

Edgar Filing: Ladder Capital Corp - Form 10-Q

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (Check one):

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

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

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

Class	Outstanding at October 31, 2016
Class A Common Stock, \$0.001 par value	65,200,330
Class B Common Stock, \$0.001 par value	44,388,184

Table of Contents

LADDER CAPITAL CORP

FORM 10-Q

September 30, 2016

Index	Page
<u>PART I - FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	<u>5</u>
<u>Combined Consolidated Balance Sheets</u>	<u>6</u>
<u>Combined Consolidated Statements of Income</u>	<u>7</u>
<u>Combined Consolidated Statements of Comprehensive Income</u>	<u>9</u>
<u>Combined Consolidated Statements of Changes in Equity</u>	<u>10</u>
<u>Combined Consolidated Statements of Cash Flows</u>	<u>12</u>
<u>Notes to Combined Consolidated Financial Statements</u>	<u>14</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>77</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>113</u>
<u>Item 4. Controls and Procedures</u>	<u>115</u>
<u>PART II - OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>116</u>
<u>Item 1A. Risk Factors</u>	<u>116</u>
<u>Item 2. Unregistered Sales of Securities</u>	<u>116</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>116</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>116</u>
<u>Item 5. Other Information</u>	<u>116</u>
<u>Item 6. Exhibits</u>	<u>117</u>
<u>SIGNATURES</u>	

Table of Contents

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” 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “Annual Report”), as well as our combined 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;
- 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 assets;
- 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;
- 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 degree and nature of our competition;
the market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy;
and
the prepayment of the mortgages and other loans underlying our mortgage-backed and other asset-backed securities.

2

Table of Contents

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.

3

Table of Contents

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” (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 combined consolidated subsidiaries and (2) after our IPO and related transactions, to Ladder Capital Corp and its combined consolidated subsidiaries.

Table of Contents

Part I - Financial Information

Item 1. Financial Statements (Unaudited)

The combined consolidated financial statements of Ladder Capital Corp and the notes related to the foregoing combined consolidated financial statements are included in this Item 1.

Index to Combined Consolidated Financial Statements (Unaudited)

<u>Combined Consolidated Balance Sheets</u>	<u>6</u>
<u>Combined Consolidated Statements of Income</u>	<u>7</u>
<u>Combined Consolidated Statements of Comprehensive Income</u>	<u>9</u>
<u>Combined Consolidated Statements of Changes in Equity</u>	<u>10</u>
<u>Combined Consolidated Statements of Cash Flows</u>	<u>12</u>
<u>Notes to Combined Consolidated Financial Statements</u>	<u>14</u>
<u>Note 1. Organization and Operations</u>	<u>14</u>
<u>Note 2. Significant Accounting Policies</u>	<u>17</u>
<u>Note 3. Mortgage Loan Receivables</u>	<u>23</u>
<u>Note 4. Real Estate Securities</u>	<u>26</u>
<u>Note 5. Real Estate and Related Lease Intangibles, Net</u>	<u>28</u>
<u>Note 6. Investment in Unconsolidated Joint Ventures</u>	<u>35</u>
<u>Note 7. Debt Obligations</u>	<u>38</u>
<u>Note 8. Fair Value of Financial Instruments</u>	<u>45</u>
<u>Note 9. Derivative Instruments</u>	<u>51</u>
<u>Note 10. Offsetting Assets and Liabilities</u>	<u>53</u>
<u>Note 11. Equity Structure and Accounts</u>	<u>54</u>
<u>Note 12. Noncontrolling Interests</u>	<u>58</u>
<u>Note 13. Earnings Per Share</u>	<u>60</u>
<u>Note 14. Stock Based Compensation Plans</u>	<u>62</u>
<u>Note 15. Income Taxes</u>	<u>68</u>
<u>Note 16. Related Party Transactions</u>	<u>70</u>
<u>Note 17. Commitments and Contingencies</u>	<u>71</u>
<u>Note 18. Segment Reporting</u>	<u>72</u>
<u>Note 19. Subsequent Events</u>	<u>76</u>

Table of Contents

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

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	\$ 59,693	\$ 108,959
Cash collateral held by broker	37,497	30,811
Mortgage loan receivables held for investment, net, at amortized cost	1,643,035	1,738,645
Mortgage loan receivables held for sale	784,186	571,764
Real estate securities, available-for-sale	2,650,959	2,407,217
Real estate and related lease intangibles, net	825,593	834,779
Investments in unconsolidated joint ventures	33,860	33,797
FHLB stock	77,915	77,915
Derivative instruments	254	2,821
Accrued interest receivable	23,794	22,776
Other assets	79,030	65,728
Total assets	\$ 6,215,816	\$ 5,895,212
Liabilities and Equity		
Liabilities		
Debt obligations	\$ 4,601,011	\$ 4,274,723
Due to brokers	16,151	—
Derivative instruments	9,368	5,504
Amount payable pursuant to tax receivable agreement	1,910	1,910
Dividends payable	3,120	17,456
Accrued expenses	54,868	78,142
Other liabilities	28,690	26,069
Total liabilities	4,715,118	4,403,804
Commitments and contingencies (Note 17)	—	—
Equity		
Class A common stock, par value \$0.001 per share, 600,000,000 shares authorized; 66,295,378 and 55,758,710 shares issued and 65,200,330 and 55,209,849 shares outstanding	66	55
Class B common stock, par value \$0.001 per share, 100,000,000 shares authorized; 44,388,184 and 44,055,987 shares issued and outstanding	44	44
Additional paid-in capital	900,661	776,866
Treasury stock, 1,095,048 and 548,861 shares, at cost	(11,244) (5,812
Retained Earnings/(Dividends in Excess of Earnings)	(31,440) 60,618
Accumulated other comprehensive income (loss)	27,893	(3,556
Total shareholders' equity	885,980	828,215
Noncontrolling interest in operating partnership	609,650	657,380
Noncontrolling interest in consolidated joint ventures	5,068	5,813
Total equity	1,500,698	1,491,408
Total liabilities and equity	\$ 6,215,816	\$ 5,895,212

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net interest income				
Interest income	\$60,284	\$63,013	\$175,650	\$178,635
Interest expense	30,685	29,535	88,622	83,846
Net interest income	29,599	33,478	87,028	94,789
Provision for loan losses	—	150	300	450
Net interest income after provision for loan losses	29,599	33,328	86,728	94,339
Other income				
Operating lease income	19,466	20,671	57,845	60,207
Tenant recoveries	1,185	2,847	3,844	7,883
Sale of loans, net	19,640	15,165	30,265	59,717
Realized gain (loss) on securities	7,126	513	9,524	23,680
Unrealized gain (loss) on Agency interest-only securities	(47)	731	29	(639)
Realized gain on sale of real estate, net	4,649	6,406	15,616	21,347
Fee and other income	8,101	3,483	17,258	10,857
Net result from derivative transactions	9,356	(42,242)	(66,148)	(54,594)
Earnings (loss) from investment in unconsolidated joint ventures	(141)	(25)	485	580
Gain on extinguishment of debt	—	—	5,382	—
Total other income (loss)	69,335	7,549	74,100	129,038
Costs and expenses				
Salaries and employee benefits	17,296	17,628	43,343	47,333
Operating expenses	4,391	4,951	15,399	20,487
Real estate operating expenses	7,969	8,975	22,613	27,976
Real estate acquisition costs	423	470	631	1,524
Fee expense	803	675	2,407	3,260
Depreciation and amortization	9,733	9,561	28,789	29,238
Total costs and expenses	40,615	42,260	113,182	129,818
Income (loss) before taxes	58,319	(1,383)	47,646	93,559
Income tax expense (benefit)	8,721	(4,181)	5,547	4,101
Net income (loss)	49,598	2,798	42,099	89,458
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	439	85	436	578
Net (income) loss attributable to noncontrolling interest in operating partnership	(22,429)	430	(17,664)	(43,338)
Net income (loss) attributable to Class A common shareholders	\$27,608	\$3,313	\$24,871	\$46,698

Table of Contents

	Three Months Ended September 30, 2016		2015		Nine Months Ended September 30, 2016		2015	
Earnings per share:								
Basic	\$0.44	\$ 0.06			\$0.41	\$ 0.91		
Diluted	\$0.44	\$ 0.06			\$0.40	\$ 0.91		
Weighted average shares outstanding:								
Basic	62,148,362	922,487			60,976,046	6091,977		
Diluted	63,347,690	9348,858			61,875,010	61,388,851		
Dividends per share of Class A common stock (Note 11)	\$0.275	\$ 0.275			\$0.825	\$ 0.775		

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

Table of Contents

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income (loss)	\$49,598	\$2,798	\$42,099	\$89,458
Other comprehensive income (loss)				
Unrealized gain (loss) on securities, net of tax:				
Unrealized gain (loss) on real estate securities, available for sale (1)	(1,450)	16,697	63,383	20,732
Reclassification adjustment for (gains) included in net income (2)	(7,126)	(705)	(10,108)	(24,851)
Total other comprehensive income (loss)	(8,576)	15,992	53,275	(4,119)
Comprehensive income	41,022	18,790	95,374	85,339
Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures	439	85	436	578
Comprehensive income of combined Class A common shareholders and Operating Partnership unitholders	\$41,461	\$18,875	\$95,810	\$85,917
Comprehensive (income) attributable to noncontrolling interest in operating partnership	(18,978)	(6,810)	(40,768)	(41,245)
Comprehensive income attributable to Class A common shareholders	\$22,483	\$12,065	\$55,042	\$44,672

(1) Amounts are net of provision for income taxes of \$0.5 million for the nine months ended September 30, 2015.

