Head of Asset Management; and Kelly Porcella, Chief Administrative Officer & General Counsel. Kevin Moclair, Chief Accounting Officer is an additional officer of Ladder. We employ 73 full-time industry professionals.

We are organized and conduct our operations to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). As such, we will generally not be subject to U.S. federal income tax on that portion of our net income that is distributed to shareholders if we distribute at least 90% of our taxable income and comply with certain other requirements.

## Our Businesses

We invest primarily in loans, securities and other interests in U.S. commercial real estate, with a focus on senior secured assets. Our complementary business segments are designed to provide us with the flexibility to opportunistically allocate capital in order to generate attractive risk-adjusted returns under varying market conditions. The following table summarizes the carrying value of our investment portfolio as reported in our consolidated financial statements as of the dates indicated below (\$ in thousands):

|  | September 30, 2019  |                | December 31, 2018   |                |
|--|---------------------|----------------|---------------------|----------------|
| <b>Loans</b>   |                     |                |                     |                |
| Balance sheet loans:   |                     |                |                     |                |
| Balance sheet first mortgage loans                           | \$ 3,098,241        | 46.8 %         | \$ 3,170,788        | 50.5 %         |
| Other commercial real estate-related loans                   | 133,202             | 2.0 %          | 147,602             | 2.4 %          |
| Provision for loan losses                                    | (18,500)            | (0.3)%         | (17,900)            | (0.3)%         |
| Total balance sheet loans                                    | 3,212,943           | 48.5 %         | 3,300,490           | 52.6 %         |
| Conduit first mortgage loans                                 | 174,214             | 2.6 %          | 182,439             | 2.9 %          |
| Total loans  | 3,387,157           | 51.1 %         | 3,482,929           | 55.5 %         |
| <b>Securities</b>  |                     |                |                     |                |
| CMBS investments   | 1,830,152           | 27.8 %         | 1,308,331           | 20.8 %         |
| U.S. Agency Securities investments                           | 35,475              | 0.5 %          | 36,374              | 0.6 %          |
| Corporate bonds  | 32,372              | 0.5 %          | 53,871              | 0.9 %          |
| Equity securities  | 13,457              | 0.2 %          | 11,550              | 0.2 %          |
| Total securities   | 1,911,456           | 29.0 %         | 1,410,126           | 22.5 %         |
| <b>Real Estate</b>   |                     |                |                     |                |
| Real estate and related lease intangibles, net               | 981,333             | 14.8 %         | 998,022             | 15.9 %         |
| Total real estate  | 981,333             | 14.8 %         | 998,022             | 15.9 %         |
| <b>Other Investments</b>                                     |                     |                |                     |                |
| Investments in and advances to unconsolidated joint ventures | 51,419              | 0.8 %          | 40,354              | 0.6 %          |
| FHLB stock   | 61,619              | 0.9 %          | 57,915              | 0.9 %          |
| Total other investments                                      | 113,038             | 1.7 %          | 98,269              | 1.5 %          |
| Total investments  | 6,392,984           | 96.6 %         | 5,989,346           | 95.4 %         |
| Cash, cash equivalents and restricted cash                   | 121,753             | 1.8 %          | 98,450              | 1.6 %          |
| Other assets   | 105,137             | 1.6 %          | 185,076             | 3.0 %          |
| <b>Total assets</b>  | <b>\$ 6,619,874</b> | <b>100.0 %</b> | <b>\$ 6,272,872</b> | <b>100.0 %</b> |

## Loans

**Balance Sheet First Mortgage Loans.** We originate and invest in balance sheet first mortgage loans secured by commercial real estate properties that are typically undergoing transition, including lease-up, sell-out, and renovation or repositioning. These mortgage loans are structured to fit the needs and business plans of the property owners, and generally have LIBOR based floating rates and terms (including extension options) ranging from one to five years. Our loans are directly originated by an internal team that has longstanding and strong relationships with borrowers and mortgage brokers throughout the United States. We follow a rigorous investment process, which begins with an initial due diligence review; continues through a comprehensive legal and underwriting process incorporating multiple internal and external checks and balances; and culminates in approval or disapproval of each prospective investment by our Investment Committee. Balance sheet first mortgage loans in excess of \$50.0 million also require the approval of our board of directors' Risk and Underwriting Committee.

We generally seek to hold our balance sheet first mortgage loans for investment although we also maintain the flexibility to contribute such loans into a CLO or similar structure, sell participation interests or “b-notes” in our mortgage loans or sell such mortgage loans as whole loans. These investments have been typically repaid at or prior to maturity (including by being refinanced by us into a new conduit first mortgage loan upon property stabilization). As of September 30, 2019, we held a portfolio of 149 balance sheet first mortgage loans with an aggregate book value of \$3.1 billion. Based on the loan balances and the “as-is” third-party FIRREA appraised values at origination, the weighted average loan-to-value ratio of this portfolio was 70.0% at September 30, 2019.

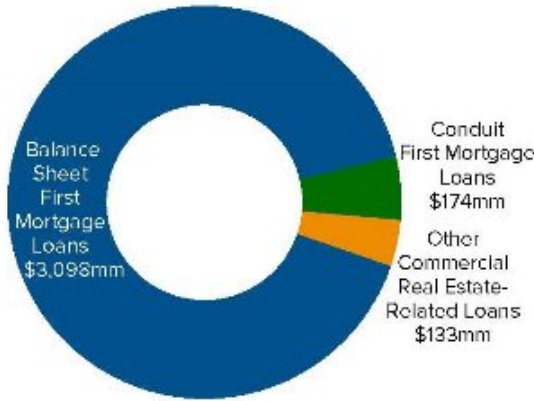
*Other Commercial Real Estate-Related Loans.* We selectively invest in note purchase financings, subordinated debt, mezzanine debt and other structured finance products related to commercial real estate that are generally held for investment. As of September 30, 2019, we held a portfolio of 27 other commercial real estate-related loans with an aggregate book value of \$133.2 million. Based on the loan balance and the “as-is” third-party FIRREA appraised values at origination, the weighted average loan-to-value ratio of the portfolio was 68.2% at September 30, 2019.

*Conduit First Mortgage Loans.* We also originate conduit loans, which are first mortgage loans that are secured by cash-flowing commercial real estate and are available for sale to securitizations. These first mortgage loans are typically structured with fixed interest rates and generally have five- to ten-year terms. Conduit first mortgage loans are originated, underwritten, approved and funded using the same comprehensive legal and underwriting approach, process and personnel used to originate our balance sheet first mortgage loans. Conduit first mortgage loans in excess of \$50.0 million also require approval of our board of directors’ Risk and Underwriting Committee.

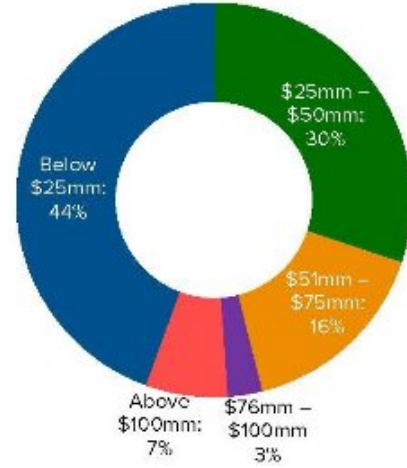
Although our primary intent is to sell our conduit first mortgage loans to CMBS trusts, we generally seek to maintain the flexibility to keep them on our balance sheet, sell participation interests or “b-notes” in such loans or sell the loans as whole loans. From our inception in 2008 through September 30, 2019, we have originated and funded \$16.0 billion of conduit first mortgage loans and securitized \$15.9 billion of such mortgage loans in 63 separate transactions, including two securitizations in 2010, three securitizations in 2011, six securitizations in 2012, six securitizations in 2013, 10 securitizations in 2014, 10 securitizations in 2015, six securitizations in 2016, seven securitizations in 2017, nine securitizations in 2018 and four securitizations in 2019. We generally securitize our loans together with certain financial institutions, which to date have included affiliates of Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., J.P. Morgan Securities LLC, UBS Securities LLC and Wells Fargo Securities, LLC. We have also completed three single-asset securitizations, executed a Ladder-only multi-borrower securitization and completed our first contributions of shorter-term loans into CLO transactions in the fourth quarter of 2017. As of September 30, 2019, we held 11 first mortgage loans that were available for contribution into a securitization with an aggregate book value of \$174.2 million. Based on the loan balances and the “as-is” third-party Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) appraised values at origination, the weighted average loan-to-value ratio of this portfolio was 58.0% at September 30, 2019. The Company holds these conduit loans in its taxable REIT subsidiary (“TRS”).

The following charts set forth our total outstanding balance sheet first mortgage loans, other commercial real estate-related loans, mortgage loans transferred but not considered sold and conduit first mortgage loans as of September 30, 2019 and a breakdown of our loan portfolio by loan size and geographic location and asset type of the underlying real estate.

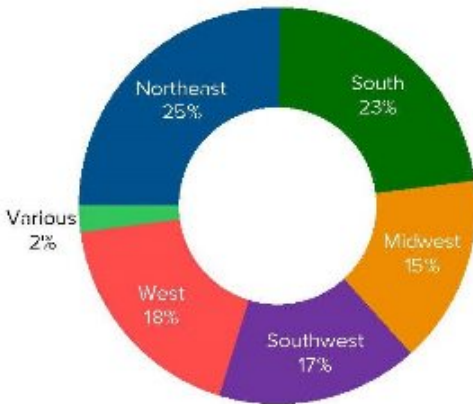
**Loan Type**



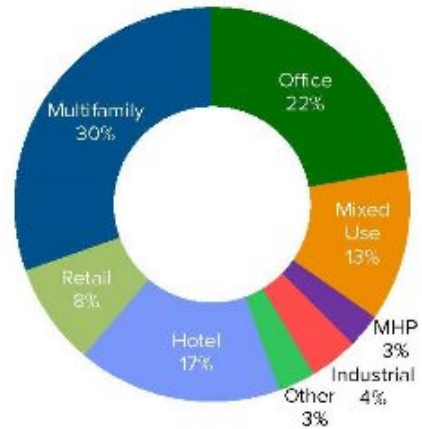
**Loan Size**



**Geographic Location**



**Asset Type**



## Securities

*CMBS Investments.* We invest in CMBS secured by first mortgage loans on commercial real estate and own predominantly AAA-rated securities. These investments provide a stable and attractive base of net interest income and help us manage our liquidity. We have significant in-house expertise in the evaluation and trading of CMBS, due in part to our experience in originating and underwriting mortgage loans that comprise assets within CMBS trusts, as well as our experience in structuring CMBS transactions. AAA-rated CMBS or U.S. Agency securities investments in excess of \$76.0 million and all other investment grade CMBS or U.S. Agency securities investments in excess of \$51.0 million, each in any single class of any single issuance, require the approval of our board of directors' Risk and Underwriting Committee. The Risk and Underwriting Committee also must approve any investments in non-rated or sub-investment grade CMBS or U.S. Agency Securities in any single class of any single issuance in excess of the lesser of (x) \$21,000,000 and (y) 10% of the total net asset value of the respective Ladder investment company. As of September 30, 2019, the estimated fair value of our portfolio of CMBS investments totaled \$1.8 billion in 157 CUSIPs (\$11.7 million average investment per CUSIP). As of September 30, 2019, included in the \$1.8 billion of CMBS securities are \$12.5 million of CMBS securities designated as risk retention securities under the Dodd-Frank Act which are subject to transfer restrictions over the term of the securitization trust. As of that date, 100% of our CMBS investments were rated investment grade by Standard & Poor's Ratings Group, Moody's Investors Service, Inc. or Fitch Ratings Inc., consisting of 88.4% AAA/Aaa-rated securities and 11.6% of other investment grade-rated securities, including 9.7% rated AA/Aa, 0.9% rated A/A and 1.0% rated BBB/Baa. In the future, we may invest in CMBS securities or other securities that are unrated. As of September 30, 2019, our CMBS investments had a weighted average duration of 2.4 years. The commercial real estate collateral underlying our CMBS investment portfolio is located throughout the United States. As of September 30, 2019, by property count and market value, respectively, 49.9% and 76.2% of the collateral underlying our CMBS investment portfolio was distributed throughout the top 25 metropolitan statistical areas ("MSAs") in the United States, with 7.2% and 34%, by property count and market value, respectively, of the collateral located in the New York-Newark-Edison MSA, and the concentrations in each of the remaining top 24 MSAs ranging from 0.2% to 4.5% by property count and 0.1% to 8.2% by market value.

*U.S. Agency Securities Investments.* Our U.S. Agency Securities portfolio consists of securities for which the principal and interest payments are guaranteed by a U.S. government agency, such as the Government National Mortgage Association ("GNMA"), or by a government-sponsored enterprise ("GSE"), such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). In addition, these securities are secured by first mortgage loans on commercial real estate. Investments in U.S. Agency Securities are subject to the same Risk and Underwriting Committee approval requirements as CMBS investments, as described above. As of September 30, 2019, the estimated fair value of our portfolio of U.S. Agency Securities was \$35.5 million in 20 CUSIPs (\$1.8 million average investment per CUSIP), with a weighted average duration of 4.4 years. The commercial real estate collateral underlying our U.S. Agency Securities portfolio is located throughout the United States. As of September 30, 2019, by market value, 75.9% and 19.7% of the collateral underlying our U.S. Agency Securities, excluding the collateral underlying our Agency interest-only securities, was located in New York and California, respectively, with no other state having a concentration greater than 10.0%. By property count, California represented 75.9% and New York represented 3.4% of such collateral. While the specific geographic concentration of our Agency interest-only securities portfolio as of September 30, 2019 is not obtainable, risk relating to any such possible concentration is mitigated by the interest payments of these securities being guaranteed by a U.S. government agency or a GSE.

*Corporate Bonds.* In addition to CMBS and U.S. Agency Securities, we invest in other debt securities, including but not limited to debt securities issued by REITs and real estate companies. Approval of our board of directors' Risk and Underwriting Committee is required for the aggregate investments in such debt securities made and owned by all Ladder investment companies to exceed \$20.0 million. As of September 30, 2019, the estimated fair value of our portfolio of debt securities was \$32.4 million in one CUSIP, with a weighted average duration of 1.3 years.

*Equity Securities.* We invest in real estate related equity investments. Approval of our board of directors' Risk and Underwriting Committee is required for the aggregate real estate related equity investments made and owned by all Ladder investment companies to exceed \$20.0 million. As of September 30, 2019, the estimated fair value of our portfolio of equity securities was \$13.5 million in three CUSIPs (\$4.5 million average investment per CUSIP).

**Real Estate**

*Net Leased Commercial Real Estate Properties.* As of September 30, 2019, we owned 154 single tenant net leased properties with an aggregate book value of \$669.5 million. These properties are fully leased on a net basis where the tenant is generally responsible for payment of real estate taxes, property, building and general liability insurance and property and building maintenance expenses. As of September 30, 2019, our net leased properties comprised a total of 5.3 million square feet, 100% leased with an average age since construction of 14.8 years and a weighted average remaining lease term of 12.6 years. Commercial real estate investments in excess of \$20.0 million require the approval of our board of directors' Risk and Underwriting Committee.

*Diversified Commercial Real Estate Properties.* In addition, as of September 30, 2019, we own 67 diversified commercial real estate properties with an aggregate book value of \$309.0 million. Through separate joint ventures, we own a 40 property student housing portfolio in Isla Vista, CA with a book value of \$82.9 million and an occupancy rate of 100.0%, a portfolio of 12 office buildings in Richmond, VA with a book value of \$77.1 million with a 90.5% occupancy rate, an apartment complex in Miami, FL with a book value of \$35.5 million and an occupancy rate of 92.9%, an unleased industrial building in Lithia Springs, GA with an aggregate book value of \$23.8 million, a portfolio of seven office buildings in Richmond, VA with a book value of \$15.1 million and an 88.3% occupancy rate, and a 13-story office building in Oakland County, MI with a book value of \$10.4 million and an 81.2% occupancy rate. We also own a single-tenant office building in Ewing, NJ with a book value of \$27.2 million, a hotel in Omaha, NE with a book value of \$17.7 million, a single-tenant office building in Crum Lynne, PA with a book value of \$10.0 million, a shopping center in Carmel, NY with a book value of \$6.1 million and a 44.4% occupancy rate, and an office building in Peoria, IL with a book value of \$3.2 million and a 50.8% occupancy rate.

*Residential Real Estate.* We sold no condominium units at Veer Towers in Las Vegas, NV, during the nine months ended September 30, 2019. As of September 30, 2019, we own one residential condominium unit at Veer Towers in Las Vegas, NV with a book value of \$0.5 million through a joint venture, and we expect to complete the sale of this remaining unit by March 31, 2020. As of September 30, 2019, there were no condominium units under contract for sale. As of September 30, 2019, the remaining condominium unit we hold is not rented or occupied.

We sold 14 condominium units at Terrazas River Park Village in Miami, FL, during the nine months ended September 30, 2019, generating aggregate gains on sale of \$0.4 million. As of September 30, 2019, we own eight residential condominium units at Terrazas River Park Village in Miami, FL with a book value of \$2.4 million, and we intend to sell these remaining units in less than 18 months. As of September 30, 2019, two condominium units were under contract for sale with a book value of \$0.5 million. As of September 30, 2019, the remaining condominium units we hold were 37.5% rented and occupied. During the nine months ended September 30, 2019, the Company recorded \$0.2 million of rental income from the condominium units.

The Company holds these residential condominium units in a TRS.

The following table, organized by tenant type and acquisition date, summarizes our owned properties as of September 30, 2019 (\$ amounts in thousands):

| Location          | Acquisition date | Acquisition price/basis | Year built/reno. | Lease expiration (1) | Approx. square footage | Carrying value of asset | Mortgage loan outstanding (2) | Asset net of mortgage loan outstanding | Annual rental income (3) | Ownership Percentage (4) |
|-------------------|------------------|-------------------------|------------------|----------------------|------------------------|-------------------------|-------------------------------|--|--------------------------|--------------------------|
| <b>Net Leased</b> |                  |                         |                  |                      |                        |                         |                               |  |                          |                          |
| Sullivan, IL      | 09/13/19         | \$ 1,496                | 2019             | 5/31/34              | 10,566                 | \$ 1,577                | \$ —                          | \$ 1,577                               | \$ 65                    | 100.0%                   |
| Becker, MN        | 09/13/19         | 1,185                   | 2019             | 7/31/34              | 9,002                  | 1,244                   | —                             | 1,244                                  | 52                       | 100.0%                   |
| Adrian, MO        | 09/13/19         | 1,138                   | 2019             | 7/31/34              | 9,026                  | 1,209                   | —                             | 1,209                                  | 49                       | 100.0%                   |
| Chillicothe, IL   | 09/05/19         | 1,445                   | 2019             | 6/30/34              | 10,640                 | 1,516                   | —                             | 1,516                                  | 91                       | 100.0%                   |
| Poseyville, IN    | 08/13/19         | 1,220                   | 2019             | 5/31/34              | 10,566                 | 1,297                   | —                             | 1,297                                  | 88                       | 100.0%                   |
| Dexter, MO        | 07/09/19         | 1,150                   | 2019             | 4/30/34              | 9,002                  | 1,201                   | —                             | 1,201                                  | 83                       | 100.0%                   |
| Hubbard Lake, MI  | 07/09/19         | 1,199                   | 2019             | 4/30/34              | 9,026                  | 1,252                   | —                             | 1,252                                  | 87                       | 100.0%                   |
| Fayette, MO       | 06/26/19         | 1,423                   | 2019             | 1/31/34              | 10,566                 | 1,483                   | —                             | 1,483                                  | 103                      | 100.0%                   |
| Centralia, IL     | 04/25/19         | 1,242                   | 2019             | 2/28/34              | 9,002                  | 1,290                   | —                             | 1,290                                  | 90                       | 100.0%                   |
| Trenton, MO       | 02/26/19         | 1,164                   | 2019             | 12/31/33             | 9,100                  | 1,206                   | —                             | 1,206                                  | 84                       | 100.0%                   |
| Houghton Lake, MI | 02/26/19         | 1,242                   | 2018             | 12/31/33             | 9,100                  | 1,283                   | 970                           | 313                                    | 90                       | 100.0%                   |