(2) Amounts are net of (provision for) income taxes of \$(0.5) million for the nine months ended September 30, 2015.

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

Table of Contents

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

	Shareholders' Equity						Retained Earnings/(Dividends in Excess of Earnings)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests Operating Partnership	Interests Consolidated Joint Ventures	Total Shareholders' Equity/Partnership Capital
	Class A Common Stock Shares	Class B Common Stock Par	Class B Common Stock Shares	Class B Common Stock Par	Additional Paid-in-Capital	Treasury Stock					
Balance, December 31, 2015	55,210	\$55	44,056	\$44	\$776,866	\$(5,812)	\$60,618	\$(3,556)	\$657,380	\$5,813	\$1,491,400
Contributions	—	—	—	—	—	—	—	—	250	—	250
Distributions	—	—	—	—	—	—	—	—	(39,040)	(309)	(39,349)
Equity based compensation	—	—	—	—	383	—	—	—	12,311	—	12,694
Grants of restricted stock	794	1	—	—	(1)	—	—	—	—	—	—
Purchase of treasury stock	(424)	—	—	—	—	(4,652)	—	—	—	—	(4,652)
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock and units	(73)	—	(1)	—	—	(780)	—	—	(6)	—	(786)
Forfeitures	(48)	—	—	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	—	—	—	(52,829)	—	—	—	(52,829)
Stock dividends	5,606	6	4,469	4	64,090	—	(64,100)	—	—	—	—
Exchange of noncontrolling interest for common stock	4,135	4	(4,135)	(4)	54,116	—	—	928	(56,456)	—	(1,412)
Net income (loss)	—	—	—	—	—	—	24,871	—	17,664	(436)	42,099
Other comprehensive income	—	—	—	—	—	—	—	30,171	23,104	—	53,275
Rebalancing of ownership percentage between Company and	—	—	—	—	5,207	—	—	350	(5,557)	—	—

Edgar Filing: Ladder Capital Corp - Form 10-Q

Operating
Partnership
Balance,

September 30, 2016
65,200 \$66 44,389 \$44 \$900,661 \$(11,244) \$(31,440) \$27,893 \$609,650 \$5,068 \$1,500,69

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

Table of Contents

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

	Shareholders' Equity						Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests		Total Shareholders' Equity/Partners' Capital
	Class A Common Stock		Class B Common Stock		Additional Paid-in-Capital	Treasury Stock			Operating Partnership	Consolidated Joint Ventures	
	Shares	Par	Shares	Par							
Balance, December 31, 2014	51,432	\$51	47,647	\$—	\$725,538	\$—	\$44,187	\$15,656	\$711,674	\$8,101	\$1,505,207
Contributions	—	—	—	—	—	—	—	—	—	74	74
Distributions	—	—	—	—	—	—	—	—	(68,673)	(3,930)	(72,603)
Amendment of the par value of the Class B shares from no par value per share to \$0.001 per share	—	—	—	47	—	—	—	—	(47)	—	—
Equity based compensation	—	—	—	—	417	—	—	—	13,371	—	13,788
Grants of restricted stock	700	1	—	—	(1)	—	—	—	—	—	—
Purchase of treasury stock	(84)	—	—	—	—	(994)	—	—	—	—	(994)
Re-issuance of treasury stock	26	—	—	—	—	—	—	—	—	—	—
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock and units	(262)	—	(5)	—	—	(4,818)	—	—	(79)	—	(4,897)
Forfeitures	(188)	—	—	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	—	—	—	(57,390)	—	—	—	(57,390)
Exchange of noncontrolling interest for common stock	3,586	3	(3,586)	(3)	53,011	—	—	645	(53,656)	—	—
Adjustment to the Tax Receivable	—	—	—	—	(1,366)	—	—	—	—	—	(1,366)

Edgar Filing: Ladder Capital Corp - Form 10-Q

Agreement as a result of the exchange of Class B shares											
Net income	—	—	—	—	—	—	73,821	—	70,745	1,568	146,134
Other comprehensive income	—	—	—	—	—	—	—	(20,046)	(16,499)	—	(36,545
Rebalancing of ownership percentage between Company and Operating Partnership	—	—	—	—	(733)	—	—	189	544	—	—
Balance, December 31, 2015	55,210	\$55	44,056	\$44	\$776,866	\$(5,812)	\$60,618	\$(3,556)	\$657,380	\$5,813	\$1,491,408

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

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income (loss)	\$42,099	\$ 89,458
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Gain) loss on extinguishment of debt	(5,382)	—
Depreciation and amortization	28,789	29,238
Unrealized (gain) loss on derivative instruments	6,273	8,407
Unrealized (gain) loss on Agency interest-only securities	(29)) 639
Provision for loan losses	300	450
Amortization of equity based compensation	12,694	11,342
Amortization of deferred financing costs included in interest expense	5,935	4,167
Amortization of premium on mortgage loan financing	(660)	(678)
Amortization of above- and below-market lease intangibles	(115)	(201)
Amortization of premium/(accretion) of discount and other fees on loans	(6,515)	(8,584)
Amortization of premium/(accretion) of discount and other fees on securities	56,151	67,773
Realized gain on sale of mortgage loan receivables held for sale	(30,265)	(59,717)
Realized (gain) loss on real estate securities	(9,524)	(23,680)
Realized gain on sale of real estate, net	(15,616)	(21,347)
Realized gain on sale of derivative instruments	(24)	—
Origination and purchases of mortgage loan receivables held for sale	(887,164)	(1,781,355)
Repayment of mortgage loan receivables held for sale	1,161	1,613
Proceeds from sales of mortgage loan receivables held for sale	703,846	1,923,883
Income from investments in unconsolidated joint ventures in excess of distributions received	(485)	(580)
Distributions from operations of investment in unconsolidated joint ventures	1,017	294
Deferred tax asset	(6,263)	(1,588)
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,018)) 2,438
Other assets	(12,224)	(4,278)
Accrued expenses and other liabilities	(21,718)	(31,443)
Net cash provided by (used in) operating activities	(138,737)	206,251
Cash flows from investing activities:		
Reduction (addition) of cash collateral held by broker for derivatives	(11,839)	(4,877)
Purchase of derivative instruments	(73)	—
Sale of derivative instruments	49	—
Purchases of real estate securities	(837,190)	(578,299)
Repayment of real estate securities	307,847	142,680
Proceeds from sales of real estate securities	308,429	788,964
Purchase of FHLB stock	—	(7,984)
Sale of FHLB stock	—	2,409
Origination and purchases of mortgage loan receivables held for investment	(480,622)	(840,652)

Table of Contents

	Nine Months Ended September 30,	
	2016	2015
Repayment of mortgage loan receivables held for investment	582,447	575,028
Reduction (addition) of cash collateral held by broker	5,153	(3,605)
Addition (reduction) of deposits received for loan originations	518	1,226
Escrow cash and title deposits included in other assets	(4,242)	(3,382)
Capital contributions to investment in unconsolidated joint ventures	—	(31,085)
Distributions received from investments in unconsolidated joint ventures in excess of income	49	3,747
Capitalization of interest on investment in unconsolidated joint ventures	(644)	(128)
Purchases of real estate	(50,252)	(166,763)
Capital improvements of real estate	(6,813)	(2,006)
Proceeds from sale of real estate	60,516	(1)84,656
Net cash provided by (used in) investing activities	(126,667)	(40,071)
Cash flows from financing activities:		
Deferred financing costs paid	(2,136)	(1,924)
Proceeds from borrowings under debt obligations	9,290,374	12,833,258
Repayment of borrowings under debt obligations	(8,960,397)	(12,790,584)
Cash dividends paid to Class A common shareholders	(67,166)	(39,934)
Capital contributed by noncontrolling interests in operating partnership	250	—
Capital distributed to noncontrolling interests in operating partnership	(39,040)	(56,274)
Capital contributed by noncontrolling interests in consolidated joint ventures	—	74
Capital distributed to noncontrolling interests in consolidated joint ventures	(309)	(589)
Payment of liability assumed in exchange for shares for the minimum withholding taxes on vesting restricted stock	(786)	(4,885)
Purchase of treasury stock	(4,652)	—
Net cash provided by (used in) financing activities	216,138	(60,858)
Net increase (decrease) in cash	(49,266)	105,322
Cash and cash equivalents at beginning of period	108,959	76,218
Cash and cash equivalents at end of period	\$59,693	\$ 181,540
Supplemental information:		
Cash paid for interest, net of amounts capitalized	\$93,732	\$ 90,565
Cash paid for income taxes	\$14,127	\$ 19,676
Non-cash investing and financing activities:		
Securities and derivatives purchased, not settled	\$(16,151)	\$(2,012)
Origination of mortgage loans receivable held for investment	\$50,378	\$—
Repayment of mortgage loans receivable held for investment	\$(50,378)	\$—
Net settlement of sale of real estate, subject to debt - debt obligations	\$—	\$ 11,310
Exchange of noncontrolling interest for common stock	\$56,461	\$ 51,072
Change in deferred tax asset related to change in tax receivable agreement	\$(1,413)	\$ 1,615
Dividends declared, not paid	\$1,801	\$—
Stock dividends	\$64,100	\$—

(1) Includes cash proceeds received in the current year that relate to prior year sales of real estate of \$6.5 million.

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

Table of Contents

Ladder Capital Corp
Notes to Combined 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 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, 2016, Ladder Capital Corp has a 59.5% 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 records noncontrolling interest for the economic interest in LCFH held by the Continuing LCFH Limited Partners (as defined below). 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 combined consolidated financial statements and LCFH’s consolidated financial statements.

The IPO Transactions

Ladder Capital Corp was formed as a Delaware corporation on May 21, 2013. The Company conducted an initial public offering (“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 through its ability to appoint the LCFH board. The proceeds received by LCFH in connection with the sale of the LP Units have been and will be used for loan origination and related real estate business lines and for general corporate purposes.

Ladder Capital Corp consolidates the financial results of LCFH and its subsidiaries. The ownership interest of certain existing owners of LCFH, who owned LP Units and an equivalent number of shares of Ladder Capital Corp Class B common stock as of the completion of the IPO (the “Continuing LCFH Limited Partners”) and continue to hold equivalent units in the Series of LCFH (as described below) and Ladder Capital Corp Class B common stock, is reflected as a noncontrolling interest in Ladder Capital Corp’s combined consolidated financial statements.

Immediately prior to the closing of the IPO on February 11, 2014, LCFH effectuated certain transactions intended to simplify its capital structure (the “Reorganization Transactions”). Prior to the Reorganization Transactions, LCFH’s capital structure consisted of three different classes of membership interests (Series A and Series B Participating Preferred Units and Class A Common Units), each of which had different capital accounts. The net effect of the Reorganization Transactions was to convert the multiple-class structure into LP Units, a single new class of units in LCFH, and an equal number of shares of Class B common stock of Ladder Capital Corp. The conversion of all of the different classes of LCFH occurred in accordance with conversion ratios for each class of outstanding units based upon the liquidation value of LCFH, as if it had been liquidated upon the IPO, with such value determined by the \$17.00 price per share of Class A common stock sold in the IPO. The distribution of LP Units per class of outstanding units was determined pursuant to the distribution provisions set forth in LCFH’s amended and restated Limited Liability Limited Partnership Agreement (the “Amended and Restated LLLP Agreement”). In addition, in connection with the IPO, certain of LCFH’s existing investors (the “Exchanging Existing Owners”) received 33,672,192 shares of Ladder Capital Corp Class A common stock in lieu of any or all LP Units and shares of Ladder Capital Corp Class B common stock that would otherwise have been issued to such existing investors in the Reorganization Transactions,

which resulted in Ladder Capital Corp, or a wholly-owned subsidiary of Ladder Capital Corp, owning one LP Unit for each share of Class A Common Stock so issued to the Exchanging Existing Owners.

The IPO resulted in the issuance by Ladder Capital Corp of 15,237,500 shares of Class A common stock to the public, including 1,987,500 shares of Class A common stock offered as a result of the exercise of the underwriters' over-allotment option, and net proceeds to Ladder Capital Corp of \$238.5 million (after deducting fees and expenses associated with the IPO). In addition, in connection with the IPO, the Company granted 1,687,513 shares of restricted Class A common stock to members of management, certain directors and certain employees. As a result, the equivalent number of LP Units were issued by LCFH to Ladder Capital Corp.

Table of Contents

Pursuant to the Amended and Restated LLLP Agreement, 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) had the right to exchange their LP Units for shares of Ladder Capital Corp's Class A common stock on a one-for-one basis.

As a result of the Company's acquisition of LP Units of LCFH and LCFH's election under Section 754 of the Internal Revenue Code of 1986, as amended (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.

As a result of the transactions described above, at the time of the IPO:

Ladder Capital Corp became the general partner of LCFH and, through LCFH and its subsidiaries, operates the Ladder Capital business. Accordingly, Ladder Capital Corp had a 51.0% economic interest in LCFH (which has since increased), and Ladder Capital Corp has a majority voting interest and controls the management of LCFH;

50,597,205 shares of Ladder Capital Corp's Class A common stock were outstanding (comprised of 15,237,500 shares issued to the investors in the IPO, 33,672,192 shares issued to the Exchanging Existing Owners and 1,687,513 shares issued to certain directors, officers, and employees in connection with the IPO), and 48,537,414 shares of Ladder Capital Corp's Class B common stock were outstanding. Class B common stock has no economic interest but rather voting interest in the Company. At the time of the IPO, 99,134,619 LP Units of LCFH were outstanding, of which 50,597,205 LP Units were held by Ladder Capital Corp and its subsidiaries and 48,537,414 units were held by the Continuing LCFH Limited Partners; and

LP Units became exchangeable on a one-for-one basis for shares of Ladder Capital Corp Class A common stock. In connection with an exchange, a corresponding number of shares of Ladder Capital Corp Class B common stock were required to be provided and canceled. LP units and Ladder Capital Corp Class B common stock could not be legally separated. However, the exchange of LP Units for shares of Ladder Capital Corp Class A common stock would not affect the exchanging owners' voting power since the votes represented by the canceled shares of Ladder Capital Corp Class B common stock would be replaced with the votes represented by the shares of Class A common stock for which such LP Units were exchanged.

The Company accounted for the Reorganization Transactions as an exchange between entities under common control and recorded the net assets and shareholders' equity of the contributed entities at historical cost.

The Reorganization Transactions and the IPO are collectively referred to as the "IPO Transactions."

The REIT Structuring Transactions

In anticipation of the Company's election to be subject to tax as a REIT under the Code beginning with its 2015 taxable year (the "REIT Election"), we effected an internal realignment as of December 31, 2014 that we believe permits us to operate as a REIT, subject to the risk factors described in the Annual Report (see "Risk Factors—Risks Related to Our Taxation as a REIT"). As part of this realignment, LCFH and certain of its wholly-owned subsidiaries were serialized in order to segregate our REIT-qualified assets and income from our non-REIT-qualified assets and income. Pursuant to such serialization, all assets and liabilities of LCFH and each such subsidiary were identified as TRS assets and liabilities (e.g., our conduit securitization and condominium sales businesses) and REIT assets and liabilities (e.g., balance sheet loans, real estate and most securities), and were allocated on our internal books and records into two pools within LCFH or such subsidiary, Series TRS and Series REIT (collectively, the "Series"), respectively.

In connection with this serialization, the Amended and Restated LLLP Agreement was amended and restated, effective as of December 5, 2014 and again as of December 31, 2014 (the “Third Amended and Restated LLLP Agreement”). Pursuant to the Third Amended and Restated LLLP Agreement, as of December 31, 2014:

all assets and liabilities of LCFH were allocated on LCFH’s internal books and records to either Series REIT or Series TRS of LCFH;

the Company serves as general partner of LCFH and of Series REIT of LCFH;

Table of Contents

LC TRS I LLC (“LC TRS I”), a Delaware limited liability company wholly-owned by Series REIT of LCFH, serves as the general partner of Series TRS of LCFH;

each outstanding LP Unit was exchanged for one Series REIT limited partnership unit (“Series REIT LP Unit”), which is entitled to receive profits and losses derived from REIT assets and liabilities, and one Series TRS limited partnership unit (“Series TRS LP Unit”), which is entitled to receive profits and losses derived from TRS assets and liabilities (Series REIT LP Units and Series TRS LP Units are collectively referred to as “Series Units”);

as a result, Ladder Capital Corp owned, directly and indirectly, an aggregate of 51.9% of Series REIT of LCFH, and, through such ownership, the right to receive 51.9% of the profits and distributions of Series TRS;

the limited partners of LCFH owned the remaining 48.1% of each of Series REIT and Series TRS of LCFH;

Series REIT of LCFH, in turn, owns, directly or indirectly, 100% of the REIT series of each of its serialized subsidiaries as well as certain wholly-owned REIT subsidiaries;

Series TRS of LCFH owns, directly or indirectly, 100% of the TRS series of each of its serialized subsidiaries, as well as certain wholly-owned TRSs;

Series TRS LP Units are exchangeable for an equal number of shares (“TRS Shares”) of LC TRS I (a “TRS Exchange”);

in order to effect the exchange of Series Units for shares of Class A common stock of the Company on a one-for-one basis (the “Class A Exchange”), holders are required to surrender (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; and

Series REIT and Series TRS have separate boards, officers, books and records, bank accounts, and tax identification numbers.