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| Location            | Acquisition date | Acquisition price/basis | Year built/reno. | Lease expiration (1) | Approx. square footage | Carrying value of asset | Mortgage loan outstanding (2) | Asset net of mortgage loan outstanding | Annual rental income (3) | Ownership Percentage (4) |
|---------------------|------------------|-------------------------|------------------|----------------------|------------------------|-------------------------|-------------------------------|--|--------------------------|--------------------------|
| Pelican Rapids, MN  | 12/26/18         | 1,195                   | 2018             | 10/31/33             | 9,100                  | 1,229                   | 920                           | 309                                    | 87                       | 100.0%                   |
| Carthage, MO        | 12/26/18         | 1,099                   | 2018             | 10/31/33             | 7,489                  | 1,146                   | 848                           | 298                                    | 80                       | 100.0%                   |
| Bolivar, MO         | 12/26/18         | 1,175                   | 2018             | 10/31/33             | 9,026                  | 1,219                   | 897                           | 322                                    | 85                       | 100.0%                   |
| Pinconning, MI      | 12/06/18         | 1,235                   | 2018             | 9/30/33              | 9,026                  | 1,269                   | 952                           | 317                                    | 90                       | 100.0%                   |
| New Hampton, IA     | 11/30/18         | 1,317                   | 2018             | 9/30/33              | 9,002                  | 1,438                   | 1,016                         | 422                                    | 96                       | 100.0%                   |
| Ogden, IA           | 10/03/18         | 1,137                   | 2018             | 7/31/33              | 7,489                  | 1,154                   | 857                           | 297                                    | 82                       | 100.0%                   |
| Moscow Mills, MO    | 04/12/18         | 1,237                   | 2018             | 1/31/33              | 9,026                  | 1,259                   | 991                           | 268                                    | 90                       | 100.0%                   |
| Foley, MN           | 04/12/18         | 1,176                   | 2018             | 1/1/33               | 7,489                  | 1,181                   | 883                           | 298                                    | 85                       | 100.0%                   |
| Wonder Lake, IL     | 04/12/18         | 1,256                   | 2017             | 7/31/32              | 9,100                  | 1,272                   | 943                           | 329                                    | 91                       | 100.0%                   |
| Kirbyville, MO      | 04/02/18         | 1,156                   | 2018             | 1/31/33              | 9,026                  | 1,168                   | 870                           | 298                                    | 84                       | 100.0%                   |
| Gladwin, MI         | 04/02/18         | 1,171                   | 2017             | 1/31/33              | 9,026                  | 1,194                   | 883                           | 311                                    | 85                       | 100.0%                   |
| Rockford, MN        | 12/08/17         | 1,195                   | 2017             | 10/31/32             | 9,002                  | 1,166                   | 886                           | 280                                    | 87                       | 100.0%                   |
| Winterset, IA       | 12/08/17         | 1,258                   | 2017             | 8/31/32              | 9,026                  | 1,240                   | 934                           | 306                                    | 91                       | 100.0%                   |
| Kawkawlin, MI       | 10/05/17         | 1,234                   | 2017             | 7/31/32              | 9,100                  | 1,217                   | 917                           | 300                                    | 89                       | 100.0%                   |
| Aroma Park, IL      | 10/05/17         | 1,218                   | 2017             | 7/31/32              | 9,002                  | 1,192                   | 949                           | 243                                    | 88                       | 100.0%                   |
| East Peoria, IL     | 10/05/17         | 1,350                   | 2017             | 7/31/32              | 9,100                  | 1,320                   | 1,019                         | 301                                    | 98                       | 100.0%                   |
| Milford, IA         | 09/08/17         | 1,298                   | 2017             | 6/1/32               | 9,100                  | 1,284                   | 987                           | 297                                    | 94                       | 100.0%                   |
| Jefferson City, MO  | 06/02/17         | 1,241                   | 2016             | 2/28/32              | 9,002                  | 1,255                   | 949                           | 306                                    | 90                       | 100.0%                   |
| Denver, IA          | 05/31/17         | 1,183                   | 2017             | 3/31/31              | 9,026                  | 1,150                   | 903                           | 247                                    | 86                       | 100.0%                   |
| Port O'Connor, TX   | 05/25/17         | 1,255                   | 2017             | 3/31/30              | 9,100                  | 1,216                   | 955                           | 261                                    | 91                       | 100.0%                   |
| Wabasha, MN         | 05/25/17         | 1,280                   | 2016             | 3/31/31              | 9,026                  | 1,270                   | 970                           | 300                                    | 92                       | 100.0%                   |
| Jacksonville, FL    | 05/23/17         | 115,641                 | 1989             | 9/30/31              | 822,540                | 131,816                 | 83,281                        | 48,535                                 | 7,403                    | 100.0%                   |
| Shelbyville, IL     | 05/23/17         | 1,132                   | 2016             | 1/31/31              | 9,026                  | 1,161                   | 868                           | 293                                    | 82                       | 100.0%                   |
| Jesup, IA           | 05/05/17         | 1,163                   | 2017             | 3/31/30              | 9,026                  | 1,116                   | 889                           | 227                                    | 84                       | 100.0%                   |
| Hanna City, IL      | 04/11/17         | 1,141                   | 2016             | 6/30/31              | 9,100                  | 1,147                   | 870                           | 277                                    | 83                       | 100.0%                   |
| Ridgedale, MO       | 03/09/17         | 1,298                   | 2016             | 6/30/31              | 9,002                  | 1,278                   | 997                           | 281                                    | 94                       | 100.0%                   |
| Peoria, IL          | 02/06/17         | 1,183                   | 2016             | 8/31/31              | 7,489                  | 1,181                   | 909                           | 272                                    | 86                       | 100.0%                   |
| Carmi, IL           | 02/03/17         | 1,411                   | 2016             | 10/31/31             | 9,100                  | 1,351                   | 1,106                         | 245                                    | 102                      | 100.0%                   |
| Springfield, IL     | 11/16/16         | 1,308                   | 2016             | 6/30/31              | 9,026                  | 1,320                   | 1,007                         | 313                                    | 96                       | 100.0%                   |
| Fayetteville, NC    | 11/15/16         | 6,971                   | 2008             | 10/31/34             | 14,820                 | 6,286                   | 4,909                         | 1,377                                  | 450                      | 100.0%                   |
| Dryden Township, MI | 10/26/16         | 1,190                   | 2016             | 8/31/31              | 9,100                  | 1,186                   | 916                           | 270                                    | 87                       | 100.0%                   |
| Lamar, MO           | 07/22/16         | 1,175                   | 2016             | 5/31/31              | 9,100                  | 1,137                   | 906                           | 231                                    | 86                       | 100.0%                   |
| Union, MO           | 07/01/16         | 1,227                   | 2016             | 5/31/31              | 9,100                  | 1,232                   | 949                           | 283                                    | 90                       | 100.0%                   |
| Pawnee, IL          | 07/01/16         | 1,201                   | 2016             | 5/31/31              | 9,002                  | 1,131                   | 949                           | 182                                    | 88                       | 100.0%                   |
| Decatur, IL         | 06/30/16         | 1,365                   | 2016             | 5/31/31              | 9,002                  | 1,368                   | 1,056                         | 312                                    | 100                      | 100.0%                   |
| Cape Girardeau, MO  | 06/30/16         | 1,281                   | 2016             | 5/31/31              | 9,100                  | 1,280                   | 1,023                         | 257                                    | 94                       | 100.0%                   |
| Linn, MO            | 06/30/16         | 1,122                   | 2016             | 5/31/31              | 9,002                  | 1,086                   | 864                           | 222                                    | 82                       | 100.0%                   |
| Rantoul, IL         | 06/21/16         | 1,204                   | 2016             | 4/30/31              | 9,100                  | 1,191                   | 928                           | 263                                    | 88                       | 100.0%                   |
| Flora Vista, NM     | 06/06/16         | 1,305                   | 2016             | 4/30/31              | 9,002                  | 1,203                   | 1,006                         | 197                                    | 95                       | 100.0%                   |
| Champaign, IL       | 06/03/16         | 1,324                   | 2016             | 4/30/31              | 9,002                  | 1,328                   | 1,021                         | 307                                    | 97                       | 100.0%                   |
| Mountain Grove, MO  | 06/03/16         | 1,279                   | 2016             | 4/30/31              | 10,566                 | 1,278                   | 985                           | 293                                    | 93                       | 100.0%                   |
| Decatur, IL         | 06/03/16         | 1,181                   | 2016             | 4/30/31              | 9,002                  | 1,166                   | 949                           | 217                                    | 86                       | 100.0%                   |
| San Antonio, TX     | 05/06/16         | 1,096                   | 2015             | 3/31/31              | 9,100                  | 1,044                   | 890                           | 154                                    | 80                       | 100.0%                   |
| Borger, TX          | 05/06/16         | 978                     | 2016             | 3/31/31              | 9,100                  | 944                     | 786                           | 158                                    | 71                       | 100.0%                   |
| St.Charles, MN      | 04/26/16         | 1,198                   | 2016             | 3/31/31              | 9,026                  | 1,134                   | 964                           | 170                                    | 87                       | 100.0%                   |
| Philo, IL           | 04/26/16         | 1,156                   | 2016             | 3/31/31              | 9,026                  | 1,135                   | 927                           | 208                                    | 84                       | 100.0%                   |
| Dimmitt, TX         | 04/26/16         | 1,319                   | 2016             | 3/31/31              | 10,566                 | 1,260                   | 1,053                         | 207                                    | 96                       | 100.0%                   |
| Radford, VA         | 12/23/15         | 1,564                   | 2015             | 9/30/30              | 8,360                  | 1,406                   | 1,133                         | 273                                    | 104                      | 100.0%                   |
| Albion, PA          | 12/23/15         | 1,525                   | 2015             | 9/30/30              | 8,184                  | 1,294                   | 1,122                         | 172                                    | 101                      | 100.0%                   |



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|----------------------|------------------|-------------------------|------------------|----------------------|------------------------|-------------------------|-------------------------------|--|--------------------------|--------------------------|
| Rural Retreat, VA    | 12/23/15         | 1,399                   | 2015             | 9/30/30              | 8,305                  | 1,262                   | 1,035                         | 227                                    | 93                       | 100.0%                   |
| Mount Vernon, AL     | 12/23/15         | 1,224                   | 2015             | 6/30/30              | 8,323                  | 1,105                   | 941                           | 164                                    | 84                       | 100.0%                   |
| Malone, NY           | 12/16/15         | 1,474                   | 2015             | 6/30/30              | 8,320                  | 1,321                   | 1,084                         | 237                                    | 99                       | 100.0%                   |
| Mercedes, TX         | 12/16/15         | 1,263                   | 2015             | 11/30/30             | 9,100                  | 1,153                   | 835                           | 318                                    | 86                       | 100.0%                   |
| Gordonville, MO      | 11/10/15         | 1,207                   | 2015             | 9/30/30              | 9,026                  | 1,095                   | 773                           | 322                                    | 80                       | 100.0%                   |
| Rice, MN             | 10/28/15         | 1,242                   | 2015             | 9/30/30              | 9,002                  | 1,079                   | 818                           | 261                                    | 85                       | 100.0%                   |
| Bixby, OK            | 10/27/15         | 12,151                  | 2012             | 12/31/32             | 75,996                 | 11,010                  | 7,967                         | 3,043                                  | 769                      | 100.0%                   |
| Farmington, IL       | 10/23/15         | 1,408                   | 2015             | 8/31/30              | 9,100                  | 1,261                   | 897                           | 364                                    | 93                       | 100.0%                   |
| Grove, OK            | 10/20/15         | 5,583                   | 2012             | 8/31/32              | 31,500                 | 4,910                   | 3,631                         | 1,279                                  | 364                      | 100.0%                   |
| Jenks, OK            | 10/19/15         | 13,418                  | 2009             | 9/24/33              | 80,932                 | 12,063                  | 8,815                         | 3,248                                  | 912                      | 100.0%                   |
| Bloomington, IL      | 10/14/15         | 1,294                   | 2015             | 8/31/30              | 9,026                  | 1,164                   | 818                           | 346                                    | 85                       | 100.0%                   |
| Montrose, MN         | 10/14/15         | 1,193                   | 2015             | 8/31/30              | 9,100                  | 1,028                   | 782                           | 246                                    | 83                       | 100.0%                   |
| Lincoln County , MO  | 10/14/15         | 1,137                   | 2015             | 8/31/30              | 9,002                  | 1,021                   | 740                           | 281                                    | 76                       | 100.0%                   |
| Wilmington, IL       | 10/07/15         | 1,399                   | 2015             | 8/31/30              | 9,002                  | 1,256                   | 904                           | 352                                    | 93                       | 100.0%                   |
| Danville, IL         | 10/07/15         | 1,160                   | 2015             | 8/31/30              | 9,100                  | 1,051                   | 740                           | 311                                    | 76                       | 100.0%                   |
| Moultrie, GA         | 09/22/15         | 1,305                   | 2014             | 6/30/29              | 8,225                  | 1,127                   | 932                           | 195                                    | 85                       | 100.0%                   |
| Rose Hill, NC        | 09/22/15         | 1,420                   | 2014             | 6/30/29              | 8,320                  | 1,248                   | 1,002                         | 246                                    | 93                       | 100.0%                   |
| Rockingham, NC       | 09/22/15         | 1,158                   | 2014             | 6/30/29              | 8,320                  | 1,004                   | 823                           | 181                                    | 76                       | 100.0%                   |
| Biscoe, NC           | 09/22/15         | 1,216                   | 2014             | 6/30/29              | 8,320                  | 1,059                   | 862                           | 197                                    | 80                       | 100.0%                   |
| De Soto, IL          | 09/08/15         | 1,111                   | 2015             | 7/31/30              | 9,100                  | 986                     | 705                           | 281                                    | 76                       | 100.0%                   |
| Kerrville, TX        | 08/28/15         | 1,236                   | 2015             | 7/31/30              | 9,100                  | 1,079                   | 768                           | 311                                    | 84                       | 100.0%                   |
| Floresville, TX      | 08/28/15         | 1,312                   | 2015             | 7/31/30              | 9,100                  | 1,153                   | 815                           | 338                                    | 89                       | 100.0%                   |
| Minot, ND            | 08/19/15         | 6,946                   | 2012             | 1/31/34              | 55,440                 | 6,323                   | 4,699                         | 1,624                                  | 419                      | 100.0%                   |
| Lebanon, MI          | 08/14/15         | 1,261                   | 2015             | 7/31/30              | 9,050                  | 1,149                   | 821                           | 328                                    | 85                       | 100.0%                   |
| Effingham County, IL | 08/10/15         | 1,252                   | 2015             | 6/30/30              | 9,002                  | 1,123                   | 821                           | 302                                    | 85                       | 100.0%                   |
| Ponce, PR            | 08/03/15         | 9,345                   | 2012             | 8/31/37              | 15,660                 | 8,396                   | 6,522                         | 1,874                                  | 560                      | 100.0%                   |
| Tremont, IL          | 06/25/15         | 1,192                   | 2015             | 5/31/30              | 9,026                  | 1,053                   | 788                           | 265                                    | 82                       | 100.0%                   |
| Pleasanton, TX       | 06/24/15         | 1,377                   | 2015             | 5/31/30              | 9,026                  | 1,215                   | 865                           | 350                                    | 93                       | 100.0%                   |
| Peoria, IL           | 06/24/15         | 1,293                   | 2015             | 5/31/30              | 9,002                  | 1,141                   | 854                           | 287                                    | 87                       | 100.0%                   |
| Bridgeport, IL       | 06/24/15         | 1,241                   | 2015             | 5/31/30              | 9,100                  | 1,100                   | 821                           | 279                                    | 84                       | 100.0%                   |
| Warren, MN           | 06/24/15         | 1,090                   | 2015             | 4/30/30              | 9,100                  | 928                     | 697                           | 231                                    | 75                       | 100.0%                   |
| Canyon Lake, TX      | 06/18/15         | 1,443                   | 2015             | 3/31/30              | 9,100                  | 1,274                   | 907                           | 367                                    | 98                       | 100.0%                   |
| Wheeler, TX          | 06/18/15         | 1,127                   | 2015             | 3/31/30              | 9,002                  | 968                     | 716                           | 252                                    | 76                       | 100.0%                   |
| Aurora, MN           | 06/18/15         | 993                     | 2015             | 3/31/30              | 9,100                  | 877                     | 628                           | 249                                    | 68                       | 100.0%                   |
| Red Oak, IA          | 05/07/15         | 1,208                   | 2014             | 10/31/29             | 9,026                  | 1,040                   | 779                           | 261                                    | 84                       | 100.0%                   |
| Zapata, TX           | 05/07/15         | 1,204                   | 2015             | 3/31/30              | 9,100                  | 995                     | 746                           | 249                                    | 82                       | 100.0%                   |
| St. Francis, MN      | 03/26/15         | 1,180                   | 2014             | 1/31/30              | 9,002                  | 973                     | 733                           | 240                                    | 79                       | 100.0%                   |
| Yorktown, TX         | 03/25/15         | 1,301                   | 2015             | 2/28/30              | 10,566                 | 1,078                   | 785                           | 293                                    | 86                       | 100.0%                   |
| Battle Lake, MN      | 03/25/15         | 1,168                   | 2014             | 2/28/30              | 9,100                  | 953                     | 720                           | 233                                    | 78                       | 100.0%                   |
| Paynesville, MN      | 03/05/15         | 1,254                   | 2015             | 11/30/26             | 9,100                  | 1,075                   | 804                           | 271                                    | 89                       | 100.0%                   |
| Wheaton, MO          | 03/05/15         | 970                     | 2015             | 11/30/29             | 9,100                  | 818                     | 648                           | 170                                    | 69                       | 100.0%                   |
| Rotterdam, NY        | 03/03/15         | 12,619                  | 1996             | 8/31/32              | 115,660                | 9,713                   | 8,930                         | 783                                    | 940                      | 100.0%                   |
| Hilliard, OH         | 03/02/15         | 6,384                   | 2007             | 8/31/32              | 14,820                 | 5,554                   | 4,555                         | 999                                    | 399                      | 100.0%                   |
| Niles, OH            | 03/02/15         | 5,200                   | 2007             | 11/30/32             | 14,820                 | 4,510                   | 3,701                         | 809                                    | 325                      | 100.0%                   |
| Youngstown, OH       | 02/20/15         | 5,400                   | 2005             | 9/30/30              | 14,820                 | 4,645                   | 3,826                         | 819                                    | 336                      | 100.0%                   |
| Kings Mountain, NC   | 01/29/15         | 24,167                  | 1995             | 9/30/30              | 467,781                | 23,804                  | 18,574                        | 5,230                                  | 1,534                    | 100.0%                   |
| Iberia, MO           | 01/23/15         | 1,328                   | 2015             | 12/31/29             | 10,542                 | 1,126                   | 892                           | 234                                    | 94                       | 100.0%                   |
| Pine Island, MN      | 01/23/15         | 1,142                   | 2014             | 4/30/27              | 9,100                  | 947                     | 767                           | 180                                    | 81                       | 100.0%                   |
| Isle, MN             | 01/23/15         | 1,077                   | 2014             | 1/31/30              | 9,100                  | 890                     | 721                           | 169                                    | 77                       | 100.0%                   |