Each Series of LCFH also signed a separate joinder agreement, agreeing, effective as of 11:59:59 pm on December 31, 2014 (the “Effective Time”), to assume and pay when due (i) any and all liabilities of LCFH incurred or accrued by LCFH as of the Effective Time and (ii) any and all obligations of LCFH arising under contracts, bonds, notes, guarantees, leases or other agreements to which LCFH was a party as of the Effective Time (collectively, the “Agreements”), regardless of whether such obligations arise under the applicable Agreement at, prior to, or after the Effective Time, in each case, with the same force and effect as if each Series had been a signatory to such Agreements on the date thereof.

Also in connection with the planned REIT Election, the Company’s certificate of incorporation was amended and restated, effective as of February 27, 2015, following approval by our shareholders (the “Charter Amendment”), to, among other things, impose ownership limitations and transfer restrictions to facilitate our compliance with the REIT requirements. To qualify as a REIT under the Code, our stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year (other than the first year for which an election to be a REIT has been made). Also, not more than 50% of the value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer “individuals” (as defined to include certain entities such as private foundations) during the last half of a taxable year (other than the first taxable year for which an election to be a REIT has been made). Finally, a person actually or constructively owning 10% or more of the vote or value of the outstanding shares of our capital stock could lead to a level of affiliation between the Company and one or more of its tenants that could disqualify our revenues from the affiliated tenants and possibly jeopardize or otherwise adversely impact our qualification as a REIT.

To facilitate satisfaction of these requirements for qualification as a REIT, the Charter Amendment contains provisions restricting the ownership and transfer of shares of all classes or series of our capital stock. Including ownership limitations in a REIT's charter is the most effective mechanism to monitor compliance with the above-described provisions of the Code. The Charter Amendment provides that, subject to certain exceptions and the constructive ownership rules, no person may own, or be deemed to own by virtue of the attribution provisions of the Code, in excess of (i) 9.8% in value of the outstanding shares of all classes or series of our capital stock or (ii) 9.8% in value or number (whichever is more restrictive) of the outstanding shares of any class of our common stock.

Table of Contents

In addition, our Tax Receivable Agreement with the Continuing LCFH Limited Partners (the “TRA Members”) 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 TRA Amendment provides that, in lieu of the existing tax benefit payments under the Tax Receivable Agreement for the 2015 taxable year and beyond, LC TRS I will pay to the TRA Members 85% of the amount of the benefits, if any, that LC TRS I realizes or under certain circumstances (such as a change of control) is deemed to realize as a result of (i) the increases in tax basis resulting from the TRS Exchanges by the TRA Members, (ii) any incremental tax basis adjustments attributable to payments made pursuant to the TRA Amendment, and (iii) any deemed interest deductions arising from payments made by LC TRS I under the TRA Amendment. Under the TRA Amendment, LC TRS I may benefit from the remaining 15% of cash savings in income tax that it realizes, which is in the same proportion realized by the Company under the existing Tax Receivable Agreement. 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 would be made under the prior 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. See Note 2 and Note 15 for further discussion of the Tax Receivable Agreement.

As of March 4, 2015, the Company made the necessary TRS and check-the-box elections and elected to be taxed as a REIT on its tax return for the year ended December 31, 2015, filed in September 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Principles of Combination and Consolidation

The accompanying combined 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 combined consolidated financial statements should be read in conjunction with the audited combined consolidated financial statements for the year ended December 31, 2015, which are included in the Company’s Annual Report, as certain disclosures would substantially duplicate those contained in the audited combined 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 combined consolidated financial statements have been prepared, without audit, and do not necessarily include all information and footnotes necessary for a fair statement of our combined consolidated financial position, results of operations and cash flows in accordance with GAAP.

The combined 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. The combined consolidated financial statements of the Company are comprised of the consolidation of LCFH and its wholly-owned and majority owned subsidiaries, prior to the IPO Transactions, and the consolidated financial statements of Ladder Capital Corp, subsequent to the IPO Transactions.

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.

Table of Contents

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 capital in the combined consolidated balance sheets. In addition, the presentation of net income attributes earnings to shareholders/unitholders (controlling interest) and noncontrolling interests.

Emerging Growth Company Status

The Company is an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act (“JOBS Act”), and is eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended (the “Sarbanes-Oxley Act”), reduced disclosure obligations regarding executive compensation in the Company’s periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

In addition, Section 107 of the JOBS Act also provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, the Company chose to “opt out” of such extended transition period, and as a result, it will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that the Company’s decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

The Company could remain an “emerging growth company” for up to five years from the date of the IPO, or until the earliest of (i) the last day of the first fiscal year in which its annual gross revenues exceed \$1 billion; (ii) the date that the Company becomes a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of its common stock that is held by nonaffiliates exceeds \$700 million as of the last business day of its most recently completed second fiscal quarter; or (iii) the date on which the Company has issued more than \$1 billion in nonconvertible debt during the preceding three-year period.

Use of Estimates

The preparation of the combined 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 combined consolidated financial statements in the period the changes are deemed to be necessary. Significant estimates made in the accompanying combined consolidated financial statements include, but are not limited to the following:

- valuation of real estate securities;
- 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;
- amounts payable pursuant to the Tax Receivable Agreement;

- determination of effective yield for recognition of interest income;
- adequacy of provision for loan losses;
- determination of other than temporary impairment of real estate securities and investments in 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.

Table of Contents

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, 2016 and December 31, 2015. At September 30, 2016 and December 31, 2015 and at various times during the years, the balances exceeded the insured limits.

Cash Collateral Held by Broker

The Company maintains accounts 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

As of September 30, 2016 and December 31, 2015, included in other assets on the Company's combined consolidated balance sheets are \$0.4 million and \$19.0 million, respectively, of tenant security deposits, deposits related to real estate sales and acquisitions and required escrow balances on credit facilities, which are considered restricted cash.

Out-of-Period Adjustment

During the first quarter of 2016, the Company had recorded the following out-of-period adjustments to correct errors from prior periods: (i) additional deferred financing cost amortization of \$0.5 million relating to 2015; (ii) additional taxes of \$1.2 million representing additional state taxes relating to 2015 and (iii) additional return on equity of \$0.9 million from the Company's investment in an unconsolidated joint venture predominately relating to prior years. The Company has concluded that these adjustments were not material to the financial position or results of operations for the current period or any prior periods; accordingly, the Company recorded the related adjustments in the three-month period ended March 31, 2016.

Recently Issued Accounting Pronouncements

In May 2014, FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, FASB issued ASU 2015-14, Deferral of the Effective Date ("ASU 2015-14"), which amends ASU 2014-09. As a result, the effective date for the amendments contained in ASU 2014-09 will be the first quarter of fiscal year 2018, with early adoption permitted in the first quarter of fiscal year 2017. The adoption will use one of two retrospective application methods. The Company anticipates adopting this update in the quarter ending March 31, 2018 and does not expect the adoption to have a material impact on the Company's combined consolidated financial statements.

Table of Contents

In March 2016, FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”). This update provides clarifying guidance regarding the application of ASU 2014-09 when another party, along with the reporting entity, is involved in providing a good or a service to a customer. In these circumstances, an entity is required to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). In April 2016, FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”), which clarifies the identification of performance obligations and the licensing implementation guidance. In May 2016, FASB issued ASU 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 Emerging Issues Task Force (“EITF”) Meeting (SEC Update) (“ASU 2016-11”), which rescinds SEC paragraphs pursuant to SEC staff announcements. These rescissions include changes to topics pertaining to accounting for shipping and handling fees and costs and accounting for consideration given by a vendor to a customer. In May 2016, FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”), which provides clarifying guidance in certain narrow areas and adds some practical expedients. The effective dates for these ASU’s are the same as the effective date for ASU No. 2014-09, for annual and interim periods beginning after December 15, 2017. The Company is reviewing its policies and processes to ensure compliance with the requirements in this update with regard to its operations.

In June 2014, FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force) (“ASU 2014-12”). ASU 2014-12 requires that a performance target that affects vesting of share-based payment awards and that could be achieved after the requisite service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. If the performance target becomes likely to be achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. ASU 2014-12 is effective for all entities for interim and annual periods beginning after December 15, 2015. An entity may apply the amendments in ASU 2014-12 either (i) prospectively to all awards granted or modified after the effective date or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company adopted this update in the quarter ended March 31, 2016 applying the amendment prospectively. The adoption has not had a material impact on the Company’s combined consolidated financial statements.

In August 2014, FASB issued ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (a consensus of the FASB Emerging Issues Task Force) (“ASU 2014-13”). For entities that consolidate a collateralized financing entity within the scope of this update, an option to elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in ASU 2014-13 or Topic 820 on fair value measurement is provided. The guidance is effective for fiscal years beginning after December 15, 2015, and the interim periods within those fiscal years. The Company adopted this update in the quarter ended March 31, 2016. The adoption did not have a material effect on the Company’s combined consolidated financial statements.

Table of Contents

In August 2014, FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). The guidance in ASU 2014-15 sets forth management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern as well as the related required disclosures. ASU 2014-15 indicates that, when preparing interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity’s ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, and, if applicable, whether it is probable that management’s plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. The Company anticipates adopting this update for the year ending December 31, 2016 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial statements.

In February 2015, FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). This ASU makes changes to the VIE model and voting interest (“VOE”) model consolidation guidance. The main provisions of the ASU include the following: (i) adding a requirement that limited partnerships and similar legal entities must provide partners with either substantive kick-out rights or substantive participating rights over the general partner to qualify as a VOE rather than a VIE; (ii) eliminating the presumption that the general partner should consolidate a limited partnership; (iii) eliminating certain conditions that need to be met when evaluating whether fees paid to a decision maker or service provider are considered a variable interest; (iv) excluding certain fees paid to decision makers or service providers when evaluating which party is the primary beneficiary of a VIE; and (v) revising how related parties are evaluated under the VIE guidance. Lastly, the ASU eliminates the indefinite deferral of ASU 810, which allowed reporting entities with interests in certain investment funds to follow previous guidance in FIN 46 (R). However, the ASU permanently exempts reporting entities from consolidating registered money market funds that operate in accordance with Rule 2a-7 under the Investment Company Act. The ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Entities may apply this ASU either using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning period of adoption or retrospectively to all prior periods presented in the financial statements. The Company adopted this update in the quarter ended March 31, 2016. Under this ASU, the Operating Partnership is now considered a VIE, however, since the Company was previously consolidating the Operating Partnership, the adoption of this ASU had no material impact on the Company’s combined consolidated financial statements. Substantially all of the Company’s assets, liabilities, operations and cash flows are those of the Operating Partnership.

In June 2015, FASB issued ASU 2015-10, Technical Corrections and Improvements (“ASU 2015-10”). The amendments in this update cover a wide range of topics in the codification and are generally categorized as follows: amendments related to differences between original guidance and the codification; guidance clarification and reference corrections; simplification and minor improvements. The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. As the objectives of this standard are to clarify the codification, correct unintended application of guidance, eliminate inconsistencies and to improve the codification’s presentation of guidance, the adoption of this standard is not expected to have a significant effect on current accounting practice or create a significant administrative cost on most entities. The Company adopted this update in the quarter ended March 31, 2016. The adoption did not have a material impact on the Company’s combined consolidated financial statements.

In September 2015, FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). This update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment

amounts are determined. ASU 2015-16 applies to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Entities must apply the new guidance prospectively to adjustments to provisional amounts that occur after the effective date of ASU 2015-16, with earlier adoption permitted for financial statements that have not yet been made available for issuance. The Company adopted this update in the quarter ended March 31, 2016. The adoption did not have a material impact on the Company's combined consolidated financial statements.

Table of Contents

In January 2016, FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). The update provides guidance to improve certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard is effective for a public companies for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. Early adoption by public companies for fiscal years or interim periods that have not yet been issued or, by all other entities, that have not yet been made available for issuance of this guidance are permitted as of the beginning of the fiscal year of adoption, under certain restrictions. The Company is required to apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The guidance related to equity securities without readily determinable fair values should be applied prospectively to equity investments that exist at the date of adoption. The Company anticipates adopting this update in the quarter ending March 31, 2018 and is currently evaluating the impact on the Company’s combined consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases. ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). This update requires lessees to apply a dual approach, classifying leases as either finance or operating 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, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of 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. This update requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2019, with early adoption permitted. The ASU is expected to impact the Company’s combined consolidated financial statements as the Company has certain operating lease arrangements for which it is the lessee. The Company is in the process of evaluating the impact of this new guidance.

In March 2016, FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows the employer to repurchase more of an employee’s shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. For a public company, ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted in any interim or annual period. The Company is currently assessing the impact that this guidance will have on its combined consolidated financial statements when adopted.

In June 2016, 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. The Company is currently assessing the impact that this guidance will have on its combined consolidated financial statements when adopted.

In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 provides cash flow statement classification guidance for certain transactions, including how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. For a public company, ASU 2016-15 is effective for

annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted in any interim or annual period. The Company is currently assessing the impact that this guidance will have on its combined consolidated financial statements when adopted.

Table of Contents

3. MORTGAGE LOAN RECEIVABLES

September 30, 2016 (\$ in thousands)

	Outstanding Face Amount	Carrying Value	Weighted Average Yield (1)	Remaining Maturity (years)
Mortgage loan receivables held for investment, at amortized cost	\$ 1,654,554	\$ 1,647,035	7.09 %	1.70
Provision for loan losses	N/A	(4,000)		
Total mortgage loan receivables held for investment, at amortized cost	1,654,554	1,643,035		
Mortgage loan receivables held for sale	783,441	784,186	4.40 %	7.54
Total	\$ 2,437,995	\$ 2,427,221		

(1) September 30, 2016 London Interbank Offered Rate (“LIBOR”) rates are used to calculate weighted average yield for floating rate loans.

As of September 30, 2016, \$207.6 million, or 12.6%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at fixed interest rates and \$1.4 billion, or 87.4%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at variable interest rates, linked to LIBOR, some of which include interest rate floors. As of September 30, 2016, \$784.2 million, or 100.0%, of the carrying value of our mortgage loan receivables held for sale were at fixed interest rates.

December 31, 2015 (\$ in thousands)

	Outstanding Face Amount	Carrying Value	Weighted Average Yield (1)	Remaining Maturity (years)
Mortgage loan receivables held for investment, at amortized cost	\$ 1,749,556	\$ 1,742,345	7.56 %	1.38
Provision for loan losses	N/A	(3,700)		
Total mortgage loan receivables held for investment, at amortized cost	1,749,556	1,738,645		
Mortgage loan receivables held for sale	571,638	571,764	4.56 %	6.20
Total	2,321,194	2,310,409		

(1) December 31, 2015 LIBOR rates are used to calculate weighted average yield for floating rate loans.

As of December 31, 2015, \$343.2 million, or 19.7%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at fixed interest rates and \$1.4 billion, or 80.3%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at variable interest rates, linked to LIBOR, some of which include interest rate floors. As of December 31, 2015, \$571.8 million, or 100%, of the carrying value of our mortgage loan receivables held for sale were at fixed interest rates.

Table of Contents

The following table summarizes mortgage loan receivables by loan type (\$ in thousands):

	September 30, 2016		December 31, 2015	
	Outstanding Face Amount	Carrying Value	Outstanding Face Amount	Carrying Value
Mortgage loan receivables held for investment, at amortized cost				
First mortgage loans	\$1,484,063	\$1,477,440	\$1,462,228	\$1,456,212
Mezzanine loans	170,491	169,595	287,328	286,133
Total mortgage loan receivables held for investment, at amortized cost	1,654,554	1,647,035	1,749,556	1,742,345
Mortgage loan receivables held for sale				
First mortgage loans	783,441	784,186	571,638	571,764
Total mortgage loan receivables held for sale	783,441	784,186	571,638	571,764
Provision for loan losses	N/A	(4,000)	N/A	(3,700)
Total	\$2,437,995	\$2,427,221	\$2,321,194	\$2,310,409

For the nine months ended September 30, 2016 and 2015, the activity in our loan portfolio was as follows (\$ in thousands):

	Mortgage loan receivables held for investment, at amortized cost	Mortgage loan receivables held for sale
Balance, December 31, 2015	\$ 1,738,645	\$ 571,764
Origination of mortgage loan receivables	531,000	(1)887,164
Repayment of mortgage loan receivables	(632,825) (1)(1,161)
Proceeds from sales of mortgage loan receivables	—	(703,846)
Realized gain on sale of mortgage loan receivables	—	30,265
Accretion/amortization of discount, premium and other fees	6,515	—
Loan loss provision	(300) —
Balance, September 30, 2016	\$ 1,643,035	\$ 784,186

(1) Includes \$50.4 million of non-cash originations and repayments.

	Mortgage loan receivables held for investment, at amortized cost	Mortgage loan receivables held for sale
Balance, December 31, 2014	\$ 1,521,054	\$ 417,955
Origination of mortgage loan receivables	840,652	1,781,355
Repayment of mortgage loan receivables	(575,028) (1,613)
Proceeds from sales of mortgage loan receivables	—	(1,923,883)
Realized gain on sale of mortgage loan receivables	—	59,717
Accretion/amortization of discount, premium and other fees	8,584	—

Edgar Filing: Ladder Capital Corp - Form 10-Q

Loan loss provision	(450) —
Balance, September 30, 2015	\$ 1,794,812	\$ 333,531

24

Table of Contents

During the three months ended September 30, 2016, \$324.4 million of financial assets (loans) have been treated as sales in accordance with ASC Topic 860 — Transfers and Servicing, in connection with a securitization transaction. In addition, during the three months ended September 30, 2016, of the three assets (loans), with a combined principal balance of \$137.6 million, \$61.6 million, non-controlling, pari passu interests were also transferred as part of a securitization transaction. Since effective control continued to reside with the retained portions of the loans the transfers of any of these assets are considered nonrecourse secured borrowings in which the full loan assets remain on the Company's consolidated balance sheets in mortgage loan receivables held for investment, net, at amortized cost and the sale proceeds of \$63.2 million are recognized in debt obligations. The Company expects to sell the retained portions of the loans in a future securitization and relinquish control. During the three months ended September 30, 2015, the transfers of financial assets via sales of loans were treated as sales under ASC Topic 860 — Transfers and Servicing.