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|-------------------------|------------------|-------------------------|------------------|----------------------|------------------------|-------------------------|-------------------------------|--|--------------------------|--------------------------|
| Jacksonville, NC        | 01/22/15         | 8,632                   | 2014             | 12/31/29             | 55,000                 | 7,563                   | 5,658                         | 1,905                                  | 517                      | 100.0%                   |
| Evansville, IN          | 11/26/14         | 9,000                   | 2014             | 12/31/35             | 71,680                 | 7,736                   | 6,402                         | 1,334                                  | 540                      | 100.0%                   |
| Woodland Park, CO       | 11/14/14         | 3,969                   | 2014             | 8/31/29              | 22,141                 | 3,293                   | 2,794                         | 499                                    | 258                      | 100.0%                   |
| Bellport, NY            | 11/13/14         | 18,100                  | 2014             | 8/16/34              | 87,788                 | 15,463                  | 12,803                        | 2,660                                  | 1,119                    | 100.0%                   |
| Ankeny, IA              | 11/04/14         | 16,510                  | 2013             | 10/30/34             | 94,872                 | 14,210                  | 11,678                        | 2,532                                  | 991                      | 100.0%                   |
| Springfield, MO         | 11/04/14         | 11,675                  | 2011             | 10/30/34             | 88,793                 | 10,304                  | 8,321                         | 1,983                                  | 701                      | 100.0%                   |
| Cedar Rapids, IA        | 11/04/14         | 11,000                  | 2012             | 10/30/34             | 79,389                 | 9,039                   | 7,780                         | 1,259                                  | 660                      | 100.0%                   |
| Fairfield, IA           | 11/04/14         | 10,695                  | 2011             | 10/30/34             | 69,280                 | 9,015                   | 7,568                         | 1,447                                  | 642                      | 100.0%                   |
| Owatonna, MN            | 11/04/14         | 9,970                   | 2010             | 10/30/34             | 70,825                 | 8,463                   | 7,091                         | 1,372                                  | 598                      | 100.0%                   |
| Muscatine, IA           | 11/04/14         | 7,150                   | 2013             | 10/30/34             | 78,218                 | 7,391                   | 5,085                         | 2,306                                  | 429                      | 100.0%                   |
| Sheldon, IA             | 11/04/14         | 4,300                   | 2011             | 10/30/34             | 35,385                 | 3,700                   | 3,058                         | 642                                    | 258                      | 100.0%                   |
| Memphis, TN             | 10/24/14         | 5,310                   | 1962             | 12/31/29             | 68,761                 | 4,197                   | 3,908                         | 289                                    | 358                      | 100.0%                   |
| Bennett, CO             | 10/02/14         | 3,522                   | 2014             | 8/31/29              | 21,930                 | 2,883                   | 2,483                         | 400                                    | 229                      | 100.0%                   |
| Conyers, GA             | 08/28/14         | 32,530                  | 2014             | 4/30/29              | 499,668                | 27,432                  | 22,820                        | 4,612                                  | 1,956                    | 100.0%                   |
| O'Fallon, IL            | 08/08/14         | 8,000                   | 1984             | 1/31/28              | 141,436                | 6,324                   | 5,682                         | 642                                    | 460                      | 100.0%                   |
| El Centro, CA           | 08/08/14         | 4,277                   | 2014             | 6/30/29              | 19,168                 | 3,646                   | 2,981                         | 665                                    | 278                      | 100.0%                   |
| Durant, OK              | 01/28/13         | 4,991                   | 2007             | 2/28/33              | 14,550                 | 4,118                   | 3,239                         | 879                                    | 323                      | 100.0%                   |
| Gallatin, TN            | 12/28/12         | 5,062                   | 2007             | 9/30/32              | 14,820                 | 4,279                   | 3,311                         | 968                                    | 329                      | 100.0%                   |
| Mt. Airy, NC            | 12/27/12         | 4,492                   | 2007             | 6/30/32              | 14,820                 | 3,809                   | 2,940                         | 869                                    | 292                      | 100.0%                   |
| Aiken, SC               | 12/21/12         | 5,926                   | 2008             | 2/28/33              | 14,550                 | 4,972                   | 3,872                         | 1,100                                  | 384                      | 100.0%                   |
| Johnson City, TN        | 12/21/12         | 5,262                   | 2007             | 3/30/32              | 14,550                 | 4,301                   | 3,441                         | 860                                    | 341                      | 100.0%                   |
| Palmview, TX            | 12/19/12         | 6,820                   | 2012             | 8/31/37              | 14,820                 | 5,718                   | 4,529                         | 1,189                                  | 437                      | 100.0%                   |
| Ooltewah, TN            | 12/18/12         | 5,703                   | 2008             | 1/31/33              | 14,550                 | 4,674                   | 3,793                         | 881                                    | 365                      | 100.0%                   |
| Abingdon, VA            | 12/18/12         | 4,688                   | 2006             | 6/30/31              | 15,371                 | 4,100                   | 3,045                         | 1,055                                  | 300                      | 100.0%                   |
| Wichita, KS             | 12/14/12         | 7,200                   | 2012             | 12/31/32             | 73,322                 | 5,542                   | 4,746                         | 796                                    | 536                      | 100.0%                   |
| North Dartmouth, MA     | 09/21/12         | 29,965                  | 1989             | 8/31/32              | 103,680                | 21,379                  | 18,775                        | 2,604                                  | 2,256                    | 100.0%                   |
| Vineland, NJ            | 09/21/12         | 22,507                  | 2003             | 8/31/32              | 115,368                | 16,502                  | 13,801                        | 2,701                                  | 1,695                    | 100.0%                   |
| Saratoga Springs, NY    | 09/21/12         | 20,222                  | 1994             | 8/31/32              | 116,620                | 14,598                  | 12,400                        | 2,198                                  | 1,523                    | 100.0%                   |
| Waldorf, MD             | 09/21/12         | 18,803                  | 1999             | 8/31/32              | 115,660                | 14,700                  | 11,530                        | 3,170                                  | 1,416                    | 100.0%                   |
| Mooresville, NC         | 09/21/12         | 17,644                  | 2000             | 8/31/32              | 108,528                | 12,583                  | 10,819                        | 1,764                                  | 1,329                    | 100.0%                   |
| Sennett, NY             | 09/21/12         | 7,476                   | 1996             | 8/31/32              | 68,160                 | 5,242                   | 4,684                         | 558                                    | 641                      | 100.0%                   |
| DeLeon Springs, FL      | 08/13/12         | 1,242                   | 2011             | 1/31/27              | 9,100                  | 890                     | 811                           | 79                                     | 98                       | 100.0%                   |
| Orange City, FL         | 05/23/12         | 1,317                   | 2011             | 4/30/27              | 9,026                  | 949                     | 798                           | 151                                    | 103                      | 100.0%                   |
| Satsuma, FL             | 04/19/12         | 1,092                   | 2011             | 11/30/26             | 9,026                  | 737                     | 719                           | 18                                     | 86                       | 100.0%                   |
| Greenwood, AR           | 04/12/12         | 5,147                   | 2009             | 6/30/34              | 13,650                 | 4,181                   | 3,383                         | 798                                    | 332                      | 100.0%                   |
| Snellville, GA          | 04/04/12         | 8,000                   | 2011             | 4/30/32              | 67,375                 | 6,048                   | 5,300                         | 748                                    | 626                      | 100.0%                   |
| Columbia, SC            | 04/04/12         | 7,800                   | 2001             | 4/30/32              | 71,744                 | 6,151                   | 5,156                         | 995                                    | 610                      | 100.0%                   |
| Millbrook, AL           | 03/28/12         | 6,941                   | 2008             | 3/22/32              | 14,820                 | 5,529                   | 4,561                         | 968                                    | 448                      | 100.0%                   |
| Pittsfield, MA          | 02/17/12         | 14,700                  | 2011             | 10/29/31             | 85,188                 | 11,366                  | 11,063                        | 303                                    | 1,118                    | 100.0%                   |
| Spartanburg, SC         | 01/14/11         | 3,870                   | 2007             | 8/31/32              | 14,820                 | 3,167                   | 3,386                         | (219)                                  | 291                      | 100.0%                   |
| Tupelo, MS              | 08/13/10         | 5,128                   | 2007             | 1/31/33              | 14,691                 | 3,974                   | —                             | 3,974                                  | 400                      | 100.0%                   |
| Lilburn, GA             | 08/12/10         | 5,791                   | 2007             | 10/31/32             | 14,752                 | 4,458                   | 3,514                         | 944                                    | 443                      | 100.0%                   |
| Douglasville, GA        | 08/12/10         | 5,409                   | 2008             | 10/31/33             | 13,434                 | 4,357                   | —                             | 4,357                                  | 417                      | 100.0%                   |
| Elkton, MD              | 07/27/10         | 4,872                   | 2008             | 10/31/33             | 13,706                 | 3,758                   | 4,428                         | (670)                                  | 380                      | 100.0%                   |
| Lexington, SC           | 06/28/10         | 4,732                   | 2009             | 9/30/33              | 14,820                 | 3,783                   | —                             | 3,783                                  | 362                      | 100.0%                   |
| <b>Total Net Leased</b> |                  | <b>751,422</b>          |                  |                      | <b>5,291,867</b>       | <b>669,483</b>          | <b>500,925</b>                | <b>168,558</b>                         | <b>50,633</b>            |                          |

| Location                 | Acquisition date | Acquisition price/basis | Year built/reno. | Lease expiration (1) | Approx. square footage | Carrying value of asset | Mortgage loan outstanding (2) | Asset net of mortgage loan outstanding | Annual rental income (3) | Ownership Percentage (4) |
|--------------------------|------------------|-------------------------|------------------|----------------------|------------------------|-------------------------|-------------------------------|--|--------------------------|--------------------------|
| <b>Diversified</b>       |                  |                         |                  |                      |                        |                         |                               |  |                          |                          |
| Omaha, NE                | 02/27/19         | 18,200                  | 1969             |                      | 108,555                | 17,733                  | —                             | 17,733                                 | —                        | 100.0%                   |
| Isla Vista, CA           | 05/01/18         | 83,442                  | 2005             | 7/2/19(6)            | 117,324                | 82,912                  | 69,227                        | 13,685                                 | 7,486                    | 75.0% (8)                |
| Lithia Springs, GA       | 03/08/18         | 24,466                  | 2005             |                      | 617,969                | 23,780                  | 18,464                        | 5,316                                  | —                        | 70.6% (8)                |
| Crum Lynne, PA           | 09/29/17         | 9,196                   | 1999             | 9/30/32              | 56,320                 | 9,977                   | 6,028                         | 3,949                                  | 675                      | 100.0%                   |
| Miami, FL                | 08/31/17         | 38,145                  | 1987             | 9/30/18(8)           | 166,176                | 35,523                  | —                             | 35,523                                 | 3,946                    | 80.0% (8)                |
| Peoria, IL               | 10/21/16         | 2,760                   | 1926             | 7/31/30              | 252,940                | 3,198                   | —                             | 3,198                                  | 1,663                    | 100.0%                   |
| Ewing, NJ                | 08/04/16         | 30,640                  | 2009             | 7/31/30              | 110,765                | 27,231                  | 21,751                        | 5,480                                  | 2,040                    | 100.0%                   |
| Carmel, NY               | 10/14/15         | 6,706                   | 1985             | 1/31/39              | 50,121                 | 6,120                   | —                             | 6,120                                  | 462                      | 100.0%                   |
| Richmond, VA             | 08/14/14         | 19,850                  | 1986             | 4/30/21              | 195,881                | 15,074                  | 15,556                        | (482)                                  | 2,731                    | 77.5% (8)                |
| Richmond, VA             | 06/07/13         | 118,406                 | 1984             | 4/30/21              | 994,040                | 77,093                  | 73,299                        | 3,794                                  | 12,117                   | 77.5% (8)                |
| Oakland County, MI       | 02/01/13         | 18,000                  | 1989             | 12/31/21             | 240,900                | 10,380                  | 18,063                        | (7,683)                                | 4,506                    | 90.0% (8)                |
| <b>Total Diversified</b> |                  | <b>369,811</b>          |                  |                      | <b>2,910,991</b>       | <b>309,021</b>          | <b>222,388</b>                | <b>86,633</b>                          | <b>35,626</b>            |                          |
| <b>Condominium</b>       |                  |                         |                  |                      |                        |                         |                               |  |                          |                          |
| Miami, FL                | 11/21/13         | 80,000                  | 2010             |                      | (10)                   | 2,363                   | —                             | 2,363                                  | 88                       | 100.0% (11)              |
| Las Vegas, NV            | 12/20/12         | 119,000                 | 2006             |                      | (12)                   | 466                     | —                             | 466                                    | —                        | 98.8% (8)(13)            |
| <b>Total Condominium</b> |                  | <b>199,000</b>          |                  |                      | <b>—</b>               | <b>2,829</b>            | <b>—</b>                      | <b>2,829</b>                           | <b>88</b>                |                          |
| <b>Total</b>             |                  | <b>\$ 1,320,233</b>     |                  |                      | <b>8,202,858</b>       | <b>\$ 981,333</b>       | <b>\$ 723,313</b>             | <b>\$ 258,020</b>                      | <b>\$ 86,347</b>         |                          |

- (1) Lease expirations reflect the earliest date the lease is cancellable without penalty, although actual terms may be longer.
- (2) Non-recourse.
- (3) Annual rental income represents twelve months of contractual rental income, excluding concessions, due under leases outstanding for the year ended December 31, 2019. Operating lease income on the consolidated statements of income represents rental income earned and recorded on a straight line basis over the term of the lease.
- (4) Properties were consolidated as of acquisition date.
- (5) Property is a hotel.
- (6) 40 property student housing portfolio with 73 leaseable units with short term rentals that are renewed regularly. Represents longest term lease expiration date.
- (7) Property was acquired with no lease in place.
- (8) See Note 12 to our consolidated financial statements for further information regarding noncontrolling interests.
- (9) This is an apartment complex with short term rentals that are renewed regularly. Represents longest term lease expiration date.
- (10) Eight remaining condominium units. As of September 30, 2019, two condominium units were under contract for sale with a book value of \$0.5 million.
- (11) We own a portfolio of residential condominium units, some of which are subject to residential leases. We intend to sell these units. The residential leases are generally short term in nature and are not included in the table above given our intention to sell the units.
- (12) One remaining condominium unit. There were no condominium units under contract for sale as of September 30, 2019.
- (13) We own, through a majority-owned joint venture with an operating partner, a residential condominium unit. The joint venture intends to sell this unit.

#### Other Investments

*Unconsolidated Joint Venture.* In connection with the origination of a loan in April 2012, we received a 25% equity interest with the right to convert upon a capital event. On March 22, 2013, we refinanced the loan, and we converted our equity interest into a 19% limited liability company membership interest in Grace Lake JV, LLC (“Grace Lake LLC”). As of September 30, 2019, Grace Lake LLC owned an office building campus with a carrying value of \$54.3 million, which is net of accumulated depreciation of \$30.5 million, that is financed by \$64.8 million of long-term debt. Debt of Grace Lake LLC is non-recourse to the limited liability company members, except for customary non-recourse carve-outs for certain actions and environmental liability. As of September 30, 2019, the book value of our investment in Grace Lake LLC was \$3.8 million.

*Unconsolidated Joint Venture.* On August 7, 2015, the Company entered into a joint venture, 24 Second Avenue Holdings LLC (“24 Second Avenue”), with an Operating Partner (the “Operating Partner”) to invest in a ground-up residential/retail condominium development and construction project located at 24 Second Avenue, New York, NY.

During the three months ended March 31, 2019, the Company converted its existing \$35.0 million common equity interest into a \$35.0 million priority preferred equity position. The Company also provided \$50.4 million in first mortgage financing in order to refinance the existing \$48.1 million first mortgage construction loan which was made by another lending institution. In addition to the new \$50.4 million first mortgage loan, the Company also funded a \$6.5 million mezzanine loan for use in completing the project. The Operating Partner must fully fund any and all additional capital for necessary expenses.

Due to the Company’s non-controlling equity interest in 24 Second Avenue, the Company accounts for the new loans as additional investments in the joint venture.

24 Second Avenue consists of 30 residential condominium units and one commercial condominium unit. 24 Second Avenue started closing on the existing sales contracts during the quarter ended March 31, 2019, upon receipt of New York City Building Department approvals and a temporary certificate of occupancy for a portion of the project. As of September 30, 2019, 24 Second Avenue had sold 17 residential condominium units for \$47.3 million in sales proceeds and one residential condominium unit was under contract for sale for \$1.2 million in sales proceeds. As of September 30, 2019, 24 Second Avenue is holding a 15% deposit on the sales contract. As of September 30, 2019, the Company had no remaining additional capital commitment to 24 Second Avenue. As of September 30, 2019, the book value of the Company’s investment in 24 Second Avenue was \$47.6 million.

*FHLB Stock.* Tuebor Captive Insurance Company LLC (“Tuebor”) is a member of the FHLB. Each member of the FHLB must purchase and hold FHLB stock as a condition of initial and continuing membership, in proportion to their borrowings from the FHLB and levels of certain assets. Members may need to purchase additional stock to comply with these capital requirements from time to time. FHLB stock is redeemable by Tuebor upon five years’ prior written notice, subject to certain restrictions and limitations. Under certain conditions, the FHLB may also, at its sole discretion, repurchase FHLB stock from its members. As of September 30, 2019, the book value of our investment in FHLB Stock was \$61.6 million.

### **Our Financing Strategies**

Our financing strategies are critical to the success and growth of our business. We manage our financing to complement our asset composition and to diversify our exposure across multiple capital markets and counterparties.

In addition to cash flow from operations, we fund our investments in commercial real estate loans and securities through multiple sources, including the following:

- \$611.6 million of gross proceeds we raised in our initial equity private placement beginning in October 2008,
- \$257.4 million of gross proceeds we raised in our follow-on equity private placement in the third quarter of 2011,
- \$325.0 million of gross proceeds from the issuance of 2017 Notes in 2012,
- \$259.0 million of gross proceeds from the issuance of Class A common stock in 2014,
- \$300.0 million of gross proceeds from the issuance of 2021 Notes in 2014,
- \$500.0 million of gross proceeds from the issuance of 2022 Notes in 2017,
- \$400.0 million of gross proceeds from the issuance of 2025 Notes in 2017,
- \$99.0 million of gross proceeds we raised in our primary equity offering in the fourth quarter of 2018, and
- existing debt facilities, and other borrowing programs in which we participate.

We finance our portfolio of commercial real estate loans using committed term facilities provided by multiple financial institutions, with total commitments of \$1.8 billion at September 30, 2019, a \$266.4 million Revolving Credit Facility, CLO transactions and through our FHLB membership. As of September 30, 2019, there was \$760.5 million outstanding under the committed term facilities. We finance our securities portfolio, including CMBS and U.S. Agency Securities, through our FHLB membership, a \$400.0 million committed term master repurchase agreement from a leading domestic financial institution and uncommitted master repurchase agreements with numerous counterparties. As of September 30, 2019, we had total outstanding balances of \$1.0 billion under all securities master repurchase agreements. We finance our real estate investments with non-recourse first mortgage loans. As of September 30, 2019, we had outstanding balances of \$723.3 million on these non-recourse mortgage loans.

In addition to the amounts outstanding on our other facilities, we had \$1.1 billion of borrowings from the FHLB outstanding at September 30, 2019. As of September 30, 2019, we also had a \$266.4 million Revolving Credit Facility, with no borrowings outstanding, and \$1.2 billion of Notes issued and outstanding. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and Note 7, Debt Obligations, Net in our consolidated financial statements included elsewhere in this Quarterly Report for more information about our financing arrangements.

We enter into interest rate and credit spread derivative contracts to mitigate our exposure to changes in interest rates and credit spreads. We generally seek to hedge the interest rate risk on the financing of assets that have a duration longer than five years, including newly-originated conduit first mortgage loans, securities in our CMBS portfolio if long enough in duration, and most of our U.S. Agency Securities portfolio. We monitor our asset profile and our hedge positions to manage our interest rate and credit spread exposures, and we seek to match fund our assets according to the liquidity characteristics and expected holding periods of our assets.

We generally seek to maintain a debt-to-equity ratio of approximately 3.0:1.0 or below. We expect this ratio to fluctuate during the course of a fiscal year due to the normal course of business in our conduit lending operations, in which we generally securitize our inventory of conduit loans at intervals, and also because of changes in our asset mix, due in part to such securitizations. As of September 30, 2019, our debt-to-equity ratio was 3.0:1.0. Our adjusted leverage, a non-GAAP financial measure, was 2.9:1.0 as of September 30, 2019. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of adjusted leverage and a reconciliation to debt obligations, net. We believe that our predominantly senior secured assets and our moderate leverage provide financial flexibility to be able to capitalize on attractive market opportunities as they arise.

From time to time, we may add financing counterparties that we believe will complement our business, although the agreements governing our indebtedness may limit our ability and the ability of our present and future subsidiaries to incur additional indebtedness. Our amended and restated charter and by-laws do not impose any threshold limits on our ability to use leverage.

### **Business Outlook**

We believe the commercial real estate finance market is currently characterized by stable demand for fixed and floating rate mortgage financing supported by stable property values in most parts of the U.S. The demand is driven by acquisitions and refinancings of existing properties, the need to fund expenditures to renovate or otherwise improve buildings, and new real estate development. \$2.1 trillion of commercial real estate debt is scheduled to mature over the next five years (according to Trepp), providing a substantial foundation of demand for mortgage financing services going forward. Somewhat offsetting these positive macro market factors is the yield curve's flattening trend which may reflect a market anticipating slower economic growth in the future.

From our perspective as a commercial mortgage lender that finances its customers’ real estate investments nationwide, the trends observed in the commercial mortgage backed securities market are often informative and somewhat predictive. In 2017, new U.S. CMBS issuance volume increased 27.1% to \$87.8 billion in comparison to 2016, a year in which swings in credit spreads created uncertainty for lenders and borrowers thereby suppressing transaction activity. The return to positive annual growth in U.S. CMBS issuance volume in 2017 was, at least in part, due to more stable and favorable credit spread environment. Although spreads continued to tighten into the beginning of 2018, they mostly widened during the rest of the year. Still, the U.S. CMBS new issuance market was active in 2018, with issuance totaling \$77.0 billion during the year, a decrease of 12.3% compared to 2017, but an increase of 11.4% compared to 2016. Spreads generally tightened during the first half of 2019, and then widened to a small extent during the three months ended September 30, 2019. U.S. CMBS new issuance totaled \$57.8 billion during the nine months ended September 30, 2019, which was relatively flat versus the same period in 2018.

We believe the CMBS market will continue to play an important role in the financing of commercial real estate that is expected to produce substantial streams of stabilized income over multiple years, and we expect to continue to participate in this market as a loan originator and a contributor of loans to securitization transactions in which CMBS are issued. We also expect to continue to be active as a lender to owners of properties that are in transition and are expected to start generating substantial streams of stabilized income after the financed property’s transition plan has been executed. Our ability to offer borrowers mortgage loan financing on transitional properties enables us to remain an active lender even when the CMBS market experiences disruptions or periods of slower activity that impair the origination of new loans for securitization.

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Reflected in all of these lending and financing capabilities that Ladder applies in its daily operations is its ability to underwrite commercial real estate debt and equity investments and efficiently shift capital among mortgage loans, securities, and real estate investments. Underwriting commercial real estate credit risk is Ladder's core strength—and Ladder expresses its view of the commercial real estate market and of specific investment opportunities within it by making loans, investing in debt securities, and acquiring real estate—constantly fine-tuning that mix of investments in an ongoing effort to optimize risk adjusted returns on equity.

## Results of Operations

### Three months ended September 30, 2019 compared to the three months ended September 30, 2018

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

|  | Three Months Ended September 30, |               | 2019 vs         |
|--|----------------------------------|---------------|-----------------|
|  | 2019                             | 2018          | 2018            |
| <b>Net interest income</b>                                       |                                  |               |                 |
| Interest income  | \$ 82,251                        | \$ 90,386     | \$ (8,135)      |
| Interest expense   | 51,397                           | 51,476        | (79)            |
| <b>Net interest income</b>                                       | <b>30,854</b>                    | <b>38,910</b> | <b>(8,056)</b>  |
| Provision for loan losses  | —                                | 10,300        | (10,300)        |
| <b>Net interest income after provision for loan losses</b>       | <b>30,854</b>                    | <b>28,610</b> | <b>2,244</b>    |
| <b>Other income (loss)</b>                                       |                                  |               |                 |
| Operating lease income   | 24,405                           | 24,997        | (592)           |
| Sale of loans, net   | 11,247                           | 1,861         | 9,386           |
| Realized gain (loss) on securities                               | 3,396                            | (2,554)       | 5,950           |
| Unrealized gain (loss) on equity securities                      | 254                              | —             | 254             |
| Unrealized gain (loss) on Agency interest-only securities        | 16                               | 142           | (126)           |
| Realized gain (loss) on sale of real estate, net                 | 2,082                            | 63,704        | (61,622)        |
| Fee and other income   | 5,166                            | 4,851         | 315             |
| Net result from derivative transactions                          | (9,465)                          | 7,115         | (16,580)        |
| Earnings (loss) from investment in unconsolidated joint ventures | 1,094                            | 401           | 693             |
| Gain (loss) on extinguishment/defeasance of debt                 | —                                | (4,323)       | 4,323           |
| <b>Total other income (loss)</b>                                 | <b>38,195</b>                    | <b>96,194</b> | <b>(57,999)</b> |
| <b>Costs and expenses</b>  |                                  |               |                 |
| Salaries and employee benefits                                   | 14,319                           | 15,792        | (1,473)         |
| Operating expenses   | 5,314                            | 5,464         | (150)           |
| Real estate operating expenses                                   | 6,270                            | 7,152         | (882)           |
| Fee expense  | 2,056                            | 1,311         | 745             |
| Depreciation and amortization                                    | 9,030                            | 10,417        | (1,387)         |
| <b>Total costs and expenses</b>                                  | <b>36,989</b>                    | <b>40,136</b> | <b>(3,147)</b>  |
| <b>Income (loss) before taxes</b>                                | <b>32,060</b>                    | <b>84,668</b> | <b>(52,608)</b> |
| Income tax expense (benefit)                                     | 1,112                            | 1,204         | (92)            |
| <b>Net income (loss)</b>   | <b>30,948</b>                    | <b>83,464</b> | <b>(52,516)</b> |

### *Investment Overview*

Investment activity in the three months ended September 30, 2019 focused on loan, security and real estate activities. We originated and funded \$722.1 million in principal value of commercial mortgage loans in the three months ended September 30, 2019. We acquired \$346.4 million of new securities, which was offset by \$153.8 million of sales and \$68.0 million of amortization in the portfolio, which partially contributed to a net increase in our securities portfolio of \$123.0 million during the three months ended September 30, 2019. We also invested \$8.8 million in real estate and received proceeds from the sale of real estate of \$7.2 million.

Investment activity in the three months ended September 30, 2018 focused on loan, security and real estate activities. We originated and funded \$676.7 million in principal value of commercial mortgage loans in the three months ended September 30, 2018. We acquired \$59.1 million of new securities, which was offset by \$144.6 million of sales and \$36.5 million of amortization in the portfolio, which partially contributed to a net decrease in our securities portfolio of \$128.1 million during the three months ended September 30, 2018. We also received proceeds from the sale of real estate of \$112.5 million.

### *Operating Overview*

Net income (loss) attributable to Class A common shareholders totaled \$27.6 million for the three months ended September 30, 2019, compared to \$66.6 million for the three months ended September 30, 2018. The most significant drivers of the \$39.1 million decrease are as follows:

- a decrease in total other income (loss) of \$58.0 million, primarily as a result of a \$61.6 million decrease in realized gain (loss) on opportunistic sales of real estate, net, a \$16.6 million decrease in net results from derivative transactions, partially offset by an increase of \$9.4 million in sale of loans, net and a \$6.0 million increase in realized gain (loss) on securities;
- a decrease in net interest income of \$8.1 million, primarily as a result of lower average loan balances and lower interest expense attributable to the increase in LIBOR rates throughout 2018 and the decrease in the average yield on the securities portfolio year-over-year;
- a decrease in total costs and expenses of \$3.1 million compared to the prior year, primarily as a result of a \$1.5 million decrease in salaries and employee benefits, and a \$1.4 million decrease in depreciation and amortization; and
- a decrease in income tax expense (benefit) of \$0.1 million compared to the prior year, primarily attributable to a decrease in forecasted GAAP income in our TRSs.

### *Income (Loss) Before Taxes*

Income (loss) before taxes totaled \$32.1 million for the three months ended September 30, 2019, compared to \$84.7 million for the three months ended September 30, 2018. The significant components of the \$52.6 million decrease in income (loss) before taxes are described in the first three bullet points under operating overview above.

### *Core Earnings*

Core earnings, a non-GAAP financial measure, totaled \$44.1 million for the three months ended September 30, 2019, compared to \$63.4 million for the three months ended September 30, 2018. The significant components of the \$19.3 million decrease in core earnings are a decrease in realized gain on the sale of real estate, net of \$42.4 million, a decrease in net results from derivative transactions of \$11.1 million, the \$8.1 million decrease in net interest income discussed above, partially offset by an increase of \$9.2 million in sale of loans, net, an increase of \$6.0 million in gain (loss) on securities, a decrease in salaries and employee benefits of \$2.6 million and a \$1.4 million decrease in depreciation and amortization. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of core earnings and a reconciliation to income (loss) before taxes.

*Net Interest Income*

Interest income totaled \$82.3 million for the three months ended September 30, 2019, compared to \$90.4 million for the three months ended September 30, 2018. The \$8.1 million decrease in interest income was primarily attributable to the increase in LIBOR rates throughout 2018, and by the investment mix composition with lower yields on securities investments versus higher yields on loan investments. For the three months ended September 30, 2019, securities investments averaged \$1.9 billion and loan investments averaged \$3.3 billion. For the three months ended September 30, 2018, securities investments averaged \$1.1 billion and loan investments averaged \$4.0 billion. There was a \$723.9 million decrease in loan investments, offset by a \$811.7 million increase in securities investments.

Interest expense totaled \$51.4 million for the three months ended September 30, 2019, compared to \$51.5 million for the three months ended September 30, 2018. The \$0.1 million decrease in interest expense was primarily attributable to higher prevailing LIBOR rates in 2018, a decreased reliance on FHLB financing, and an increased reliance on mortgage loan financing.

Net interest income after provision for loan losses totaled \$30.9 million for the three months ended September 30, 2019, compared to \$28.6 million for the three months ended September 30, 2018. The \$2.2 million increase in net interest income after provision for loan losses was primarily attributable to the decrease in net interest income discussed above, offset by the increase in interest expense discussed above and the \$10.3 million decrease in provision for loan losses discussed below.

Cost of funds, a non-GAAP financial measure, totaled \$51.8 million for the three months ended September 30, 2019, compared to \$52.8 million for the three months ended September 30, 2018. The \$1.0 million decrease in cost of funds was primarily attributable to the increase in LIBOR rates throughout 2018 and a shift away from borrowings from the FHLB and securities repurchase financing, a lower cost source of funding, to higher cost, loan repurchase financing and senior unsecured notes.

We present cost of funds, which is a non-GAAP financial measure, as a supplemental measure of the Company's cost of debt financing. We define cost of funds as interest expense as reported on our consolidated statements of income adjusted to exclude interest expense related to liabilities for transfers not considered sales and include the net interest expense component resulting from our hedging activities, which is currently included in net results from derivative transactions on our consolidated statements of income. See "—Reconciliation of Non-GAAP Financial Measures" for our definition of cost of funds and a reconciliation to interest expense.

*Interest Spreads*

As of September 30, 2019, the weighted average yield on our mortgage loan receivables was 7.2%, compared to 7.5% as of September 30, 2018 as the weighted average yield on new loans originated was lower than the weighted average yield on loans that were securitized or paid off. As of September 30, 2019, the weighted average interest rate on borrowings against our mortgage loan receivables was 3.6%, compared to 3.8% as of September 30, 2018. The decrease in the rate on borrowings against our mortgage loan receivables from September 30, 2018 to September 30, 2019 was primarily due to lower prevailing market borrowing rates. As of September 30, 2019, we had outstanding borrowings secured by our mortgage loan receivables equal to 39.4% of the carrying value of our mortgage loan receivables, compared to 48.6% as of September 30, 2018.

As of September 30, 2019, the weighted average yield on our real estate securities was 3.2%, compared to 3.1% as of September 30, 2018. As of September 30, 2019, the weighted average interest rate on borrowings against our real estate securities was 2.7%, compared to 2.5% as of September 30, 2018. The increase in the rate on borrowings against our real estate securities from September 30, 2018 to September 30, 2019 was primarily due to a decreased reliance on FHLB financing and an increased reliance on repurchase financing as of September 30, 2019 versus the prior year period. As of September 30, 2019, we had outstanding borrowings secured by our real estate securities equal to 86.1% of the carrying value of our real estate securities, compared to 85.5% as of September 30, 2018.

Our real estate is comprised of non-interest bearing assets; however, interest incurred on mortgage financing collateralized by such real estate is included in interest expense. As of September 30, 2019, the weighted average interest rate on mortgage borrowings against our real estate was 5.0%, compared to 5.1% as of September 30, 2018. As of September 30, 2019, we had outstanding borrowings secured by our real estate equal to 73.7% of the carrying value of our real estate, compared to 74.3% as of September 30, 2018.

*Provision for Loan Losses*

We originate and invest primarily in loans with high credit quality, and we sell our conduit loans in the ordinary course of business. We estimate our loan loss provision based on our historical loss experience and our expectation of losses inherent in the investment portfolio but not yet realized. To ensure that the risk exposures are properly measured and the appropriate reserves are taken, the Company assesses a loan loss provision balance that will grow over time with its portfolio and the related risk as the assets approach maturity and ultimate refinancing where applicable.

We determined that no provision expense for loan losses was required for the three months ended September 30, 2019 and a provision expense of \$10.3 million was required for the three months ended September 30, 2018. This provision consisted of a portfolio-based, general reserve of \$0.3 million to provide reserves for expected losses over the remaining portfolio of mortgage loan receivables held for investment and an asset-specific reserve of \$10.0 million relating to one of the Company's loans. For additional information, refer to "Provision for Loan Losses and Non-Accrual Status" in Note 3 Mortgage Loan Receivables to the consolidated financial statements.

*Operating Lease Income*

Operating lease income totaled \$24.4 million for the three months ended September 30, 2019, compared to \$25.0 million for the three months ended September 30, 2018. The decrease of \$0.6 million was primarily attributable to the timing of the real estate sales during each quarter and real estate purchases subsequent to September 30, 2018. Tenant recoveries are included in operating lease income.

*Sales of Loans, Net*

We recorded \$11.2 million income (loss) from sales of loans, net, which includes all loan sales, whether by securitization, whole loan sales or other means, for the three months ended September 30, 2019, compared to \$1.9 million for the three months ended September 30, 2018, an increase of \$9.4 million. Income from sales of loans, net also includes realized losses on loans related to lower of cost or market adjustments. During the three months ended September 30, 2019, we participated in one securitization transaction, transferring 10 loans with an aggregate outstanding principal balance of \$140.7 million. In the three months ended September 30, 2018, we participated in one securitization transaction, transferring 13 loans with an aggregate outstanding principal balance of \$102.0 million. During the three months ended September 30, 2019 and September 30, 2018, we recorded no realized losses on loans related to lower of cost or market adjustments. Income from sales of loans, net is subject to market conditions impacting timing, size and pricing and as such may vary significantly quarter to quarter. There was \$6.2 million income (loss) from sales of securitized loans, net of hedging for the three months ended September 30, 2019, compared to \$2.3 million income (loss) from sales of securitized loans, net of hedging for the three months ended September 30, 2018. The \$3.9 million increase was predominantly due to an increase in the profit margin on sales of securitized loans, period over period.

Income (loss) from sale of loans, net, represents gross proceeds received from the sale of loans, less the book value of those loans at the time they were sold, less any costs, such as legal and closing costs, associated with the sale. Income from sales of securitized loans, net, a non-GAAP financial measure, represents the portion of income from sales of loans, net related to the sale of loans into securitization trusts. See "—Reconciliation of Non-GAAP Financial Measures" for our definition of income from sale of securitized loans, net of hedging and a reconciliation to income (loss) from sale of loans, net.

*Realized Gain (Loss) on Securities*

Realized gain (loss) on securities totaled \$3.4 million for the three months ended September 30, 2019, compared to \$(2.6) million for the three months ended September 30, 2018, a \$6.0 million increase. Included in realized gain (loss) on securities are \$(0.6) million of other than temporary impairments on securities for the three months ended September 30, 2018, compared to \$(0.1) million for the three months ended September 30, 2019. For the three months ended September 30, 2019, we sold \$153.8 million of securities, comprised of \$143.5 million of CMBS and \$10.3 million of corporate bonds. For the three months ended September 30, 2018, we sold \$144.6 million of CMBS. The increase reflects higher margin on sale of securities in 2019 as compared to 2018, the decrease in interest rates throughout 2019 and a reduction in other than temporary impairments on securities recorded during the three months ended September 30, 2019 compared to the three months ended September 30, 2018.

*Unrealized Gain (Loss) on Equity Securities*

Unrealized gain (loss) on equity securities represented a gain of \$0.3 million for the three months ended September 30, 2019, compared to none for the three months ended September 30, 2018. The Company has elected the fair market value option for accounting for these equity securities and changes in fair value are recorded in current period earnings.

*Unrealized Gain (Loss) on Agency Interest-Only Securities*

Unrealized gain (loss) on Agency interest-only securities represented a gain of \$16 thousand for the three months ended September 30, 2019, compared to a gain of \$0.1 million for the three months ended September 30, 2018. The negative change of \$0.1 million in unrealized gain (loss) on Agency interest-only securities was due to amortization of our securities portfolio.

*Realized Gain (Loss) on Sale of Real Estate, Net*

Income (loss) from sales of real estate, net totaled \$2.1 million for the three months ended September 30, 2019, compared to \$63.7 million for the three months ended September 30, 2018. The decrease of \$61.6 million was a result of the commercial real estate and residential condominium sales discussed below.

During the three months ended September 30, 2019 and 2018, we sold no single-tenant net leased properties.

During the three months ended September 30, 2019, we sold one diversified commercial real estate property resulting in a net gain (loss) on sale of \$2.1 million. During the three months ended September 30, 2018, we sold a portfolio of four diversified commercial real estate properties, resulting in a net gain on sale of \$61.6 million.

During the three months ended September 30, 2019, income from sales of residential condominiums totaled \$32 thousand. We sold one residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of \$32 thousand. During the three months ended September 30, 2018, income from sales of residential condominiums totaled \$0.8 million. We sold two residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of \$0.5 million, and six residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of \$0.2 million.

*Fee and Other Income*

Fee and other income totaled \$5.2 million for the three months ended September 30, 2019, compared to \$4.9 million for the three months ended September 30, 2018. We generate fee and other income from origination fees, exit fees and other fees on the loans we originate and in which we invest, HOA fees, unrealized gains (losses) on our investment in mutual fund and dividend income on our investment in FHLB stock and equity securities. The \$0.3 million increase in fee and other income year-over-year was primarily due to an increase in dividend income and other fees relating to mortgage loan receivables.

*Net Result from Derivative Transactions*

Net result from derivative transactions represented a loss of \$9.5 million for the three months ended September 30, 2019, which was comprised of an unrealized loss of \$0.6 million and a realized loss of \$8.9 million, compared to a gain of \$7.1 million for the three months ended September 30, 2018, which was comprised of an unrealized loss of \$1.0 million and a realized gain of \$8.1 million, resulting in a negative change of \$16.6 million. The derivative positions that generated these results were a combination of futures, interest rate swaps, and credit derivatives that we employed in an effort to hedge the interest rate risk on the financing of our fixed rate assets and the net interest income we earn against the impact of changes in interest rates. The loss in 2019 was primarily related to the movement in interest rates during the three months ended September 30, 2019. The total net result from derivative transactions is composed of hedging interest expense, realized gains/losses related to hedge terminations and unrealized gains/losses related to changes in the fair value of asset hedges. The hedge positions were related to fixed rate conduit loans and securities investments.

*Earnings (Loss) from Investment in Unconsolidated Joint Ventures*

Total earnings (loss) from investment in unconsolidated joint ventures totaled \$1.1 million for the three months ended September 30, 2019, compared to \$0.4 million for the three months ended September 30, 2018. Earnings from our investment in Grace Lake JV totaled \$0.5 million and \$0.6 million for the three months ended September 30, 2019 and 2018, respectively. Earnings (loss) from our investment in 24 Second Avenue totaled \$0.6 million and \$(0.2) million for the three months ended September 30, 2019 and 2018, respectively. The loss for the three months ended September 30, 2018 is due to a negative return related to upfront sales costs on the investment. The gain in the three months ended September 30, 2019 is due to a recapitalization of our investment in 24 Second Avenue. See Note 6, Investment in and Advances to Unconsolidated Joint Ventures for further detail.

*Gain (Loss) on Extinguishment/Defeasance of Debt*

There was no gain (loss) on extinguishment/defeasance of debt totaled for the three months ended September 30, 2019. There was \$(4.3) million gain (loss) on extinguishment/defeasance of debt for the three months ended September 30, 2018. During the three months ended September 30, 2018, the Company retired \$47.0 million of principal of mortgage loan financing in connection with the sale of real estate, recognizing a \$4.3 million net loss on extinguishment of debt after paying \$4.3 million of defeasance costs associated with the retired debt.

*Salaries and Employee Benefits*

Salaries and employee benefits totaled \$14.3 million for the three months ended September 30, 2019, compared to \$15.8 million for the three months ended September 30, 2018. Salaries and employee benefits are comprised primarily of salaries, bonuses, equity based compensation and other employee benefits. The decrease of \$1.5 million in compensation expense was primarily attributable to a decrease in bonus expense, partially offset by an increase in equity based compensation expense.

*Operating Expenses*

Operating expenses totaled \$5.3 million for the three months ended September 30, 2019, compared to \$5.5 million for the three months ended September 30, 2018. Operating expenses are primarily comprised of professional fees, lease expense and technology expenses. The decrease of \$0.2 million was primarily related to a decrease in tax and consulting fees, partially offset by an increase in information technology costs.

*Real Estate Operating Expenses*

Real estate operating expenses totaled \$6.3 million for the three months ended September 30, 2019, compared to \$7.2 million for the three months ended September 30, 2018. The decrease of \$0.9 million in real estate operating expenses primarily relates to the sale of real estate in 2018 and a decrease in operating expenses for condominium properties.

*Fee Expense*

Fee expense totaled \$2.1 million for the three months ended September 30, 2019, compared to \$1.3 million for the three months ended September 30, 2018. Fee expense is comprised primarily of custodian fees, financing costs and servicing fees related to loans. The increase of \$0.8 million in fee expense was primarily attributable to an increase in legal fees on mortgage loan receivables and an increase in servicing fees related to our mortgage loan receivables held for investment, net, at amortized cost.

*Depreciation and Amortization*

Depreciation and amortization totaled \$9.0 million for the three months ended September 30, 2019, compared to \$10.4 million for the three months ended September 30, 2018. The \$1.4 million decrease in depreciation and amortization is was primarily attributable to the timing the real estate sales during each quarter.

[Table of Contents](#)*Income Tax (Benefit) Expense*

Most of our consolidated income tax provision related to the business units held in our TRSs. Income tax expense (benefit) totaled \$1.1 million for the three months ended September 30, 2019, compared to \$1.2 million for the three months ended September 30, 2018. The decrease of \$0.1 million is primarily attributable to a decrease in forecasted GAAP income in our TRSs.

**Results of Operations***Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018*

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

|  | Nine Months Ended September 30, |                | 2019 vs          |
|--|---------------------------------|----------------|------------------|
|  | 2019                            | 2018           | 2018             |
| <b>Net interest income</b>                                       |                                 |                |                  |
| Interest income  | \$ 254,040                      | \$ 253,822     | \$ 218           |
| Interest expense   | 155,015                         | 144,606        | 10,409           |
| <b>Net interest income</b>                                       | <b>99,025</b>                   | <b>109,216</b> | <b>(10,191)</b>  |
| Provision for loan losses  | 600                             | 13,600         | (13,000)         |
| <b>Net interest income after provision for loan losses</b>       | <b>98,425</b>                   | <b>95,616</b>  | <b>2,809</b>     |
| <b>Other income (loss)</b>                                       |                                 |                |                  |
| Operating lease income   | 81,106                          | 79,306         | 1,800            |
| Sale of loans, net   | 38,589                          | 12,893         | 25,696           |
| Realized gain (loss) on securities                               | 10,726                          | (4,896)        | 15,622           |
| Unrealized gain (loss) on equity securities                      | 1,341                           | —              | 1,341            |
| Unrealized gain (loss) on Agency interest-only securities        | 38                              | 456            | (418)            |
| Realized gain (loss) on sale of real estate, net                 | 963                             | 96,341         | (95,378)         |
| Impairment of real estate  | (1,350)                         | —              | (1,350)          |
| Fee and other income   | 17,047                          | 17,579         | (532)            |
| Net result from derivative transactions                          | (35,956)                        | 29,156         | (65,112)         |
| Earnings (loss) from investment in unconsolidated joint ventures | 3,617                           | 466            | 3,151            |
| Gain (loss) on extinguishment/defeasance of debt                 | (1,070)                         | (4,392)        | 3,322            |
| <b>Total other income (loss)</b>                                 | <b>115,051</b>                  | <b>226,909</b> | <b>(111,858)</b> |
| <b>Costs and expenses</b>  |                                 |                |                  |
| Salaries and employee benefits                                   | 52,800                          | 46,754         | 6,046            |
| Operating expenses   | 16,727                          | 16,608         | 119              |
| Real estate operating expenses                                   | 17,776                          | 23,806         | (6,030)          |
| Fee expense  | 4,951                           | 2,953          | 1,998            |
| Depreciation and amortization                                    | 29,192                          | 31,896         | (2,704)          |
| <b>Total costs and expenses</b>                                  | <b>121,446</b>                  | <b>122,017</b> | <b>(571)</b>     |
| <b>Income (loss) before taxes</b>                                | <b>92,030</b>                   | <b>200,508</b> | <b>(108,478)</b> |
| Income tax expense (benefit)                                     | 478                             | 5,679          | (5,201)          |
| <b>Net income (loss)</b>   | <b>91,552</b>                   | <b>194,829</b> | <b>(103,277)</b> |

*Investment Overview*

Investment activity in the nine months ended September 30, 2019 focused on loan, security and real estate activities. We originated and funded \$1.5 billion in principal value of commercial mortgage loans, which was offset by \$574.3 million of sales and \$1.1 billion of principal repayments in the nine months ended September 30, 2019. We acquired \$1.2 billion of new securities, which was partially offset by \$538.2 million of sales and \$178.5 million of amortization in the portfolio, which partially contributed to a net increase in our securities portfolio of \$501.3 million during the nine months ended September 30, 2019. We also invested \$32.1 million in real estate and received proceeds from the sale of real estate of \$22.9 million.