At September 30, 2016 and December 31, 2015, there was \$0.6 million and \$0.7 million, respectively, of unamortized discounts included in our mortgage loan receivables held for investment, at amortized cost, on our combined consolidated balance sheets.

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 are individually impaired as of September 30, 2016 and December 31, 2015.

However, based on the inherent risks shared among the loans as a group, it is probable that the loans had incurred an impairment due to common characteristics and inherent risks in the portfolio. Therefore, the Company has recorded a reserve, based on a targeted percentage level which it seeks to maintain over the life of the portfolio, as disclosed in the tables below. Historically, the Company has not incurred losses on any originated loans.

As of September 30, 2016, 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. The Company determined that no impairment was necessary and continues to accrue interest on these loans because the loans' collateral value was in excess of the outstanding balances. As of September 30, 2016, accrued but unpaid interest totaled \$2.3 million, which includes \$1.5 million of default interest.

At September 30, 2016 and December 31, 2015 there were no loans on non-accrual status.

Provision for Loan Losses (\$ in thousands)

Three Months	Nine Months
Ended	Ended
September 30,	September 30,

Edgar Filing: Ladder Capital Corp - Form 10-Q

	2016	2015	2016	2015
Provision for loan losses at beginning of period	\$4,000	\$3,400	\$3,700	\$3,100
Provision for loan losses	—	150	300	450
Provision for loan losses at end of period	\$4,000	\$3,550	\$4,000	\$3,550

25

Table of Contents

4. REAL ESTATE SECURITIES

Commercial mortgage backed securities (“CMBS”), CMBS interest-only securities, Agency securities, Government National Mortgage Association (“GNMA”) construction securities and GNMA permanent securities 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. The following is a summary of the Company’s securities at September 30, 2016 and December 31, 2015 (\$ in thousands):

September 30, 2016

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)	\$2,169,241	\$2,199,698	\$42,550	\$(855)	\$2,241,393	142	AAA	3.24%	2.79%	3.06
CMBS interest-only(2)	8,626,247	(3)343,218	4,589	(440)	347,367	57	AAA	0.83%	3.52%	3.14
GNMA interest-only(4)	519,846	(3)21,444	102	(2,190)	19,356	18	AA+	0.74%	4.02%	4.66
Agency securities(2)	798	828	3	(1)	830	2	AA+	2.93%	1.29%	3.43
GNMA permanent securities(2)	40,120	40,977	1,190	(154)	42,013	11	AA+	4.16%	3.85%	10.11
Total	\$11,356,252	\$2,606,165	\$48,434	\$(3,640)	\$2,650,959	230		1.30%	2.91%	3.20

December 31, 2015

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)	\$1,972,492	\$1,994,928	\$4,643	\$(8,065)	\$1,991,506	119	AAA	3.17%	2.59%	3.15
CMBS interest-only(2)	7,436,379	(3)348,222	1,027	(4,826)	344,423	48	AAA	1.02%	3.81%	3.34
GNMA interest-only(4)	632,175	(3)28,311	44	(2,161)	26,194	20	AA+	0.80%	4.26%	5.22
GNMA construction securities(2)	27,091	27,581	1,058	—	28,639	1	AA+	4.10%	3.86%	9.33
GNMA permanent securities(2)	16,249	16,685	164	(394)	16,455	12	AA+	4.52%	3.94%	5.43
Total	\$10,084,386	\$2,415,727	\$6,936	\$(15,446)	\$2,407,217	200		1.44%	3.60%	3.29

(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 construction securities, and GNMA permanent securities 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) The amounts presented represent the principal amount of the mortgage loans outstanding in the pool in which the interest-only securities participate.

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 (4) 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 combined consolidated statements of income in accordance with ASC 815.

Table of Contents

The following is a breakdown of the carrying value of the Company's securities by remaining maturity based upon expected cash flows at September 30, 2016 and December 31, 2015 (\$ in thousands):

September 30, 2016

Asset Type	Within 1 year	1-5 years	5-10 years	After 10 years	Total
CMBS(1)	\$ 508,575	\$ 1,262,248	\$ 470,570	\$ —	\$ 2,241,393
CMBS interest-only(1)	5	347,362	—	—	347,367
GNMA interest-only(2)	5	18,072	1,099	180	19,356
Agency securities(1)	—	830	—	—	830
GNMA permanent securities(1)	691	5,485	28,110	7,727	42,013
Total	\$ 509,276	\$ 1,633,997	\$ 499,779	\$ 7,907	\$ 2,650,959

December 31, 2015

Asset Type	Within 1 year	1-5 years	5-10 years	After 10 years	Total
CMBS(1)	\$ 610,526	\$ 891,752	\$ 489,228	\$ —	\$ 1,991,506
CMBS interest-only(1)	—	344,423	—	—	344,423
GNMA interest-only(2)	6	17,159	8,549	480	26,194
GNMA construction securities(1)	—	386	28,253	—	28,639
GNMA permanent securities(1)	2,220	6,661	7,574	—	16,455
Total	\$ 612,752	\$ 1,260,381	\$ 533,604	\$ 480	\$ 2,407,217

CMBS, CMBS interest-only securities, Agency securities, GNMA construction securities, and GNMA permanent (1) securities 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.

There were no unrealized losses on securities recorded as other than temporary impairments for the three months ended September 30, 2016 and \$0.2 million in unrealized losses on securities recorded as other than temporary impairments for the three months ended September 30, 2015. There were \$0.6 million and \$1.6 million in unrealized losses on securities recorded as other than temporary impairments for the nine months ended September 30, 2016 and 2015, respectively. For cash flow statement purposes, all receipts of interest from interest-only real estate securities are treated as part of cash flows from operations.

Table of Contents

5. REAL ESTATE AND RELATED LEASE INTANGIBLES, NET

The following tables present additional detail related to our real estate portfolio (\$ in thousands):

	September 30, 2016	December 31, 2015
Land	\$ 140,872	\$ 138,128
Building	646,183	640,206
In-place leases and other intangibles	149,204	139,501
Less: Accumulated depreciation and amortization	(110,666)	(83,056)
Real estate, net	\$ 825,593	\$ 834,779

Below market lease intangibles, net (other liabilities) \$ (16,549) \$ (17,021)

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Depreciation expense (1)	\$6,272	\$5,900	\$18,540	\$17,802
Amortization expense	3,433	3,633	10,164	11,356
Total real estate depreciation and amortization expense	\$9,705	\$9,533	\$28,704	\$29,158

- (1) Depreciation expense on the combined consolidated statements of income also includes \$28,493 and \$28,493 of depreciation on corporate fixed assets for the three months ended September 30, 2016 and 2015, respectively, and \$85,416 and \$79,904 of depreciation on corporate fixed assets for the nine months ended September 30, 2016 and 2015, respectively.

The Company's intangible assets are comprised of in-place leases, favorable leases compared to market leases and other intangibles. At September 30, 2016, gross intangible assets totaled \$149.2 million with total accumulated amortization of \$43.7 million, resulting in net intangible assets of \$105.5 million, including \$5.4 million of unamortized favorable lease intangibles which are included in real estate and related lease intangibles, net on the combined consolidated balance sheets. At December 31, 2015, gross intangible assets totaled \$139.5 million with total accumulated amortization of \$32.7 million, resulting in net intangible assets of \$106.8 million, including \$6.5 million of unamortized favorable lease intangibles which are included in real estate and related lease intangibles, net on the combined consolidated balance sheets. For the three and nine months ended September 30, 2016, the Company recorded an offset against operating lease income of \$0.4 million and \$1.0 million, respectively, for favorable leases, compared to \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2015, respectively.

Table of Contents

The following table presents expected amortization expense during the next five years and thereafter related to the acquired in-place lease intangibles for property owned as of September 30, 2016 (\$ in thousands):

Period Ending December 31,	Amount
2016 (last 3 months)	\$3,831
2017	7,662
2018	7,662
2019	7,662
2020	7,662
Thereafter	71,000
Total	\$105,479

There were \$1.5 million and \$5.0 million of unbilled rent receivables included in other assets on the combined consolidated balance sheets as of September 30, 2016 and December 31, 2015, respectively.

There was unencumbered real estate of \$33.0 million and \$47.8 million as of September 30, 2016 and December 31, 2015, respectively.