Investment activity in the nine months ended September 30, 2018 focused on loan, security and real estate activities. We originated and funded \$2.4 billion in principal value of commercial mortgage loans, which was offset by \$926.4 million of sales and \$788.5 million of principal repayments in the nine months ended September 30, 2018. We acquired \$303.0 million of new securities, which was offset by \$306.1 million of sales and \$93.2 million of amortization in the portfolio, which partially contributed to a net decrease in our securities portfolio of \$128.2 million during the nine months ended September 30, 2018. We also invested \$115.5 million in real estate and received proceeds from the sale of real estate of \$213.1 million.

*Operating Overview*

Net income (loss) attributable to Class A common shareholders totaled \$82.0 million for the nine months ended September 30, 2019, compared to \$155.9 million for the nine months ended September 30, 2018. The most significant drivers of the \$73.9 million decrease are as follows:

- a decrease in total other income (loss) of \$111.9 million, primarily as a result of a \$95.4 million decrease in profits on sale of real estate and \$65.1 million decrease in net results from derivative transactions, partially offset by an increase of \$25.7 million in sales of loans, net, an increase of \$15.6 million in realized gains on securities and an increase of \$3.2 million in earnings (loss) from investment in unconsolidated joint ventures;
- a decrease in total costs and expenses of \$0.6 million compared to the prior year, primarily as a result of a \$6.0 million increase in salaries and employee benefits relating to equity compensation, offset by a \$6.0 million decrease in real estate operating expenses; and
- a decrease in income tax expense (benefit) of \$5.2 million compared to the prior year, primarily as a result of a significant reduction in real estate sales and net interest income in our TRSs.

*Income (Loss) Before Taxes*

Income (loss) before taxes totaled \$92.0 million for the nine months ended September 30, 2019, compared to \$200.5 million for the nine months ended September 30, 2018. The significant components of the \$108.5 million decrease in income (loss) before taxes are described in the first two bullet points under operating overview above.

*Core Earnings*

Core earnings, a non-GAAP financial measure, totaled \$142.0 million for the nine months ended September 30, 2019, compared to \$177.6 million for the nine months ended September 30, 2018. The significant components of the \$35.6 million decrease in core earnings are a decrease in total other income (loss) of \$67.1 million, primarily as a result of a decrease of \$78.8 million in sale of real estate, net and a decrease of \$35.6 million in net results from derivative transactions, partially offset by an increase of \$25.4 million in sale of loans, net, an increase of \$15.6 million in gain (loss) on securities and, an increase of \$1.8 million in operating lease income and the changes in total costs and expenses discussed in the preceding paragraph. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of core earnings and a reconciliation to income (loss) before taxes.

*Net Interest Income*

Interest income totaled \$254.0 million for the nine months ended September 30, 2019, compared to \$253.8 million for the nine months ended September 30, 2018. The \$0.2 million increase in interest income was primarily attributable to higher prevailing LIBOR rates throughout 2018, partially offset by the investment mix composition with lower yields on securities investments versus higher yields on loan investments. For the nine months ended September 30, 2019, securities investments averaged \$1.7 billion and loan investments averaged \$3.5 billion. For the nine months ended September 30, 2018, securities investments averaged \$1.1 billion and loan investments averaged \$3.9 billion. There was a \$438.4 million decrease in loan investments, offset by a \$642.0 million increase in securities investments.

Interest expense totaled \$155.0 million for the nine months ended September 30, 2019, compared to \$144.6 million for the nine months ended September 30, 2018. The \$10.4 million increase in interest expense was primarily attributable to an increase in LIBOR rates throughout 2018, a decreased reliance on FHLB financing, and an increased reliance on mortgage loan financing. Our interest expense related to mortgage loan financing increased by \$1.2 million from \$27.5 million for the nine months ended September 30, 2018 to \$28.7 million for the nine months ended September 30, 2019, primarily as a result of our increase in average outstanding mortgage loan financing of \$735.6 million for the nine months ended September 30, 2019 compared to \$732.4 million for the nine months ended September 30, 2018.

Net interest income after provision for loan losses totaled \$98.4 million for the nine months ended September 30, 2019, compared to \$95.6 million for the nine months ended September 30, 2018. The \$2.8 million increase in net interest income after provision for loan losses was primarily attributable to the increase in net interest income, increase in interest expense discussed above and increase in debt obligations.

Cost of funds, a non-GAAP financial measure, totaled \$156.9 million for the nine months ended September 30, 2019, compared to \$150.4 million for the nine months ended September 30, 2018. The \$6.5 million increase in cost of funds was primarily attributable to the increase in LIBOR rates throughout 2017 and 2018 and a shift away from borrowings from the FHLB and securities repurchase financing, a lower cost source of funding, to higher cost loan repurchase financing and senior unsecured notes.

We present cost of funds, which is a non-GAAP financial measure, as a supplemental measure of the Company's cost of debt financing. We define cost of funds as interest expense as reported on our consolidated statements of income adjusted to exclude interest expense related to liabilities for transfers not considered sales and include the net interest expense component resulting from our hedging activities, which is currently included in net results from derivative transactions on our consolidated statements of income. See "—Reconciliation of Non-GAAP Financial Measures" for our definition of cost of funds and a reconciliation to interest expense.

*Interest Spreads*

As of September 30, 2019, the weighted average yield on our mortgage loan receivables was 7.2%, compared to 7.5% as of September 30, 2018 as the weighted average yield on new loans originated was lower than the weighted average yield on loans that were securitized or paid off. As of September 30, 2019, the weighted average interest rate on borrowings against our mortgage loan receivables was 3.6%, compared to 3.8% as of September 30, 2018. The decrease in the rate on borrowings against our mortgage loan receivables from September 30, 2018 to September 30, 2019 was primarily due to lower prevailing market borrowing rates as of September 30, 2019 compared to September 30, 2018. As of September 30, 2019, we had outstanding borrowings secured by our mortgage loan receivables equal to 39.4% of the carrying value of our mortgage loan receivables, compared to 48.6% as of September 30, 2018.

As of September 30, 2019, the weighted average yield on our real estate securities was 3.2%, compared to 3.1% as of September 30, 2018. As of September 30, 2019, the weighted average interest rate on borrowings against our real estate securities was 2.7%, compared to 2.5% as of September 30, 2018. The increase in the rate on borrowings against our real estate securities from September 30, 2018 to September 30, 2019 was primarily due to a decreased reliance on FHLB financing and an increased reliance on repurchase financing as of September 30, 2019 versus the prior period year end. As of September 30, 2019, we had outstanding borrowings secured by our real estate securities equal to 86.1% of the carrying value of our real estate securities, compared to 85.5% as of September 30, 2018.

Our real estate is comprised of non-interest bearing assets; however, interest incurred on mortgage financing collateralized by such real estate is included in interest expense. As of September 30, 2019, the weighted average interest rate on mortgage borrowings against our real estate was 5.0%, compared to 5.1% as of September 30, 2018. As of September 30, 2019, we had outstanding borrowings secured by our real estate equal to 73.7% of the carrying value of our real estate, compared to 74.3% as of September 30, 2018.

#### *Provision for Loan Losses*

We originate and invest primarily in loans with high credit quality, and we sell our conduit loans in the ordinary course of business. We estimate our loan loss provision based on our historical loss experience and our expectation of losses inherent in the investment portfolio but not yet realized. To ensure that the risk exposures are properly measured and the appropriate reserves are taken, the Company assesses a loan loss provision balance that will grow over time with its portfolio and the related risk as the assets approach maturity and ultimate refinancing where applicable.

We determined that a provision expense for loan losses of \$0.6 million was required for the nine months ended September 30, 2019. The provision consisted of a portfolio-based, general reserve of \$0.6 million for the expected losses over the remaining portfolio of mortgage loan receivables held for investment. We determined that a provision expense for loan losses of \$13.6 million was required for the nine months ended September 30, 2018. The provision consisted of a portfolio-based, general reserve of \$0.9 million for the expected losses over the remaining portfolio of mortgage loan receivables held for investment, an asset-specific reserve of \$2.7 million relating to two of the Company's loans and an asset-specific reserve of \$10.0 million relating to one of the Company's loans. For additional information, refer to "Provision for Loan Losses and Non-Accrual Status" in Note 3 Mortgage Loan Receivables to the consolidated financial statements.

#### *Operating Lease Income*

Operating lease income totaled \$81.1 million for the nine months ended September 30, 2019, compared to \$79.3 million for the nine months ended September 30, 2018. The increase of \$1.8 million was primarily attributable to real estate purchases subsequent to September 30, 2018. Tenant recoveries are included in operating lease income.

#### *Sale of Loans, Net*

We recorded \$38.6 million income (loss) from sale of loans, net, which includes all loan sales, whether by securitization, whole loan sales or other means, for the nine months ended September 30, 2019, compared to \$12.9 million for the nine months ended September 30, 2018, an increase of \$25.7 million. Income from sales of loans, net also includes realized losses on loans related to lower of cost or market adjustments. During the nine months ended September 30, 2019, we participated in four separate securitization transactions, selling/transferring 46 loans with an aggregate outstanding principal balance of \$548.1 million. During the nine months ended September 30, 2019, we recorded no realized losses on loans related to lower of cost or market adjustments. During the nine months ended September 30, 2018, we participated in six separate securitization transactions, selling/transferring 80 loans with an aggregate outstanding principal balance of \$939.3 million. In addition, in the nine months ended September 30, 2018, we recorded \$0.5 million of realized losses on loans related to lower of cost or market adjustments. Income from sales of loans, net is subject to market conditions impacting timing, size and pricing and as such may vary significantly quarter to quarter. There was \$23.2 million income from sales of securitized loans, net of hedging for the nine months ended September 30, 2019 compared to \$22.7 million for the nine months ended September 30, 2018. The \$0.5 million increase was predominantly due to declining interest rates in 2019, higher overall profit on the sale of loans, offset by a lower volume of loans sold.

Income (loss) from sale of loans, net, represents gross proceeds received from the sale of loans, less the book value of those loans at the time they were sold, less any costs, such as legal and closing costs, associated with the sale. Income from sales of securitized loans, net of hedging, a non-GAAP financial measure, represents the portion of income (loss) from sale of loans, net related to the sale of loans into securitization trusts. See "—Reconciliation of Non-GAAP Financial Measures" for our definition of income from sales of securitized loans, net of hedging and a reconciliation to income (loss) from sale of loans, net.

*Realized Gain (Loss) on Securities*

Realized gain (loss) on securities totaled \$10.7 million for the nine months ended September 30, 2019, compared to \$(4.9) million for the nine months ended September 30, 2018, an increase of \$15.6 million. Other than temporary impairments on securities of \$(0.1) million are included in realized gain (loss) on securities for the nine months ended September 30, 2019, compared to \$(2.2) million for the nine months ended September 30, 2018, a reduction of \$2.1 million. For the nine months ended September 30, 2019, we sold \$538.2 million of CMBS securities, comprised of \$500.8 million of CMBS, no U.S. Agency Securities, \$33.0 million of corporate bonds and \$4.4 million of equity securities. For the nine months ended September 30, 2018, we sold \$306.1 million of CMBS securities, comprised of \$305.6 million of CMBS and \$0.5 million U.S. Agency Securities. The increase reflects higher margin on sale of securities in 2019 as compared to 2018 and the decrease in interest rates throughout 2019.

*Unrealized Gain (Loss) on Equity Securities*

Unrealized gain (loss) on equity securities represented a gain of \$1.3 million for the nine months ended September 30, 2019, compared to none for the nine months ended September 30, 2018. The Company has elected the fair market value option for accounting for these equity securities and changes in fair value are recorded in current period earnings.

*Unrealized Gain (Loss) on Agency Interest-Only Securities*

Unrealized gain (loss) on Agency interest-only securities represented a gain of \$38 thousand for the nine months ended September 30, 2019, compared to a gain of \$0.5 million for the nine months ended September 30, 2018. The negative change of \$0.4 million in unrealized gain (loss) on Agency interest-only securities was due to the amortization of our securities portfolio.

*Realized Gain (Loss) on Sale of Real Estate, Net*

For the nine months ended September 30, 2019, income (loss) from sales of real estate, net totaled \$1.0 million, compared to \$96.3 million for the nine months ended September 30, 2018. The decrease of \$95.4 million was a result of the commercial real estate and residential condominium sales discussed below.

During the nine months ended September 30, 2019 and 2018, there were no sales of single-tenant net lease properties.

During the nine months ended September 30, 2019, we sold three diversified commercial real estate properties, resulting in a net gain (loss) on sale of \$0.7 million. During the nine months ended September 30, 2018, we sold six diversified commercial real estate properties resulting in a net gain (loss) on sale of \$90.4 million.

During the nine months ended September 30, 2019, income from sales of residential condominiums totaled \$0.4 million. We sold no residential condominium units from Veer Towers in Las Vegas, NV, and 14 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of \$0.4 million. During the nine months ended September 30, 2018, income from sales of residential condominiums totaled \$4.0 million. We sold eight residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of \$3.1 million, and 18 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of \$0.9 million.

*Impairment of Real Estate*

Impairment of real estate of \$1.4 million for the nine months ended September 30, 2019 is attributable to the receipt of a lease termination payment on a single-tenant two-story office building in Wayne, NJ. See Note 5, Real Estate and Related Lease Intangibles, Net and Note 15, Fair Value of Financial Instruments for further detail. There was no impairment of real estate for the nine months ended September 30, 2018.

*Fee and Other Income*

Fee and other income totaled \$17.0 million for the nine months ended September 30, 2019, compared to \$17.6 million for the nine months ended September 30, 2018. We generated fee income from origination fees, exit fees and other fees on the loans we originate and in which we invest, HOA fees, unrealized gains (losses) on our investment in mutual fund and dividend income on our investment in FHLB stock and equity securities. The \$0.5 million decrease in fee and other income year-over-year was primarily due to a decrease in HOA fee income.

*Net Result from Derivative Transactions*

Net result from derivative transactions represented a loss of \$36.0 million for the nine months ended September 30, 2019, which was comprised of an unrealized gain of \$0.9 million and a realized loss of \$36.9 million, compared to a gain of \$29.2 million, for the nine months ended September 30, 2018, which was comprised of an unrealized gain of \$1.4 million and a realized gain of \$27.8 million, resulting in a negative change of \$65.1 million. The derivative positions that generated these results were a combination of interest rate swaps, and futures that we employed in an effort to hedge the interest rate risk on the financing of our fixed rate assets and the net interest income we earn against the impact of changes in interest rates. The loss in 2019 was primarily related to movement in interest rates during the nine months ended September 30, 2019. The total net result from derivative transactions is comprised of hedging interest expense, realized gains/losses related to hedge terminations and unrealized gains/losses related to changes in the fair value of asset hedges. The hedge positions were related to fixed rate conduit loans and securities investments.

*Earnings (Loss) from Investment in Unconsolidated Joint Ventures*

Total earnings (loss) from investment in unconsolidated joint ventures totaled \$3.6 million and \$0.5 million for the nine months ended September 30, 2019 and 2018, respectively. Earnings from our investment in Grace Lake LLC totaled \$1.5 million and \$1.1 million for the nine months ended September 30, 2019 and 2018, respectively. Earnings (loss) from our investment in 24 Second Avenue totaled \$2.1 million and \$(0.7) million for the nine months ended September 30, 2019 and 2018, respectively. The loss for the nine months ended September 30, 2018 is due to a negative return related to upfront sales costs on the investment. The gain in the nine months ended September 30, 2019 is due to a recapitalization of our investment in 24 Second Avenue. See Note 6, Investment in and Advances to Unconsolidated Joint Ventures for further detail.

*Gain (Loss) on Extinguishment/Defeasance of Debt*

Gain (loss) on extinguishment/defeasance of debt totaled \$(1.1) million for the nine months ended September 30, 2019. During the nine months ended September 30, 2019, the Company paid off \$6.6 million of mortgage loan financing, recognizing a loss on extinguishment of debt of \$(1.1) million. There was a \$(4.4) million gain (loss) on extinguishment/defeasance of debt for the nine months ended September 30, 2018. During the nine months ended September 30, 2018 the Company retired \$5.9 million of principal of the CLO debt, via the purchase of related CLO securities, for a repurchase price of \$6.0 million, recognizing a \$(0.1) million net loss on extinguishment of debt after recognizing \$0.1 million of unamortized debt issuance costs associated with the retired debt.

*Salaries and Employee Benefits*

Salaries and employee benefits totaled \$52.8 million for the nine months ended September 30, 2019, compared to \$46.8 million for the nine months ended September 30, 2018. Salaries and employee benefits are comprised primarily of salaries, bonuses, equity based compensation and other employee benefits. The increase of \$6.0 million in compensation expense was primarily attributable to an increase in equity based compensation expense (due in part to the payment of some compensation awards in December of 2017, that would normally have been paid in early 2018), partially offset by a decrease in bonus expense.

*Operating Expenses*

Operating expenses totaled \$16.7 million for the nine months ended September 30, 2019, compared to \$16.6 million for the nine months ended September 30, 2018. Operating expenses are primarily composed of professional fees, lease expense and technology expenses. The increase of \$0.1 million was primarily related to an increase in professional fees, partially offset by a decrease in other operating expenses.

*Real Estate Operating Expenses*

Real estate operating expenses totaled \$17.8 million for the nine months ended September 30, 2019, compared to \$23.8 million for the nine months ended September 30, 2018. The decrease of \$6.0 million in real estate operating expense primarily relates to the sale of real estate in 2018 and a decrease in operating expenses for condominium properties.

### *Fee Expense*

Fee expense totaled \$5.0 million for the nine months ended September 30, 2019, compared to \$3.0 million for the nine months ended September 30, 2018. Fee expense is comprised primarily of custodian fees, financing costs and servicing fees related to loans. The increase of \$2.0 million in fee expense was primarily attributable to an increase in legal fees on mortgage loan receivables and an increase in servicing fees related to our mortgage loan receivables held for investment, net, at amortized cost.

### *Depreciation and Amortization*

Depreciation and amortization totaled \$29.2 million for the nine months ended September 30, 2019, compared to \$31.9 million for the nine months ended September 30, 2018. The \$2.7 million decrease in depreciation and amortization is primarily attributable to the timing of the real estate sales during each quarter.

### *Income Tax (Benefit) Expense*

Most of our consolidated income tax provision relates to the business units held in our TRSs. Income tax (benefit) expense totaled \$0.5 million for the nine months ended September 30, 2019, compared to \$5.7 million for the nine months ended September 30, 2018. The decrease of \$5.2 million is primarily as a result of significant reduction in real estate sales and net interest income in our TRSs.

## **Liquidity and Capital Resources**

Our financing strategies are critical to the success and growth of our business. We manage our financing to complement our asset composition and to diversify our exposure across multiple capital markets and counterparties.

We require substantial amounts of capital to support our business. The management team, in consultation with our board of directors, establishes our overall liquidity and capital allocation strategies. A key objective of those strategies is to support the execution of our business strategy while maintaining sufficient ongoing liquidity throughout the business cycle to service our financial obligations as they become due. When making funding and capital allocation decisions, members of our senior management consider business performance; the availability of, and costs and benefits associated with, different funding sources; current and expected capital markets and general economic conditions; our balance sheet and capital structure; and our targeted liquidity profile and risks relating to our funding needs.

To ensure that Ladder Capital can effectively address the funding needs of the Company on a timely basis, we maintain a diverse array of liquidity sources including (1) cash and cash equivalents; (2) cash generated from operations; (3) borrowings under repurchase agreements; (4) principal repayments on investments including mortgage loans and securities; (5) proceeds from the issuance of CLO debt; (6) borrowings under our revolving credit facility; (7) proceeds from securitizations and sales of loans; (8) proceeds from the sale of securities; (9) proceeds from the sale of real estate; (10) proceeds from the issuance of the Notes; and (11) proceeds from the issuance of equity capital. We use these funding sources to meet our obligations on a timely basis.

Our primary uses of liquidity are for (1) the funding of loan and real estate-related investments; (2) the repayment of short-term and long-term borrowings and related interest; (3) the funding of our operating expenses; and (4) distributions to our equity investors to comply with the REIT distribution requirements and the terms of LCFH's LLLP Agreement. We require short-term liquidity to fund loans that we originate and hold on our consolidated balance sheet pending sale, including through whole loan sale, participation, or securitization. We generally require longer-term funding to finance the loans and real estate-related investments that we hold for investment. We have historically used the aforementioned funding sources to meet the operating and investment needs as they have arisen and have been able to do so by applying a rigorous approach to long and short-term cash and debt forecasting.

In addition, as a REIT, we are also required to make sufficient dividend payments to our shareholders (and equivalent distributions to the Continuing LCFH Limited Partners) in amounts at least sufficient to maintain our REIT status. Under IRS guidance, we may elect to pay a portion of our dividends in stock, subject to a cash/stock election by our shareholders, to optimize our level of capital retention. Accordingly, our cash requirement to pay dividends to maintain REIT status could be substantially reduced at the discretion of the board.

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A summary of our financial obligations is provided below in our Contractual Obligations table. All our existing financial obligations due within the following year can be extended for one or more additional years at our discretion or repaid at maturity using other existing facilities or are incurred in the normal course of business (i.e., interest payments/loan funding obligations).

We generally seek to maintain an adjusted leverage ratio of approximately 3.0:1.0 or below. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of adjusted leverage and a reconciliation to debt obligations, net. This ratio typically fluctuates during the course of a fiscal year due to the normal course of business in our conduit lending operations, in which we generally securitize our inventory of loans at intervals, and also because of changes in our asset mix, due in part to such securitizations. We generally seek to match fund our assets according to their liquidity characteristics and expected hold period. We believe that the defensive positioning of our predominantly senior secured assets and our financing strategy has allowed us to maintain financial flexibility to capitalize on an attractive range of market opportunities as they have arisen.

We and our subsidiaries may incur substantial additional debt in the future. However, we are subject to certain restrictions on our ability to incur additional debt in the indentures governing the Notes (the “Indentures”) and our other debt agreements. Under the Indentures, we may not incur certain types of indebtedness unless our consolidated non-funding debt to equity ratio (as defined in the Indentures) is less than or equal to 1.75 to 1.00 or if the unencumbered assets of the Company and its subsidiaries is less than 120% of their unsecured indebtedness, although our subsidiaries are permitted to incur indebtedness where recourse is limited to the assets and/or the general credit of such subsidiary. Our borrowings under certain financing agreements and our committed loan facilities are subject to maximum consolidated leverage ratio limits (currently ranging from 3.50 to 1.00 to 4.00 to 1.00), including maximum consolidated leverage ratio limits weighted by asset composition that change based on our asset base at the time of determination, and, in the case of one provider, a minimum interest coverage ratio requirement of 1.50 to 1.00 if certain liquidity thresholds are not satisfied. These restrictions, which would permit us to incur substantial additional debt, are subject to significant qualifications and exceptions.

Our principal debt financing sources include: (1) committed secured funding provided by banks, (2) uncommitted secured funding sources, including asset repurchase agreements with a number of banks, (3) long term non-recourse mortgage financing, (4) long term senior unsecured notes in the form of corporate bonds and (5) borrowings on both a short- and long-term committed basis, made by Tuebor from the FHLB.

As of September 30, 2019, we had unrestricted cash and cash equivalents of \$83.1 million, unencumbered loans of \$1.3 billion, unencumbered securities of \$38.7 million, unencumbered real estate of \$90.8 million and \$374.3 million of other assets not secured by any portion of secured indebtedness, including the net equity in consolidated VIEs.

To maintain our qualification as a REIT under the Code, we were required to distribute our accumulated earnings and profits attributable to taxable periods ending prior to January 1, 2015 and we must annually distribute at least 90% of our taxable income. Consistent with the terms of an IRS private letter ruling, we paid our fourth quarter 2016 and 2015 dividends in a combination of cash and stock and may pay future distributions in such a manner; however, the REIT distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. We believe that our significant capital resources and access to financing will provide us with financial flexibility at levels sufficient to meet current and anticipated capital requirements, including funding new investment opportunities, paying distributions to our shareholders and servicing our debt obligations.

Our captive insurance company subsidiary, Tuebor, is subject to state regulations which require that dividends may only be made with regulatory approval. Largely as a result of this restriction, \$1.9 billion of Tuebor’s member’s capital was restricted from transfer via dividend to Tuebor’s parent without prior approval of state insurance regulators at September 30, 2019. To facilitate intercompany cash funding of operations and investments, Tuebor and its parent maintain regulator-approved intercompany borrowing/lending agreements.

The Company established a broker-dealer subsidiary, Ladder Capital Securities LLC (“LCS”), which was initially licensed and capitalized to do business in July 2010. LCS is required to be compliant with Financial Industry Regulatory Authority (“FINRA”) and SEC regulations, which require that dividends may only be made with regulatory approval. Largely as a result of this restriction, \$2.6 million of LCS’s member’s capital was restricted from transfer to LCS’s parent without prior approval of regulators at September 30, 2019.

### Cash, Cash Equivalents and Restricted Cash

We held unrestricted cash and cash equivalents of \$83.1 million and \$67.9 million at September 30, 2019 and December 31, 2018, respectively. We held restricted cash of \$38.7 million and \$30.6 million at September 30, 2019 and December 31, 2018, respectively. We elected to early adopt ASU 2016-18 effective January 1, 2017. ASU 2016-18 requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-the-period and end-of-period total amounts shown on the statement of cash flows. We held cash, cash equivalents and restricted cash of \$121.8 million and \$98.5 million at September 30, 2019 and December 31, 2018, respectively.

### Cash Flows

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

|   | <b>Nine Months Ended September 30,</b> |                    |
|---|--|--------------------|
|   | <b>2019</b>                            | <b>2018</b>        |
| Net cash provided by (used in) operating activities         | \$ 64,245                              | \$ (51,339)        |
| Net cash provided by (used in) investing activities         | (285,759)                              | (320,031)          |
| Net cash provided by (used in) financing activities         | 244,817                                | 273,600            |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$ 23,303</b>                       | <b>\$ (97,770)</b> |

We experienced a net increase in cash and cash equivalents of \$23.3 million for the nine months ended September 30, 2019, compared to a net decrease in cash and cash equivalents of \$97.8 million for the nine months ended September 30, 2018. During the nine months ended September 30, 2019, we received (i) \$1.2 billion of proceeds from repayment of mortgage loans receivable, (ii) \$574.3 million of proceeds from the sales of loans, (iii) \$534.2 million of proceeds from the sales of real estate securities, (iv) \$178.5 million of repayment of real estate securities and (v) \$415.7 million net borrowings under debt obligations. We used the proceeds from these activities to (i) originate \$1.5 billion of new loans and (ii) purchase \$1.2 billion of real estate securities.

### Borrowings Under Various Financing Arrangements

Our financing strategies are critical to the success and growth of our business. We manage our leverage policies to complement our asset composition and to diversify our exposure across multiple counterparties. Our borrowings under various financing arrangements as of September 30, 2019 and December 31, 2018 are set forth in the table below (\$ in thousands):

|  | <b>September 30, 2019</b> | <b>December 31, 2018</b> |
|--|---------------------------|--------------------------|
| Committed loan repurchase facilities               | \$ 760,521                | \$ 497,531               |
| Committed securities repurchase facility           | 85,457                    | —                        |
| Uncommitted securities repurchase facilities       | 940,070                   | 166,154                  |
| Total repurchase facilities                        | 1,786,048                 | 663,685                  |
| Revolving credit facility                          | —                         | —                        |
| Mortgage loan financing(1)                         | 723,313                   | 743,902                  |
| CLO debt(2)  | 117,760                   | 601,543                  |
| Participation financing - mortgage loan receivable | —                         | 2,453                    |
| Borrowings from the FHLB                           | 1,076,449                 | 1,286,000                |
| Senior unsecured notes(3)                          | 1,157,117                 | 1,154,991                |
| <b>Total debt obligations, net</b>                 | <b>\$ 4,860,687</b>       | <b>\$ 4,452,574</b>      |

(1) Presented net of unamortized debt issuance costs of \$0.4 million and \$0.7 million as of September 30, 2019 and December 31, 2018, respectively.

(2) Presented net of unamortized debt issuance costs of \$0.4 million and \$2.6 million as of September 30, 2019 and December 31, 2018, respectively.

(3) Presented net of unamortized debt issuance costs of \$9.1 million and \$11.2 million as of September 30, 2019 and December 31, 2018, respectively.

The Company's repurchase facilities include covenants covering minimum net worth requirements (ranging from \$300.0 million to \$829.3 million), maximum reductions in net worth over stated time periods, minimum liquidity levels (typically \$30.0 million of cash or a higher standard that often allows for the inclusion of different percentages of liquid securities in the determination of compliance with the requirement), maximum leverage ratios (calculated in various ways based on specified definitions of indebtedness and net worth) and a fixed charge coverage ratio of 1.25x, and, in the instance of one lender, an interest coverage ratio of 1.50x, in each case, if certain liquidity thresholds are not satisfied. We were in compliance with all covenants as of September 30, 2019 and December 31, 2018. Further, certain of our financing arrangements and loans on our real property are secured by the assets of the Company, including pledges of the equity of certain subsidiaries or the assets of certain subsidiaries. From time to time, certain of these financing arrangements and loans may prohibit certain of our subsidiaries from paying dividends to the Company, from making distributions on such subsidiary's capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary's property or other assets to the Company or other subsidiaries of the Company.

#### *Committed Loan Facilities*

We are parties to multiple committed loan repurchase agreement facilities, totaling \$1.8 billion of credit capacity. As of September 30, 2019, the Company had \$760.5 million of borrowings outstanding, with an additional \$1.0 billion of committed financing available. As of December 31, 2018, the Company had \$497.5 million of borrowings outstanding, with an additional \$1.3 billion of committed financing available. Assets pledged as collateral under these facilities are generally limited to whole mortgage loans collateralized by first liens on commercial real estate, mezzanine loans collateralized by equity interests in entities that own commercial real estate, and certain interests in such first mortgage and mezzanine loans. Our repurchase facilities include covenants covering net worth requirements, minimum liquidity levels, and maximum debt/equity ratios. We believe we were in compliance with all covenants as of September 30, 2019 and December 31, 2018.

We have the option to extend some of our existing facilities subject to a number of customary conditions. The lenders have sole discretion with respect to the inclusion of collateral in these facilities, to determine the market value of the collateral on a daily basis, and, if the estimated market value of the included collateral declines, the lenders have the right to require additional collateral or a full and/or partial repayment of the facilities (margin call), sufficient to rebalance the facilities. Typically, the facilities are established with stated guidelines regarding the maximum percentage of the collateral asset's market value that can be borrowed. We often borrow at a lower percentage of the collateral asset's value than the maximum leaving us with excess borrowing capacity that can be drawn upon at a later date and/or applied against future margin calls so that they can be satisfied on a cashless basis.

#### *Committed Securities Repurchase Facility*

We are a party to a term master repurchase agreement with a major U.S. banking institution for CMBS, totaling \$400.0 million of credit capacity. As we do in the case of borrowings under committed loan facilities, we often borrow at a lower percentage of the collateral asset's value than the maximum leaving us with excess borrowing capacity that can be drawn upon a later date and/or applied against future margin calls so that they can be satisfied on a cashless basis. As of September 30, 2019, the Company had \$85.5 million borrowings outstanding, with an additional \$314.5 million of committed financing available. As of December 31, 2018, the Company had no borrowings outstanding, with an additional \$400.0 million of committed financing available.

#### *Uncommitted Securities Repurchase Facilities*

We are party to multiple master repurchase agreements with several counterparties to finance our investments in CMBS and U.S. Agency Securities. The securities that served as collateral for these borrowings are highly liquid and marketable assets that are typically of relatively short duration. As we do in the case of other secured borrowings, we often borrow at a lower percentage of the collateral asset's value than the maximum leaving us with excess borrowing capacity that can be drawn upon a later date and/or applied against future margin calls so that they can be satisfied on a cashless basis.

*Collateralized Borrowings Under Repurchase Agreement*

The following table presents the amount of collateralized borrowings outstanding as of the end of each quarter, the average amount of collateralized borrowings outstanding during the quarter and the monthly maximum amount of collateralized borrowings outstanding during the quarter (\$ in thousands):

| Quarter Ended      | Collateralized Borrowings Under Repurchase Agreements (1) |                           |                                  |
|--------------------|---|---------------------------|----------------------------------|
|                    | Quarter-end balance                                       | Average quarterly balance | Maximum balance of any month-end |
| September 30, 2016 | \$ 1,458,327  | \$ 1,393,122              | \$ 1,468,013                     |
| December 31, 2016  | 1,107,185   | 1,397,061                 | 1,555,941                        |
| March 31, 2017     | 1,039,356   | 1,073,893                 | 1,119,863                        |
| June 30, 2017      | 1,149,605   | 1,264,948                 | 1,373,953                        |
| September 30, 2017 | 913,137   | 1,126,201                 | 1,301,334                        |
| December 31, 2017  | 473,410   | 739,721                   | 892,081                          |
| March 31, 2018     | 754,377   | 721,139                   | 773,383                          |
| June 30, 2018      | 819,962   | 787,568                   | 819,962                          |
| September 30, 2018 | 973,616   | 934,554                   | 973,616                          |
| December 31, 2018  | 663,686   | 735,350                   | 820,080                          |
| March 31, 2019     | 1,030,082   | 968,984                   | 1,030,082                        |
| June 30, 2019      | 1,267,371   | 1,221,388                 | 1,300,175                        |
| September 30, 2019 | 1,786,048   | 1,599,183                 | 1,786,048                        |

(1) Collateralized borrowings under repurchase agreements include all securities and loan financing under repurchase agreements.

As of September 30, 2019, we had repurchase agreements with 10 counterparties, with total debt obligations outstanding of \$1.8 billion. As of September 30, 2019, two counterparties, JP Morgan and Wells Fargo, held collateral that exceeded the amounts borrowed under the related repurchase agreements by more than \$82.0 million, or 5% of our total equity. As of September 30, 2019, the weighted average haircut, or the percent of collateral value in excess of the loan amount, under our repurchase agreements was 22.8%. There have been no significant fluctuations in haircuts across asset classes on our repurchase facilities.

*Revolving Credit Facility*

The Company's revolving credit facility (the "Revolving Credit Facility") provides for an aggregate maximum borrowing amount of \$266.4 million, including a \$25.0 million sublimit for the issuance of letters of credit. The Revolving Credit Facility is available on a revolving basis to finance the Company's working capital needs and for general corporate purposes. On January 15, 2019, the Company extended the maturity date of the Revolving Credit Facility to February 11, 2020. The Company has additional one-year extension options to extend the final maturity date to February 2023. Interest on the Revolving Credit Facility is one-month LIBOR plus 3.25% per annum payable monthly in arrears.

The obligations under the Revolving Credit Facility are guaranteed by the Company and certain of its subsidiaries. The Revolving Credit Facility is secured by a pledge of the shares of (or other ownership or equity interests in) certain subsidiaries to the extent the pledge is not restricted under existing regulations, law or contractual obligations.

LCFH is subject to customary affirmative covenants and negative covenants, including limitations on the incurrence of additional debt, liens, restricted payments, sales of assets and affiliate transactions under the Revolving Credit Facility. In addition, under the Revolving Credit Facility, LCFH is required to comply with financial covenants relating to minimum net worth, maximum leverage, minimum liquidity, and minimum fixed charge coverage, consistent with our other credit facilities. Our ability to borrow under the Revolving Credit Facility will be dependent on, among other things, LCFH's compliance with the financial covenants. The Revolving Credit Facility contains customary events of default, including non-payment of principal or interest, fees or other amounts, failure to perform or observe covenants, cross-default to other indebtedness, the rendering of judgments against the Company or certain of our subsidiaries to pay certain amounts of money and certain events of bankruptcy or insolvency.

### *Mortgage Loan Financing*

We generally finance our real estate using long-term non-recourse mortgage financing. During the nine months ended September 30, 2019, we executed nine term debt agreements to finance real estate. Our total portfolio of mortgage loan financings are fixed rate financing at rates ranging from 4.25% to 6.75%, maturing between 2020 - 2029 and totaling \$723.3 million and \$743.9 million at September 30, 2019 and December 31, 2018, respectively. These long-term non-recourse mortgages include net unamortized premiums of \$5.3 million and \$5.8 million at September 30, 2019 and December 31, 2018, respectively, representing proceeds received upon financing greater than the contractual amounts due under the agreements. The premiums are being amortized over the remaining life of the respective debt instruments using the effective interest method. We recorded \$1.3 million and \$0.8 million of premium amortization, which decreased interest expense, for the nine months ended September 30, 2019 and 2018, respectively. The loans are collateralized by real estate and related lease intangibles, net, of \$902.7 million and \$939.4 million as of September 30, 2019 and December 31, 2018, respectively.

### *CLO Debt*

The Company completed CLO issuances in the two transactions described below. The Company had a total of \$117.8 million and \$601.5 million of floating rate, non-recourse CLO debt included in debt obligations on its consolidated balance sheets as of September 30, 2019 and December 31, 2018, respectively. Unamortized debt issuance costs of \$0.4 million and \$2.6 million are included in CLO debt as of September 30, 2019 and December 31, 2018, respectively. As of September 30, 2019, the CLO debt has interest rates of 3.4% to 5.62% (with a weighted average of 4.97%). As of September 30, 2019, collateral for the CLO debt comprised \$274.1 million of first mortgage commercial mortgage real estate loans. In October 2019, the Company redeemed all outstanding debt obligations related to the two CLO transactions.

On October 17, 2017, a consolidated subsidiary of the Company consummated a securitization of floating-rate commercial mortgage loans through a static CLO structure. Over \$456.9 million of balance sheet loans (“Contributed Loans”) were contributed into the CLO. Certain of the Contributed Loans have future funding components that were not contributed to the CLO and that are retained by a subsidiary of the Company in the form of a participation interest or separate note. However, for a limited period of time, to the extent loans in the CLO are repaid, the CLO may acquire portions of the future fundings from the Company’s affiliate. An affiliate of the Company retained an approximately 18.5% interest in the CLO by retaining the most subordinate classes of notes issued by the CLO, retains control over major decisions made with respect to the administration of the Contributed Loans and appoints the special servicer under the CLO. The CLO is a VIE and the Company is the primary beneficiary and, therefore, consolidates the VIE.

On December 21, 2017, a consolidated subsidiary of the Company consummated a securitization of fixed and floating-rate commercial mortgage loans through a static CLO structure. Over \$431.5 million of Contributed Loans were contributed into the CLO. Certain of the Contributed Loans have future funding components that were not contributed to the CLO and that are retained by a subsidiary of the Company in the form of a participation interest or separate note. However, for a limited period of time, to the extent loans in the CLO are repaid, the CLO may acquire portions of the future fundings from the Company’s affiliate. An affiliate of the Company retained an approximately 25% interest in the CLO by retaining the most subordinate classes of notes issued by the CLO, retains control over major decisions made with respect to the administration of the Contributed Loans and appoints the special servicer under the CLO. The CLO is a VIE and the Company is the primary beneficiary and, therefore, consolidates the VIE.

### *Participation Financing - Mortgage Loan Receivable*

During the three months ended March 31, 2017, the Company sold a participating interest in a first mortgage loan receivable to a third party. The sales proceeds of \$4.0 million were considered non-recourse secured borrowings and were recognized in debt obligations on the Company’s consolidated balance sheets with \$2.5 million outstanding as of December 31, 2018. There were no non-recourse secured borrowings recognized in debt obligations on the Company’s consolidated balance sheets as of September 30, 2019, as the loan matured and was repaid during the three months ended June 30, 2019. The Company recorded \$0.2 million of interest expense for the nine months ended September 30, 2019. The Company recorded \$0.1 million and \$0.4 million of interest expense for the three and nine months ended September 30, 2018, respectively.

*FHLB Financing*

On July 11, 2012, Tuebor became a member of the FHLB. As of September 30, 2019, Tuebor had \$1.1 billion of borrowings outstanding (with an additional \$869.3 million of committed term financing available from the FHLB), with terms of overnight to 5.0 years, interest rates of 1.47% to 2.95%, and advance rates of 61.0% to 95.7% of the collateral. As of September 30, 2019, collateral for the borrowings was comprised of \$721.5 million of CMBS and U.S. Agency Securities and \$689.5 million of first mortgage commercial real estate loans. The weighted-average borrowings outstanding were \$1.2 billion for the nine months ended September 30, 2019. On December 6, 2017, Tuebor's advance limit was updated by the FHLB to the lowest of a Set Dollar Limit (currently \$2.0 billion), 40% of Tuebor's total assets or 150% of the Company's total equity. Beginning April 1, 2020 through December 31, 2020, the Set Dollar Limit will be \$1.5 billion. Beginning January 1, 2021 through February 19, 2021, the Set Dollar Limit will be \$750.0 million. Tuebor is well-positioned to meet its obligations and pay down its advances in accordance with the scheduled reduction in the Set Dollar Limit, which remains subject to revision by the FHLB or as a result of any future changes in applicable regulations.

As of December 31, 2018, Tuebor had \$1.3 billion of borrowings outstanding (with an additional \$647.5 million of committed term financing available from the FHLB), with terms of overnight to 5.75 years, interest rates of 1.18% to 3.01%, and advance rates of 56.4% to 95.2% of the collateral. As of December 31, 2018, collateral for the borrowings was comprised of \$1.0 billion of CMBS and U.S. Agency Securities and \$637.2 million of first mortgage commercial real estate loans. The weighted-average borrowings outstanding were \$1.3 billion for the nine months ended December 31, 2018.

Effective February 19, 2016, the FHFA, regulator of the FHLB, adopted a final rule amending its regulation regarding the eligibility of captive insurance companies for FHLB membership.

Pursuant to the final rule, Tuebor may remain a member of the FHLB through February 19, 2021 (the "Transition Period"). During the Transition Period, Tuebor is eligible to continue to draw new additional advances, extend the maturities of existing advances, and pay off outstanding advances on the same terms as non-captive insurance company FHLB members with the following two exceptions:

1. New advances (including any existing advances that are extended during the Transition Period) will have maturity dates on or before February 19, 2021; and
2. The FHLB will make new advances to Tuebor subject to a requirement that Tuebor's total outstanding advances do not exceed 40% of Tuebor's total assets. As of September 30, 2019, the Company is in compliance with this requirement.

Tuebor has executed new advances since the effective date of the new rule in the ordinary course of business.

FHLB advances amounted to 22.1% of the Company's outstanding debt obligations as of September 30, 2019. The Company does not anticipate that the FHFA's final regulation will materially impact its operations as it will continue to access FHLB advances during the five-year Transition Period and it has multiple, diverse funding sources for financing its portfolio in the future. In the latter stages of the five-year Transition Period, the Company expects to adjust its financing activities by gradually making greater use of alternative sources of funding of types currently used by the Company including secured and unsecured borrowings from banks and other counterparties, the issuance of corporate bonds and equity, and the securitization or sale of assets. Future moves to alternative funding sources could result in higher or lower advance rates from secured funding sources but also the incurrence of higher funding and operating costs than would have been incurred had FHLB funding continued to be available. In addition, the Company may find it more difficult to obtain committed secured funding for multiple year terms as it has been able to obtain from the FHLB.