Table of Contents

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 or rent escalations under other leases from tenants) at September 30, 2016 (\$ in thousands):

Period Ending December 31,	Amount
2016 (last 3 months)	\$18,630
2017	73,312
2018	70,101
2019	64,930
2020	55,231
Thereafter	532,118
Total	\$814,322

Acquisitions

During the nine months ended September 30, 2016, the Company acquired the following properties (\$ in thousands):

Acquisition Date	Type	Primary Location(s)	Purchase Price	Ownership Interest (1)
April 2016	Land	St. Paul, MN	\$200	100.0%
April 2016	Net Lease	Dimmitt, TX	1,319	100.0%
April 2016	Net Lease	Philo, IL	1,156	100.0%
April 2016	Net Lease	St.Charles, MN	1,198	100.0%
May 2016	Net Lease	San Antonio, TX	1,096	100.0%
May 2016	Net Lease	Borger, TX	978	100.0%
June 2016	Net Lease	Champaign, IL	1,324	100.0%
June 2016	Net Lease	Decatur, IL	1,181	100.0%
June 2016	Net Lease	Flora Vista, NM	1,305	100.0%
June 2016	Net Lease	Mountain Grove, MO	1,279	100.0%
June 2016	Net Lease	Rantoul, IL	1,204	100.0%
June 2016	Net Lease	Decatur, IL	1,365	100.0%
June 2016	Net Lease	Cape Girardeau, MO	1,281	100.0%
June 2016	Net Lease	Linn, MO	1,122	100.0%
July 2016	Net Lease	Union, IL	1,227	100.0%
July 2016	Net Lease	Pawnee, IL	1,201	100.0%
July 2016	Net Lease	Lamar, MO	1,176	100.0%
August 2016	Other	Ewing, NJ	30,640	100.0%
Total real estate acquisitions			\$50,252	

(1) Properties were consolidated as of acquisition date.

Table of Contents

The purchase prices were allocated to the net assets acquired during the nine months ended September 30, 2016, as follows (\$ in thousands):

	Purchase Price Allocation
Land	\$ 6,407
Building	34,396
Intangibles	11,364
Below Market Lease Intangibles	(1,915)
Total purchase price	\$ 50,252

During the nine months ended September 30, 2015, the Company acquired the following properties (\$ in thousands):

Acquisition Date	Type	Primary Location(s)	Purchase Price	Ownership Interest (1)
January 2015	Net Lease	Jacksonville, NC	\$ 7,877	100.0%
January 2015	Net Lease	Iberia, MO	1,328	100.0%
January 2015	Net Lease	Isle, MN	1,078	100.0%
January 2015	Net Lease	Pine Island, MN	1,142	100.0%
January 2015	Net Lease	Kings Mountain, NC	21,241	100.0%
February 2015	Net Lease	Village of Menomonee Falls, WI	17,050	100.0%
February 2015	Net Lease	Rockland, MA	7,316	100.0%
February 2015	Net Lease	Crawfordsville, IA	6,000	100.0%
February 2015	Net Lease	Boardman Township, OH	5,400	100.0%
March 2015	Net Lease	Hilliard, OH	6,384	100.0%
March 2015	Net Lease	Weathersfield Township, OH	5,200	100.0%
March 2015	Net Lease	Rotterdam, NY	12,000	100.0%
March 2015	Net Lease	Wheaton, MO	970	100.0%
March 2015	Net Lease	Paynesville, MN	1,254	100.0%
March 2015	Net Lease	Loveland, CO	5,600	100.0%
March 2015	Net Lease	Battle Lake, MN	1,098	100.0%
March 2015	Net Lease	Yorktown, TX	1,207	100.0%
March 2015	Net Lease	St. Francis, MN	1,117	100.0%
May 2015	Net Lease	Red Oak, IA	1,185	100.0%
May 2015	Net Lease	Zapata, TX	1,150	100.0%
June 2015	Net Lease	Aurora, MN	952	100.0%
June 2015	Net Lease	Canyon Lake, TX	1,377	100.0%
June 2015	Net Lease	Wheeler, TX	1,075	100.0%
June 2015	Other	Grand Rapids, MI	9,300	97.0%
June 2015	Other	Grand Rapids, MI	6,300	97.0%
June 2015	Net Lease	Bridgeport, IL	1,186	100.0%
June 2015	Net Lease	Peoria, IL	1,226	100.0%
June 2015	Net Lease	Pleasanton, TX	1,316	100.0%
June 2015	Other	Wayne, NJ	9,700	100.0%
June 2015	Net Lease	Warren, MN	1,055	100.0%
June 2015	Net Lease	Tremont, IL	1,150	100.0%

Table of Contents

Acquisition Date	Type	Primary Location(s)	Purchase Price	Ownership Interest (1)
August 2015	Net Lease	Ponce, Puerto Rico	8,900	100.0%
August 2015	Net Lease	Effingham County, IL	1,195	100.0%
August 2015	Net Lease	Lebanon, MI	1,200	100.0%
August 2015	Net Lease	Minot, ND	6,644	100.0%
August 2015	Net Lease	Floresville, TX	1,251	100.0%
August 2015	Net Lease	Kerrville, TX	1,174	97.0%
September 2015	Net Lease	De Soto, IL	1,066	97.0%
September 2015	Net Lease	Biscoe, NC	1,216	100.0%
September 2015	Net Lease	Moultrie, GA	1,305	100.0%
September 2015	Net Lease	Rose Hill, NC	1,420	100.0%
September 2015	Net Lease	Rockingham, NC	1,158	100.0%
Total real estate acquisitions			\$ 166,763	

(1) Properties were consolidated as of acquisition date.

The purchase prices were allocated to the net assets acquired during the nine months ended September 30, 2015, as follows (\$ in thousands):

	Purchase Price Allocation
Land	\$21,794
Building	129,032
Intangibles	23,728
Below Market Lease Intangibles	(7,791)
Total purchase price	\$ 166,763

Sales

The Company sold the following properties during the nine months ended September 30, 2016 (\$ in thousands):

Sales Date	Type	Primary Location(s)	Net Sales Proceeds	Net Book Value	Realized Gain/(Loss)	Properties	Units Sold	Units Remaining
Mar 2016	Net Lease	Rockland, MA	9,148	8,436	712	1	—	—
Sep 2016	Net Lease	Crawfordsville, IN	6,190	5,723	467	1	—	—
Various	Condominium	Las Vegas, NV	24,534	13,507	11,027	—	58	74
Various	Condominium	Miami, FL	14,162	10,752	3,410	—	49	104
Totals			\$ 54,034	\$ 38,418	\$ 15,616			

Table of Contents

The Company sold the following properties during the nine months ended September 30, 2015 (\$ in thousands):

Sales Date	Type	Primary Location(s)	Net Sales Proceeds	Net Book Value	Realized Gain/(Loss)	Properties	Units Sold	Units Remaining
May 2015	Net Lease	Plattsmouth, NE	\$ 8,440	\$ 7,983	\$ 457	1	—	—
May 2015	Net Lease	Worthington, MN	8,793	8,321	472	1	—	—
May 2015	Net Lease	Loveland, CO	6,249	5,600	649	1	—	—
Sep 2015	Net Lease	Village of Menomonee Falls, WI	17,856	(1) 16,827	1,029	(2) 1	—	—
Various	Condominium	Las Vegas, NV	31,997	18,617	13,380	—	72	148
Various	Condominium	Miami, FL	22,301	17,271	5,030	—	74	178
Totals			\$ 95,636	\$ 74,619	\$ 21,017			

(1) Includes \$11.3 million of mortgage debt assumed by the buyer, which is included in non-cash transactions on the Company's combined consolidated statement of cash flows.

(2) Excludes \$0.3 million of gain on mortgage debt assumed by the buyer, which is included in realized gain on sale of real estate, net on the Company's combined consolidated statement of cash flows.

Real Estate Sold or Classified as Held for Sale

On January 1, 2014, the Company early adopted ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, and as the properties sold or classified as real estate held for sale in the nine months ended September 30, 2016 and 2015 did not represent a strategic shift (as the Company is not entirely exiting markets or property types), they have not been reflected as part of discontinued operations.

Table of Contents

Unaudited Pro Forma Information

The following unaudited pro forma information has been prepared based upon our historical combined consolidated financial statements and certain historical financial information of the acquired properties, which are accounted for as business combinations, and should be read in conjunction with the combined consolidated financial statements and notes thereto. The unaudited pro forma combined consolidated financial information reflects the 2016 acquisition adjustments made to present financial results as though the acquisition of such properties occurred on January 1, 2015 through the date of acquisition and the 2015 acquisition adjustments made to present financial results as though the acquisition of the properties occurred on January 1, 2014 through the date of acquisition. This unaudited pro forma information may not be indicative of the results that actually would have occurred if these transactions had been in effect on the dates indicated, nor do they purport to represent our future results of operations (\$ in thousands):

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Company Historical	Acquisitions	Consolidated Pro Forma	Company Historical	Acquisitions	Consolidated Pro Forma
Operating lease income	\$ 19,466	\$ 195	\$ 19,661	\$ 57,845	\$ 2,475	\$ 60,320
Net income (loss)	49,598	113	49,711	42,099	1,514	43,613
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	439	—	439	436	—	436
Net (income) loss attributable to noncontrolling interest in operating partnership	(22,429)	(48)	(22,477)	(17,664)	(642)	(18,306)
Net income attributable to Class A common shareholders	27,608	65	27,673	24,871	873	25,744

The Company recorded \$0.6 million and \$1.0 million in revenues from its 2016 acquisitions for the three and nine months ended September 30, 2016, respectively, which are included in operating lease income on the combined consolidated statements of income.