The Transition Period allows time for events to occur that may impact Tuebor's long-term membership in the FHLB, including further regulatory changes, the enactment of legislation, or the filing of litigation challenging the validity of the final rule. During this period, a combination of these external events and/or Tuebor's own actions could result in the emergence of feasible alternative approaches for it to retain its FHLB membership.

There is no assurance that the FHFA or the FHLB will not take actions that could adversely impact Tuebor's membership in the FHLB and continuing access to new or existing advances prior to February 19, 2021.

Tuebor is subject to state regulations which require that dividends (including dividends to the Company as its parent) may only be made with regulatory approval. However, there can be no assurance that we would obtain such approval if sought. Largely as a result of this restriction, \$1.9 billion of the member's capital was restricted from transfer via dividend to Tuebor's parent without prior approval of state insurance regulators at September 30, 2019. To facilitate intercompany cash funding of operations and investments, Tuebor and its parent maintain regulator-approved intercompany borrowing/lending agreements.

*Senior Unsecured Notes*

LCFH issued the 2025 Notes, the 2022 Notes, the 2021 Notes and the 2017 Notes (each as defined below, and collectively, the “Notes”) with Ladder Capital Finance Corporation (“LCFC”), as co-issuers on a joint and several basis. LCFC is a 100% owned finance subsidiary of Series TRS of LCFH with no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the Notes. The Company and certain subsidiaries of LCFH currently guarantee the obligations under the Notes and the indenture. The Company is the general partner of LCFH and, through LCFH and its subsidiaries, operates the Ladder Capital business. As of September 30, 2019, the Company has a 89.8% economic and voting interest in LCFH and controls the management of LCFH as a result of its ability to appoint board members. Accordingly, the Company consolidates the financial results of LCFH and records noncontrolling interest for the economic interest in LCFH held by the Continuing LCFH Limited Partners. In addition, the Company, through certain subsidiaries which are treated as TRSs, is indirectly subject to U.S. federal, state and local income taxes. Other than the noncontrolling interest in the Operating Partnership and federal, state and local income taxes, there are no material differences between the Company’s consolidated financial statements and LCFH’s consolidated financial statements. Unamortized debt issuance costs of \$9.1 million and \$11.2 million are included in senior unsecured notes as of September 30, 2019 and December 31, 2018, respectively.

2021 Notes

On August 1, 2014, LCFH issued \$300.0 million in aggregate principal amount of 5.875% senior notes due August 1, 2021 (the “2021 Notes”). The 2021 Notes require interest payments semi-annually in cash in arrears on February 1 and August 1 of each year, beginning on February 1, 2015. The 2021 Notes will mature on August 1, 2021. The 2021 Notes are unsecured and are subject to incurrence-based covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type. At any time on or after August 1, 2020, the 2021 Notes are redeemable at the option of the Company, in whole or in part, upon not less than 30 nor more than 60 days’ notice, without penalty. On February 24, 2016, the board of directors authorized the Company to make up to \$100.0 million in repurchases of the 2021 Notes from time to time without further approval. On May 2, 2018, the board of the directors authorized the Company to repurchase any or all of the 2021 Notes from time to time without further approval.

During the year ended December 31, 2016, the Company retired \$33.8 million of principal of the 2021 Notes for a repurchase price of \$28.2 million, recognizing a \$5.1 million net gain on extinguishment of debt after recognizing \$(0.4) million of unamortized debt issuance costs associated with the retired debt. As of September 30, 2019, the remaining \$266.2 million in aggregate principal amount of the 2021 Notes is due August 1, 2021.

2022 Notes

On March 16, 2017, LCFH issued \$500.0 million in aggregate principal amount of 5.250% senior notes due March 15, 2022 (the “2022 Notes”). The 2022 Notes require interest payments semi-annually in cash in arrears on March 15 and September 15 of each year, beginning on September 15, 2017. The 2022 Notes will mature on March 15, 2022. The 2022 Notes are unsecured and are subject to an unencumbered assets to unsecured debt covenant. At any time on or after September 15, 2021, the 2022 Notes are redeemable at the option of the Company, in whole or in part, upon not less than 15 nor more than 60 days’ notice, without penalty. On May 2, 2018, the board of the directors authorized the Company to repurchase any or all of the 2022 Notes from time to time without further approval.

2025 Notes

On September 25, 2017, LCFH issued \$400.0 million in aggregate principal amount of 5.250% senior notes due October 1, 2025 (the “2025 Notes”). The 2025 Notes require interest payments semi-annually in cash in arrears on April 1 and October 1 of each year, beginning on April 1, 2018. The 2025 Notes will mature on October 1, 2025. The 2025 Notes are unsecured and are subject to an unencumbered assets to unsecured debt covenant. The Company may redeem the 2025 Notes, in whole, at any time, or from time to time, prior to their stated maturity. The 2025 Notes are redeemable at the option of the Company, in whole or in part, upon not less than 15 nor more than 60 days’ notice, at a redemption price equal to 100% of the principal amount of the 2025 Notes plus the Applicable Premium (as defined in the indenture governing the 2025 Notes) as of, and accrued and unpaid interest, if any, to the redemption date. On May 2, 2018, the board of the directors authorized the Company to repurchase any or all of the 2025 Notes from time to time without further approval.

*Stock Repurchases*

On October 30, 2014, the board of directors authorized the Company to make up to \$50.0 million in repurchases of the Company's Class A common stock from time to time without further approval. Stock repurchases by the Company are generally made for cash in open market transactions at prevailing market prices but may also be made in privately negotiated transactions or otherwise. The timing and amount of purchases are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. As of September 30, 2019, the Company has a remaining amount available for repurchase of \$41.1 million, which represents 2.2% in the aggregate of its outstanding Class A common stock, based on the closing price of \$17.27 per share on such date.

The following table is a summary of the Company's repurchase activity of its Class A common stock during the nine months ended September 30, 2019 and 2018 (\$ in thousands):

|  | <u>Shares</u> | <u>Amount(1)</u> |
|--|---------------|------------------|
| Authorizations remaining as of December 31, 2018         |               | \$ 41,769        |
| Additional authorizations                                |               | —                |
| Repurchases paid   | 40,065        | (637)            |
| Repurchases unsettled                                    |               | —                |
| <b>Authorizations remaining as of September 30, 2019</b> |               | <b>\$ 41,132</b> |

(1) Amount excludes commissions paid associated with share repurchases.

|  | <u>Shares</u> | <u>Amount(1)</u> |
|--|---------------|------------------|
| Authorizations remaining as of December 31, 2017         |               | \$ 41,769        |
| Additional authorizations                                |               | —                |
| Repurchases paid   | —             | —                |
| Repurchases unsettled                                    |               | —                |
| <b>Authorizations remaining as of September 30, 2018</b> |               | <b>\$ 41,769</b> |

(1) Amount excludes commissions paid associated with share repurchases.

*Dividends*

To maintain our qualification as a REIT under the Code, we must annually distribute at least 90% of our taxable income and, for 2015, we had to distribute our undistributed accumulated earnings and profits attributable to taxable periods prior to January 1, 2015 (the "E&P Distribution"). The Company made the E&P Distribution on January 21, 2016 and has paid and in the future intend to declare regular quarterly distributions to our shareholders in an amount approximating our net taxable income.

Consistent with IRS guidance we may, subject to a cash/stock election by our shareholders, pay a portion of our dividends in stock, to provide for meaningful capital retention; however, the REIT distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. The timing and amount of future distributions is based on a number of factors, including, among other things, our future operations and earnings, capital requirements and surplus, general financial condition and contractual restrictions. All dividend declarations are subject to the approval of our board of directors. Generally, we expect the distributions to be taxable as ordinary dividends to our shareholders, whether paid in cash or a combination of cash and common stock, and not as a tax-free return of capital. Refer to Note 11, Equity Structure and Accounts for tax treatment of dividends. We believe that our significant capital resources and access to financing will provide the financial flexibility at levels sufficient to meet current and anticipated capital requirements, including funding new investment opportunities, paying distributions to our shareholders and servicing our debt obligations.

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The following table presents dividends declared (on a per share basis) of Class A common stock for the nine months ended September 30, 2019 and 2018:

| <b>Declaration Date</b> | <b>Dividend per Share</b> |
|-------------------------|---------------------------|
| February 27, 2019       | \$ 0.340                  |
| May 30, 2019            | 0.340                     |
| August 22, 2019         | 0.340                     |
| <b>Total</b>            | <b>\$ 1.020</b>           |
| February 27, 2018       | \$ 0.315                  |
| May 30, 2018            | 0.325                     |
| September 5, 2018       | 0.325                     |
| <b>Total</b>            | <b>\$ 0.965</b>           |

#### *Principal Repayments on Investments*

We receive principal amortization on our loans and securities as part of the normal course of our business. Repayment of mortgage loan receivables provided net cash of \$1.2 billion for the nine months ended September 30, 2019 and \$756.7 million for the nine months ended September 30, 2018. Repayment of real estate securities provided net cash of \$178.5 million for the nine months ended September 30, 2019 and \$93.2 million for the nine months ended September 30, 2018.

#### *Proceeds from Securitizations and Sales of Loans*

We sell our conduit mortgage loans to securitization trusts and to other third parties as part of our normal course of business. There were \$574.3 million of proceeds from sales of mortgage loans for the nine months ended September 30, 2019 and \$926.9 million sales of mortgage loans for the nine months ended September 30, 2018.

#### *Proceeds from the Sale of Securities*

We invest in CMBS, U.S. Agency Securities, corporate bonds and equity securities. Proceeds from sales of securities provided net cash of \$534.2 million for the nine months ended September 30, 2019 and \$306.1 million for the nine months ended September 30, 2018.

#### *Proceeds from the Sale of Real Estate*

We own a portfolio of commercial real estate properties as well as residential condominium units. Proceeds from sales of real estate provided net cash of \$10.8 million for the nine months ended September 30, 2019 and \$153.4 million for the nine months ended September 30, 2018.

#### *Proceeds from the Issuance of Equity*

For the nine months ended September 30, 2019 and 2018, there were no proceeds realized in connection with the issuance of equity. We may issue additional equity in the future.

#### *Other Potential Sources of Financing*

In the future, we may also use other sources of financing to fund the acquisition of our assets, including credit facilities, warehouse facilities, repurchase facilities and other secured and unsecured forms of borrowing. These financings may be collateralized or non-collateralized, may involve one or more lenders and may accrue interest at either fixed or floating rates. We may also seek to raise further equity capital or issue debt securities in order to fund our future investments.

*Contractual Obligations*

Contractual obligations as of September 30, 2019 were as follows (\$ in thousands):

|   | <b>Contractual Obligations</b> |                     |                   |                          |                     |
|---|--------------------------------|---------------------|-------------------|--------------------------|---------------------|
|   | <u>Less than 1 Year</u>        | <u>1-3 Years</u>    | <u>3-5 Years</u>  | <u>More than 5 Years</u> | <u>Total</u>        |
| Secured financings                            | \$ 1,586,058 (1)               | \$ 1,223,774        | \$ 519,246        | \$ 369,924               | \$ 3,699,002        |
| Senior unsecured notes                        | —                              | 766,201             | —                 | 400,000                  | 1,166,201           |
| Interest payable(2)                           | 123,167                        | 158,852             | 44,805            | 31,500                   | 358,324             |
| Other funding obligations(3)                  | 257,725                        | —                   | —                 | —                        | 257,725             |
| Payments pursuant to tax receivable agreement | 104                            | 208                 | 208               | 1,039                    | 1,559               |
| Operating lease obligations                   | 604                            | 2,361               | 98                | —                        | 3,063               |
| <b>Total</b>                                  | <b>\$ 1,967,658</b>            | <b>\$ 2,151,396</b> | <b>\$ 564,357</b> | <b>\$ 802,463</b>        | <b>\$ 5,485,874</b> |

- (1) As more fully disclosed in Note 7, Debt Obligations, Net, these obligations are subject to existing Company controlled extension options for one or more additional one-year periods or could be refinanced by other existing facilities.
- (2) Composed of interest on secured financings and on senior unsecured notes. For borrowings with variable interest rates, we used the rates in effect as of September 30, 2019 to determine the future interest payment obligations.
- (3) Comprised of our off-balance sheet unfunded commitment to provide additional first mortgage loan financing as of September 30, 2019.

The tables above do not include amounts due under our derivative agreements as those contracts do not have fixed and determinable payments. Our contractual obligations will be refinanced and/or repaid from earnings as well as amortization and sales of our liquid collateral.

**Off-Balance Sheet Arrangements**

We have made investments in various unconsolidated joint ventures. See Note 6, Investment in and Advances to Unconsolidated Joint Ventures for further details of our unconsolidated investments. Our maximum exposure to loss from these investments is limited to the carrying value of our investments.

**Unfunded Loan Commitments**

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our borrowers. As of September 30, 2019, our off-balance sheet arrangements consisted of \$257.7 million of unfunded commitments of mortgage loan receivables held for investment, all of which was to provide additional first mortgage loan financing. As of December 31, 2018, our off-balance sheet arrangements consisted of \$379.8 million of unfunded commitments of mortgage loan receivables held for investment, all of which was to provide additional first mortgage loan financing. Such commitments are subject to our borrowers' satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets and are not reflected on our consolidated balance sheets.

**Critical Accounting Policies**

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates" within the Annual Report for a full discussion of our critical accounting policies. Other than disclosed in Note 2, Significant Accounting Policies, our critical accounting policies have not materially changed since December 31, 2018.

**Recently Adopted Accounting Pronouncements and Recent Accounting Pronouncements Pending Adoption**

Our recently adopted accounting pronouncements and recent accounting pronouncements pending adoption are described in Note 2, Significant Accounting Policies.

## Reconciliation of Non-GAAP Financial Measures

### *Core Earnings*

We present core earnings, which is a non-GAAP financial measure, as a supplemental measure of our performance. We believe core earnings assists investors in comparing our performance across reporting periods on a more relevant and consistent basis by excluding certain non-cash expenses and unrecognized results as well as eliminating timing differences related to securitization gains and changes in the values of assets and derivatives. In addition, we use core earnings: (i) to evaluate our earnings from operations and (ii) because management believes that it may be a useful performance measure for us. Core earnings is also used as a factor in determining the annual incentive compensation of our senior managers and other employees.

We consider the Class A common shareholders of the Company and Continuing LCFH Limited Partners to have fundamentally equivalent interests in our pre-tax earnings. Accordingly, for purposes of computing core earnings we start with pre-tax earnings and adjust for other noncontrolling interest in consolidated joint ventures but we do not adjust for amounts attributable to noncontrolling interest held by Continuing LCFH Limited Partners.

We define core earnings as income before taxes adjusted for: (i) real estate depreciation and amortization; (ii) the impact of derivative gains and losses related to the hedging of assets on our balance sheet as of the end of the specified accounting period; (iii) unrealized gains/(losses) related to our investments in fair value securities and passive interest in unconsolidated joint ventures; (iv) economic gains on securitization transactions not recognized under GAAP accounting for which risk has substantially transferred during the period and the exclusion of resultant GAAP recognition of the related economics during the subsequent periods; (v) non-cash stock-based compensation; and (vi) certain transactional items.

For core earnings, we include adjustments for Economic Gains on Securitization transactions not recognized under GAAP accounting for which risk has substantially transferred during the period and exclusion of resultant GAAP recognition of the related economics during the subsequent periods. This adjustment is reflected in core earnings when there is a true risk transfer on the mortgage loan transfer and settlement. Historically, this has represented the impact of economic gains/(discounts) on intercompany loans secured by our own real estate which we had not previously recognized because such gains were eliminated in consolidation. Conversely, if the economic risk was not substantially transferred, no adjustments to net income would be made relating to those transactions for core earnings purposes. Management believes recognizing these amounts for core earnings purposes in the period of transfer of economic risk is a reasonable supplemental measure of our performance.

As discussed in Note 2 to the consolidated financial statements included elsewhere in this Quarterly Report, we do not designate derivatives as hedges to qualify for hedge accounting and therefore any net payments under, or fluctuations in the fair value of, our derivatives are recognized currently in our income statement. However, fluctuations in the fair value of the related assets are not included in our income statement. We consider the gain or loss on our hedging positions related to assets that we still own as of the reporting date to be “open hedging positions.” While recognized for GAAP purposes, we exclude the results on the hedges from core earnings until the related asset is sold and the hedge position is considered “closed,” whereupon they would then be included in core earnings in that period. These are reflected as “Adjustments for unrecognized derivative results” for purposes of computing core earnings for the period. We believe that excluding these specifically identified gains and losses associated with the open hedging positions adjusts for timing differences between when we recognize changes in the fair values of our assets and changes in the fair value of the derivatives used to hedge such assets.

As more fully discussed in Note 2 to the consolidated financial statements included elsewhere in this Quarterly Report, our investments in Agency interest-only securities and equity securities are recorded at fair value with changes in fair value recorded in current period earnings. We believe that excluding these specifically identified gains and losses associated with the fair value securities adjusts for timing differences between when we recognize changes in the fair values of our assets.

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Set forth below is a reconciliation of income (loss) before taxes to core earnings (\$ in thousands):

|   | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                   |
|---|----------------------------------|------------------|---------------------------------|-------------------|
|   | 2019                             | 2018             | 2019                            | 2018              |
| Income (loss) before taxes  | \$ 32,060                        | \$ 84,668        | \$ 92,030                       | \$ 200,508        |
| Net (income) loss attributable to noncontrolling interest in consolidated joint ventures and operating partnership (GAAP)(1)  | (71)                             | (7,851)          | 667                             | (16,155)          |
| Our share of real estate depreciation, amortization and gain adjustments(2)(3)  | 6,741                            | (12,435)         | 18,999                          | 2,398             |
| Adjustments for unrecognized derivative results(4)  | 1,889                            | (3,614)          | 13,191                          | (16,320)          |
| Unrealized (gain) loss on fair value securities   | (248)                            | (142)            | (1,475)                         | (456)             |
| Adjustment for economic gain on securitization transactions not recognized under GAAP for which risk has been substantially transferred, net of reversal/amortization | (168)                            | 7                | (817)                           | (530)             |
| Non-cash stock-based compensation   | 3,918                            | 2,763            | 19,383                          | 8,186             |
| <b>Core earnings</b>  | <b>\$ 44,121</b>                 | <b>\$ 63,396</b> | <b>\$ 141,978</b>               | <b>\$ 177,631</b> |

- (1) Includes \$7 thousand and \$8 thousand of net income attributable to noncontrolling interest in consolidated joint ventures which are included in net (income) loss attributable to noncontrolling interest in operating partnership on the consolidated statements of income for the three months ended September 30, 2019 and 2018, respectively. Includes \$24 thousand and \$23 thousand of net income attributable to noncontrolling interest in consolidated joint ventures which are included in net (income) loss attributable to noncontrolling interest in operating partnership on the consolidated statements of income for the nine months ended September 30, 2019 and 2018, respectively.
- (2) The following is a reconciliation of GAAP depreciation and amortization to our share of real estate depreciation, amortization and gain adjustments presented in the computation of core earnings in the preceding table (\$ in thousands):

|  | Three Months Ended September 30, |                    | Nine Months Ended September 30, |                 |
|--|----------------------------------|--------------------|---------------------------------|-----------------|
|  | 2019                             | 2018               | 2019                            | 2018            |
| Total GAAP depreciation and amortization   | \$ 9,030                         | \$ 10,417          | \$ 29,192                       | \$ 31,896       |
| Less: Depreciation and amortization related to non-rental property fixed assets  | (25)                             | (18)               | (74)                            | (56)            |
| Less: Non-controlling interest in consolidated joint ventures' share of accumulated depreciation and amortization and unrecognized passive interest in unconsolidated joint ventures | (417)                            | (1,076)            | (2,392)                         | (2,447)         |
| Our share of real estate depreciation and amortization   | 8,588                            | 9,323              | 26,726                          | 29,393          |
| Realized gain from accumulated depreciation and amortization on real estate sold (see below)   | (1,418)                          | (22,066)           | (6,839)                         | (27,553)        |
| Less: Non-controlling interest in consolidated joint ventures' share of accumulated depreciation and amortization on real estate sold  | 41                               | 653                | 83                              | 1,844           |
| Our share of accumulated depreciation and amortization on real estate sold   | (1,377)                          | (21,413)           | (6,756)                         | (25,709)        |
| Less: Operating lease income on above/below market lease intangible amortization   | (470)                            | (345)              | (971)                           | (1,286)         |
| <b>Our share of real estate depreciation, amortization and gain adjustments</b>  | <b>\$ 6,741</b>                  | <b>\$ (12,435)</b> | <b>\$ 18,999</b>                | <b>\$ 2,398</b> |

GAAP gains/losses on sales of real estate include the effects of previously recognized real estate depreciation and amortization. For purposes of core earnings, our share of real estate depreciation and amortization is eliminated and, accordingly, the resultant gain/losses also must be adjusted. Following is a reconciliation of the related consolidated GAAP amounts to the amounts reflected in core earnings (\$ in thousands):

|   | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                  |
|---|----------------------------------|------------------|---------------------------------|------------------|
|   | 2019                             | 2018             | 2019                            | 2018             |
| GAAP realized gain (loss) on sale of real estate, net                             | \$ 2,082                         | \$ 63,704        | \$ 963                          | \$ 96,341        |
| Adjusted gain/loss on sale of real estate for purposes of core earnings           | (705)                            | (42,291)         | 5,793                           | (70,632)         |
| <b>Our share of accumulated depreciation and amortization on real estate sold</b> | <b>\$ 1,377</b>                  | <b>\$ 21,413</b> | <b>\$ 6,756</b>                 | <b>\$ 25,709</b> |

- (3) As more fully discussed in Note 5, Real Estate and Related Intangibles, Net, Note 7, Debt Obligations, Net and Note 15, Fair Value of Financial Instruments to the Company's Consolidated Financial Statements for the three months ended March 31, 2019, the Company recognized \$5.7 million of operating lease income from prepayment of a lease, a \$1.1 million loss on extinguishment of debt and a \$1.4 million impairment of real estate related to a single-tenant two-story office building in Wayne, NJ. This property was sold on May 1, 2019. For core earnings, the Company recognizes the net impact of these events in the period the sale was realized. Accordingly, the \$3.3 million net impact of the income and losses discussed above were excluded from core earnings for the three months ended March 31, 2019 and have been included in core earnings for the nine months ended September 30, 2019.
- (4) The following is a reconciliation of GAAP net results from derivative transactions to our unrecognized derivative result presented in the computation of core earnings in the preceding table (\$ in thousands):

|  | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                  |
|--|----------------------------------|-----------------|---------------------------------|------------------|
|  | 2019                             | 2018            | 2019                            | 2018             |
| Net results from derivative transactions               | \$ (9,465)                       | \$ 7,115        | \$ (35,956)                     | \$ 29,156        |
| Hedging interest expense                               | 436                              | 1,365           | 1,927                           | 5,789            |
| Hedging realized result                                | 7,140                            | (4,866)         | 20,838                          | (18,625)         |
| <b>Adjustments for unrecognized derivative results</b> | <b>\$ (1,889)</b>                | <b>\$ 3,614</b> | <b>\$ (13,191)</b>              | <b>\$ 16,320</b> |

Core earnings has limitations as an analytical tool. Some of these limitations are:

- Core earnings does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations and is not necessarily indicative of cash necessary to fund cash needs; and
- other companies in our industry may calculate core earnings differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, core earnings should not be considered in isolation or as a substitute for net income (loss) attributable to shareholders or any other performance measures calculated in accordance with GAAP, or as an alternative to cash flows from operations as a measure of our liquidity.

In the future we may incur gains and losses that are the same as or similar to some of the adjustments in this presentation. Our presentation of core earnings should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

*Income from Sales of Securitized Loans, Net of Hedging and Core Gain on Sale of Securitized Loans*

We present income from sales of securitized loans, net of hedging, a non-GAAP financial measure, as a supplemental measure of the performance of our loan securitization business. Since our loans sold into securitizations to date are comprised of long-term fixed-rate loans, the result of hedging those exposures prior to securitization represents a substantial portion of our securitization profitability. Therefore, we view these two components of our profitability together when assessing the performance of this business activity and find it a meaningful measure of the Company's performance as a whole. When evaluating the performance of our sale of loans into securitization business, we generally consider the income from sales of loans, net in conjunction with other income statement items that are directly related to such securitization transactions, including portions of the realized net result from derivative transactions that are specifically related to hedges on the securitized or sold loans, which we reflect as hedge gain/(loss) related to loans securitized, a non-GAAP financial measure, in the table below.

In addition, we present core gain on sale of securitized loans, a non-GAAP financial measure, which adjusts income from sales of securitized loans, net of hedging for economic gains on securitization transactions not recognized under GAAP. Management believes recognizing these amounts for core purposes in the period of economic transfer of risk is a reasonable supplemental measure of our performance.

Set forth below is an unaudited reconciliation of income from sale of loans, net to income from sales of securitized loans, net of hedging as well as core gain on sale of securitized loans (\$ in thousands except for number of loans and securitizations):

|   | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                  |
|---|----------------------------------|-----------------|---------------------------------|------------------|
|   | 2019                             | 2018            | 2019                            | 2018             |
| Number of loans   | 10                               | 13              | 46                              | 80               |
| Face amount of loans sold into securitizations  | \$ 140,673                       | \$ 101,978      | \$ 548,125                      | \$ 939,314       |
| Number of securitizations   | 1                                | 1               | 4                               | 6                |
| <b>Income from sales of loans, net</b>  | <b>\$ 11,247</b>                 | <b>\$ 1,861</b> | <b>\$ 38,589</b>                | <b>\$ 12,893</b> |
| Realized losses on loans related to lower of cost or market adjustments   | —                                | —               | —                               | 463              |
| Hedge gain/(loss) related to loans securitized(1)   | (5,039)                          | 453             | (15,371)                        | 9,329            |
| <b>Income from sales of securitized loans, net of hedging</b>   | <b>6,208</b>                     | <b>2,314</b>    | <b>23,218</b>                   | <b>22,685</b>    |
| Adjustment for economic gain on securitization transactions not recognized under GAAP for which risk has been substantially transferred | 357                              | 265             | 483                             | 232              |
| <b>Core gain on sale of securitized loans</b>   | <b>\$ 6,565</b>                  | <b>\$ 2,579</b> | <b>\$ 23,701</b>                | <b>\$ 22,917</b> |

(1) The following is a reconciliation of net results from derivative transactions, which is the closest GAAP measure, as reported in our consolidated financial statements included herein to the non-GAAP financial measure of hedge gain/(loss) related to loans securitized (\$ in thousands):

|   | Three Months Ended September 30, |               | Nine Months Ended September 30, |                 |
|---|----------------------------------|---------------|---------------------------------|-----------------|
|   | 2019                             | 2018          | 2019                            | 2018            |
| Net results from derivative transactions                      | \$ (9,465)                       | \$ 7,115      | \$ (35,956)                     | \$ 29,156       |
| Hedge gain/(loss) related to lending and securities positions | 4,426                            | (6,662)       | 20,585                          | (19,827)        |
| <b>Hedge gain/(loss) related to loans securitized</b>         | <b>\$ (5,039)</b>                | <b>\$ 453</b> | <b>\$ (15,371)</b>              | <b>\$ 9,329</b> |

*Adjusted Leverage*

We present adjusted leverage, which is a non-GAAP financial measure, as a supplemental measure of our performance. We define adjusted leverage as the ratio of (i) debt obligations, net of deferred financing costs, adjusted for non-recourse indebtedness related to securitizations that is consolidated on our GAAP balance sheet and liability for transfers not considered sales to (ii) GAAP total equity. We believe adjusted leverage assists investors in comparing our leverage across reporting periods on a consistent basis by excluding non-recourse debt related to securitized loans. In addition, adjusted leverage is used to determine compliance with financial covenants.

Set forth below is an unaudited computation of adjusted leverage (\$ in thousands):

|                           | <u>September 30, 2019</u> | <u>December 31, 2018</u> |
|---------------------------|---------------------------|--------------------------|
| Debt obligations, net     | \$ 4,860,687              | \$ 4,452,574             |
| Less: CLO debt(1)         | (117,760)                 | (601,543)                |
| Adjusted debt obligations | 4,742,927                 | 3,851,031                |
| Total equity              | 1,639,250                 | 1,643,635                |
| <b>Adjusted leverage</b>  | <b>2.9</b>                | <b>2.3</b>               |

(1) As more fully discussed in Note 7 to our consolidated financial statements, we contributed over \$888.4 million of balance sheet loans into two CLO securitizations that remain on our balance sheet for accounting purposes but should be excluded from debt obligations for adjusted leverage calculation purposes.

### Cost of Funds

We present cost of funds, which is a non-GAAP financial measure, as a supplemental measure of the Company's cost of debt financing. We define cost of funds as interest expense as reported on our consolidated statements of income adjusted to exclude interest expense related to liabilities for transfers not considered sales and include the net interest expense component resulting from our hedging activities, which is currently included in net results from derivative transactions on our consolidated statements of income. Interest income, net of cost of funds which is a non-GAAP financial measure, is defined as interest income, less interest income related to mortgage loans transferred but not considered sold less cost of funds.

Set forth below is an unaudited reconciliation of interest expense to cost of funds (\$ in thousands):

|  | Three Months Ended September 30, |                    | Nine Months Ended September 30, |                     |
|--|----------------------------------|--------------------|---------------------------------|---------------------|
|  | 2019                             | 2018               | 2019                            | 2018                |
| Interest expense   | \$ (51,397)                      | \$ (51,476)        | \$ (155,015)                    | \$ (144,606)        |
| Interest expense related to liability for transfers not considered sales(1)      | —                                | —                  | 92                              | —                   |
| Net interest expense component of hedging activities(2)                          | (436)                            | (1,365)            | (1,927)                         | (5,789)             |
| <b>Cost of funds</b>   | <b>\$ (51,833)</b>               | <b>\$ (52,841)</b> | <b>\$ (156,850)</b>             | <b>\$ (150,395)</b> |
| Interest income  | \$ 82,251                        | \$ 90,386          | \$ 254,040                      | \$ 253,822          |
| Interest income related to mortgage loans transferred but not considered sold(1) | —                                | —                  | (92)                            | —                   |
| Cost of funds  | (51,833)                         | (52,841)           | (156,850)                       | (150,395)           |
| <b>Interest income, net of cost of funds</b>                                     | <b>\$ 30,418</b>                 | <b>\$ 37,545</b>   | <b>\$ 97,098</b>                | <b>\$ 103,427</b>   |

- (1) As more fully discussed in Note 4 to our consolidated financial statements, during the three months ended March 31, 2019, we sold a non-controlling loan interest in a first mortgage loan receivable to a third party. The sales proceeds were considered non-recourse secured borrowings, which were included in liability for transfers not considered sales in debt obligations, and the asset remained on the Company's consolidated balance sheets as mortgage loans transferred but not considered sold. During the three months ended June 30, 2019, the controlling loan interest was sold, and as a result, the loan previously sold during the three months ended March 30, 2019 was accounted for as a sale during the six months ended June 30, 2019. The interest income and expense related to this asset and liability are included on our consolidated statements of income but should be excluded from the calculation of cost of funds.

|   | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                   |
|---|----------------------------------|-------------------|---------------------------------|-------------------|
|   | 2019                             | 2018              | 2019                            | 2018              |
| (2) Net result from derivative transactions                 | \$ (9,465)                       | \$ 7,115          | \$ (35,956)                     | \$ 29,156         |
| Hedging realized result                                     | 7,140                            | (4,866)           | 20,838                          | (18,625)          |
| Hedging unrecognized result                                 | 1,889                            | (3,614)           | 13,191                          | (16,320)          |
| <b>Net interest expense component of hedging activities</b> | <b>\$ (436)</b>                  | <b>\$ (1,365)</b> | <b>\$ (1,927)</b>               | <b>\$ (5,789)</b> |

**Item 3. Quantitative and Qualitative Disclosures about Market Risk*****Interest Rate Risk***

The nature of the Company's business exposes it to market risk arising from changes in interest rates. Changes, both increases and decreases, in the rates the Company is able to charge its borrowers, the yields the Company is able to achieve in its securities investments, and the Company's cost of borrowing directly impacts its net income. The Company's interest income stream from loans and securities is generally fixed over the life of its assets, whereas it uses floating-rate debt to finance a significant portion of its investments. Another component of interest rate risk is the effect changes in interest rates will have on the market value of the assets the Company acquires. The Company faces the risk that the market value of its assets will increase or decrease at different rates than that of its liabilities, including its hedging instruments. The Company mitigates interest rate risk through utilization of hedging instruments, primarily interest rate swap and futures agreements. Interest rate swap and futures agreements are utilized to hedge against future interest rate increases on the Company's borrowings and potential adverse changes in the value of certain assets that result from interest rate changes. The Company generally seeks to hedge assets that have a duration longer than five years, including newly originated conduit first mortgage loans, securities in the Company's CMBS portfolio if long enough in duration, and most of its U.S. Agency Securities portfolio.

The following table summarizes the change in net income for a 12-month period commencing September 30, 2019 and the change in fair value of our investments and indebtedness assuming an increase or decrease of 100 basis points in the LIBOR interest rate on September 30, 2019, both adjusted for the effects of our interest rate hedging activities (\$ in thousands):

|                          | <u>Projected change<br/>in net income(1)</u> | <u>Projected change<br/>in portfolio<br/>value</u> |
|--------------------------|--|--|
| Change in interest rate: |  |  |
| Decrease by 1.00%        | \$ (3,656)                                   | \$ 15,800  |
| Increase by 1.00%        | 13,311                                       | (15,565)   |

(1) Subject to limits for floors on our floating rate investments and indebtedness.

***Market Value Risk***

The Company's securities investments are reflected at their estimated fair value. The change in estimated fair value of securities available-for-sale is reflected in accumulated other comprehensive income. The change in estimated fair value of Agency interest-only securities is recorded in current period earnings. The estimated fair value of these securities fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of these securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of these securities would be expected to increase. As market volatility increases or liquidity decreases, the market value of the Company's assets may be adversely impacted. The Company's fixed rate mortgage loan portfolio is subject to the same risks. However, to the extent those loans are classified as held for sale, they are reflected at the lower of cost or market. Otherwise, held for investment mortgage loans are reflected at values equal to the unpaid principal balances net of certain fees, costs and loan loss allowances.

### ***Liquidity Risk***

Market disruptions may lead to a significant decline in transaction activity in all or a significant portion of the asset classes in which the Company invests and may at the same time lead to a significant contraction in short-term and long-term debt and equity funding sources. A decline in liquidity of real estate and real estate-related investments, as well as a lack of availability of observable transaction data and inputs, may make it more difficult to sell the Company's investments or determine their fair values. As a result, the Company may be unable to sell its investments, or only be able to sell its investments at a price that may be materially different from the fair values presented. Also, in such conditions, there is no guarantee that the Company's borrowing arrangements or other arrangements for obtaining leverage will continue to be available or, if available, will be available on terms and conditions acceptable to the Company. In addition, a decline in market value of the Company's assets may have particular adverse consequences in instances where it borrowed money based on the fair value of its assets. A decrease in the market value of the Company's assets may result in the lender requiring it to post additional collateral or otherwise sell assets at a time when it may not be in the Company's best interest to do so. The Company's captive insurance company subsidiary, Tuebor, is subject to state regulations which require that dividends may only be made with regulatory approval. The Company's broker-dealer subsidiary, LCS, is also required to be compliant with FINRA and SEC regulations which require that dividends may only be made with regulatory approval.

### ***Credit Risk***

The Company is subject to varying degrees of credit risk in connection with its investments. The Company seeks to manage credit risk by performing deep credit fundamental analyses of potential assets and through ongoing asset management. The Company's investment guidelines do not limit the amount of its equity that may be invested in any type of its assets; however, investments greater than a certain size are subject to approval by the Risk and Underwriting Committee of the board of directors.

### ***Credit Spread Risk***

Credit spread risk is the risk that interest rate spreads between two different financial instruments will change. In general, fixed-rate commercial mortgages and CMBS are priced based on a spread to Treasury or interest rate swaps. The Company generally benefits if credit spreads narrow during the time that it holds a portfolio of mortgage loans or CMBS investments, and the Company may experience losses if credit spreads widen during the time that it holds a portfolio of mortgage loans or CMBS investments. The Company actively monitors its exposure to changes in credit spreads and the Company may enter into credit total return swaps or take positions in other credit related derivative instruments to moderate its exposure against losses associated with a widening of credit spreads.

### ***Risks Related to Real Estate***

Real estate and real estate-related assets, including loans and commercial real estate-related securities, are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; environmental conditions; competition from comparable property types or properties; changes in tenant mix or performance and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans, which could also cause the Company to suffer losses.

### ***Covenant Risk***

In the normal course of business, the Company enters into loan and securities repurchase agreements and credit facilities with certain lenders to finance its real estate investment transactions. These agreements contain, among other conditions, events of default and various covenants and representations. If such events are not cured by the Company or waived by the lenders, the lenders may decide to curtail or limit extension of credit, and the Company may be forced to repay its advances or loans. In addition, the Company's Notes are subject to covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type. The Company's failure to comply with these covenants could result in an event of default, which could result in the Company being required to repay these borrowings before their due date. As of September 30, 2019, the Company believes it was in compliance with all covenants.

***Diversification Risk***

The assets of the Company are concentrated in the real estate sector. Accordingly, the investment portfolio of the Company may be subject to more rapid change in value than would be the case if the Company were to maintain a wide diversification among investments or industry sectors. Furthermore, even within the real estate sector, the investment portfolio may be relatively concentrated in terms of geography and type of real estate investment. This lack of diversification may subject the investments of the Company to more rapid change in value than would be the case if the assets of the Company were more widely diversified.

***Concentrations of Market Risk***

Concentrations of market risk may exist with respect to the Company's investments. Market risk is a potential loss the Company may incur as a result of change in the fair values of its investments. The Company may also be subject to risk associated with concentrations of investments in geographic regions and industries.

***Regulatory Risk***

The Company established a broker-dealer subsidiary, LCS, which was initially licensed and capitalized to do business in July 2010. LCS is required to be compliant with FINRA and SEC requirements on an ongoing basis and is subject to multiple operating and reporting requirements to which all broker-dealer entities are subject. Additionally, Ladder Capital Asset Management LLC ("LCAM") is a registered investment adviser. LCAM is required to be compliant with SEC requirements on an ongoing basis and is subject to multiple operating and reporting requirements to which all registered investment advisers are subject. In addition, Tuebor is subject to state regulation as a captive insurance company. If LCS, the Adviser or Tuebor fail to comply with regulatory requirements, they could be subject to loss of their licenses and registration and/or economic penalties.

## **Item 4. Controls and Procedures**

### ***Disclosure Controls and Procedures***

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as required by Rules 13a-15 and 15d-15 under the Exchange Act as of September 30, 2019. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of September 30, 2019, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it 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. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

### ***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II - Other Information**

### **Item 1. Legal Proceedings**

From time to time, we may be involved in litigation and claims incidental to the conduct of our business in the ordinary course. Further, certain of our subsidiaries, including our registered broker-dealer, registered investment advisers and captive insurance company, are subject to scrutiny by government regulators, which could result in enforcement proceedings or litigation related to regulatory compliance matters. We are not presently a party to any material enforcement proceedings, litigation related to regulatory compliance matters or any other type of material litigation matters. We maintain insurance policies in amounts and with the coverage and deductibles we believe are adequate, based on the nature and risks of our business, historical experience and industry standards.

### **Item 1A. Risk Factors**

There have been no material changes during the three months ended September 30, 2019 to the risk factors in Item 1A. in our Annual Report.

### **Item 2. Unregistered Sale of Securities and Use of Proceeds**

#### **Stock Repurchases**

On October 30, 2014, the board of directors authorized the Company to repurchase up to \$50.0 million of the Company's Class A common stock from time to time without further approval. Stock repurchases by the Company are generally made for cash in open market transactions at prevailing market prices but may also be made in privately negotiated transactions or otherwise. The timing and amount of purchases are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

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The following table is a summary of the Company's repurchase activity of its Class A common stock during the three months ended September 30, 2019 (\$ in thousands, except per share data and average price paid per share):

| <b>ISSUER PURCHASE OF EQUITY SECURITIES</b> |   |                                     |  |   |
|---|---|-------------------------------------|--|---|
| <b>Period</b>                               | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</b> | <b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b> |
| July 1, 2019 - July 31, 2019                | —                                       | \$ —                                | —  | \$ 41,132   |
| August 1, 2019 - August 31, 2019            | —                                       | —                                   | —  | 41,132  |
| September 1, 2019 - September 30, 2019      | —                                       | —                                   | —  | 41,132  |
| <b>Total</b>                                | <b>—</b>                                | <b>\$ —</b>                         | <b>—</b>   | <b>\$ 41,132</b>  |

(1) In August 2015, we publicly disclosed that our board of directors had authorized the Company to repurchase up to \$50.0 million of the Company's Class A common stock from time to time.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

**EXHIBIT INDEX**

| <b>EXHIBIT NO.</b>     | <b>DESCRIPTION</b>   |
|------------------------|--|
| <a href="#">31.1</a>   | <a href="#">Certification of Brian Harris pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>               |
| <a href="#">31.2</a>   | <a href="#">Certification of Marc Fox pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>                   |
| <a href="#">32.1</a> * | <a href="#">Certification of Brian Harris pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>                 |
| <a href="#">32.2</a> * | <a href="#">Certification of Marc Fox pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>                     |
| 101.INS                | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL (iXBRL) document |
| 101.SCH                | iXBRL Taxonomy Extension Schema Document   |
| 101.CAL                | iXBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF                | iXBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB                | iXBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE                | iXBRL Taxonomy Extension Presentation Linkbase Document  |
| 104                    | Cover Page Interactive Data File, formatted in iXBRL and contained in Exhibit 101  |

\* The certifications attached hereto as Exhibits 32.1 and 32.2 are furnished to the SEC pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, nor shall they be deemed incorporated by reference in any filing under the Securities Act, except as shall be expressly set forth by specific reference in such filing.

**SIGNATURES**

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

LADDER CAPITAL CORP  
(Registrant)

Date: November 7, 2019

By: /s/ BRIAN HARRIS  
Brian Harris  
*Chief Executive Officer*

Date: November 7, 2019

By: /s/ MARC FOX  
Marc Fox  
*Chief Financial Officer*

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a) AND 15d-14(a), AS AMENDED

I, Brian Harris, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ladder Capital Corp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Brian Harris

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Brian Harris

Chief Executive Officer (Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a) AND 15d-14(a), AS AMENDED

I, Marc Fox, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ladder Capital Corp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 7, 2019

/s/ Marc Fox

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Marc Fox

Chief Financial Officer (Principal Financial Officer)

CERTIFICATION FURNISHED PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the nine months ended September 30, 2019 (the "Report") by Ladder Capital Corp (the "Company"), I, Brian Harris, as Chief Executive Officer of the Company hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2019

/s/ Brian Harris

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Brian Harris

Chief Executive Officer (Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION FURNISHED PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the nine months ended September 30, 2019 (the "Report") by Ladder Capital Corp (the "Company"), I, Marc Fox, as Chief Financial Officer of the Company hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2019

/s/ Marc Fox

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Marc Fox

Chief Financial Officer (Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.