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Company Historical	Acquisitions	Consolidated Pro Forma	Company Historical	Acquisitions	Consolidated Pro Forma
Operating lease income	\$ 20,671	\$ 1,127	\$ 21,798	\$ 60,207	\$ 3,419	\$ 63,626
Net income	2,798	693	3,491	89,458	1,470	90,928
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	85	—	85	578	—	578
Net (income) loss attributable to noncontrolling interest in operating partnership	430	(294)	136	(43,338)	(623)	(43,961)
Net income attributable to Class A common shareholders	3,313	399	3,712	46,698	847	47,545

The Company recorded \$0.2 million and \$6.4 million, respectively, in revenues from its 2015 acquisitions for the three and nine months ended September 30, 2015, which are included in operating lease income on the combined consolidated statements of income.

The most significant adjustments made in preparing the unaudited pro forma information were to: (i) include the incremental operating lease income, (ii) include the incremental depreciation, and (iii) adjust for transaction costs associated with the properties acquired in 2016 as if they were incurred on January 1, 2015 and the properties acquired in 2015 as if they were incurred on January 1, 2014.

Table of Contents

6. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of September 30, 2016, the Company had an aggregate investment of \$33.9 million in its equity method joint ventures with unaffiliated third parties.

Included in the Company's investments in unconsolidated joint ventures as of September 30, 2016 is one unconsolidated joint venture, which is a VIE for which the Company is not the primary beneficiary. This joint venture is primarily established to develop real estate property for long-term investment and 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 shared control of this entity along with the entity's partner and therefore does not have controlling financial interests in this VIE. The Company's aggregate investment in this VIE was \$30.4 million. 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. In general, future costs of development not financed through a third party will be funded with capital contributions from the Company and its outside partner in accordance with their respective ownership percentages.

The following is a summary of the Company's investments in unconsolidated joint ventures, which we account for using the equity method, as of September 30, 2016 and December 31, 2015 (\$ in thousands):

Entity	September 30, December 31,	
	2016	2015
Ladder Capital Realty Income Partnership I LP	\$ —	\$ 49
Grace Lake JV, LLC	3,456	2,891
24 Second Avenue Holdings LLC	30,404	30,857
Investment in unconsolidated joint ventures	\$ 33,860	\$ 33,797

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, 2016 and 2015 (\$ in thousands):

Entity	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Ladder Capital Realty Income Partnership I LP	\$—	\$—	\$892	\$116
Grace Lake JV, LLC	230	196	690	685
24 Second Avenue Holdings LLC	(371)	(221)	(1,097)	(221)
Earnings (loss) from investment in unconsolidated joint ventures	\$(141)	\$(25)	\$485	\$580

Table of Contents

Ladder Capital Realty Income Partnership I LP

On April 15, 2011, the Company entered into a limited partnership agreement, becoming the general partner and acquiring a 10% limited partnership interest in Ladder Capital Realty Income Partnership I LP (“LCRIP I”) to invest in first mortgage loans held for investment and acted as general partner and manager to LCRIP I. The Company accounts for its interest in LCRIP I using the equity method of accounting, as it exerts significant influence but the unrelated limited partners have substantive participating rights, as well as kick-out rights. During the quarter ended June 30, 2015, the last loan held by LCRIP I was repaid. The term of the partnership expired on April 15, 2016. At that time, LCRIP I made distributions to the partners in the aggregate amounts determined by the general partner in accordance with the Limited Partnership Agreement. Simultaneously with the execution of the LCRIP I Partnership Agreement, the Company was engaged as the manager of LCRIP I and is entitled to a fee based upon the average net equity invested in LCRIP I, which is subject to a fee reduction in the event average net equity invested in LCRIP I exceeds \$100.0 million. During the three months ended September 30, 2016 and September 30, 2015, the Company recorded no management fees. During the nine months ended September 30, 2016 and September 30, 2015, the Company recorded \$6,905 and \$77,447, respectively, in management fees, which is reflected in fee and other income in the combined consolidated statements of income.

Grace Lake JV, LLC

In connection with the origination of a loan in April 2012, the Company received a 25% equity kicker 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 25% limited liability company membership interest in Grace Lake JV, LLC (“Grace Lake JV”), 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 25% investment, compared to the 75% investment of its operating partner.

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 to invest in a ground-up condominium construction and development project located at 24 Second Avenue, New York, NY. The Company accounts for its interest in 24 Second Avenue using the equity method of accounting as its joint venture partner is the managing member of 24 Second Avenue and has substantive participating rights. The Company contributed \$31.1 million for a 73.8% interest, with the operating partner holding the remaining 26.2% interest. The Company is entitled to income allocations and distributions based upon its membership interest of 73.8% until the Company achieves a 1.70x profit multiple, after which, ultimately, income is allocated and distributed 50% to the Company and 50% to the operating partner. During the three and nine months ended September 30, 2016, the Company recorded \$0.4 million and \$1.1 million, respectively, in expenses, which is recorded in earnings (loss) from investment in unconsolidated joint ventures in the combined consolidated statements of income. The Company capitalizes interest related to the cost of its investment, as 24 Second Avenue has activities in progress necessary to construct and ultimately sell condominium units. During the three and nine months ended September 30, 2016, the Company capitalized \$0.2 million and \$0.6 million, respectively, of interest expense, using a weighted average interest rate, which is recorded in investment in unconsolidated joint ventures in the combined consolidated balance sheets.

Combined Summary Financial Information for Unconsolidated Joint Ventures

Edgar Filing: Ladder Capital Corp - Form 10-Q

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, 2016 and December 31, 2015 (\$ in thousands):

	September 30, 2016	December 31, 2015
Total assets	\$ 135,627	\$ 131,214
Total liabilities	92,743	88,973
Partners'/members' capital	\$ 42,884	\$ 42,241

Table of Contents

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 three and nine months ended September 30, 2016 and 2015 (\$ in thousands):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	2015		2015	
Total revenues	\$4,463	\$4,203	\$12,678	\$14,666
Total expenses	4,030	4,626	11,943	11,987
Net income (loss)	\$433	\$(423)	\$735	\$2,679

7. DEBT OBLIGATIONS

The details of the Company's debt obligations at September 30, 2016 and December 31, 2015 are as follows (\$ in thousands):

September 30, 2016

Debt Obligations	Committed Financing	Debt Obligations Outstanding	Committed but Unfunded	Interest Rate at September 30, 2016(1)	Current Term Maturity	Remaining Extension Options	Eligible Collateral	Carrying Amount of Collateral	Fair Value of Collateral
Committed Loan Repurchase Facility	\$600,000	\$276,978	\$323,022	2.27% - 3.03%	10/30/2017	(2)	(3)	\$442,221	\$447,000
Committed Loan Repurchase Facility	450,000	187,031	262,969	2.77% - 3.52%	5/24/2017	(4)	(3)	271,091	290,490
Committed Loan Repurchase Facility	400,000	120,690	279,310	2.77% - 3.77%	4/9/2017	(6)	(7)	281,269	303,150
Committed Loan Repurchase Facility	100,000	—	100,000	—	6/28/2019	—	(3)	—	—
Committed Loan Repurchase Facility	100,000	37,944	62,056	2.81% - 3.53%	8/2/2019	(9)	(3)	51,559	56,959
Total Committed Loan Repurchase Facilities	1,650,000	622,643	1,027,357					1,046,140	1,097,000
Committed Securities Repurchase Facility	400,000	380,319	19,681	0.88% - 2.29%	7/1/2018	N/A	(11)	442,288	442,288
Uncommitted Securities Repurchase Facility	N/A (12)	455,365	N/A (12)	0.80% - 2.33%	10/2016 - 12/2016	N/A	(11)	534,336	534,336
Total Repurchase Facilities	2,050,000	1,458,327	1,047,038					2,022,764	2,074,200
Revolving Credit Facility	143,000	100,000	43,000	3.02% - 3.69%	2/11/2017	(13)	N/A (14)	N/A (14)	N/A (14)
	575,533	575,533	—			N/A	(15)	746,082	851,060

Edgar Filing: Ladder Capital Corp - Form 10-Q

Mortgage Loan Financing Mortgage Loan Receivable Financing Borrowings from the FHLB Senior Unsecured Notes	63,177	63,177	—	N/A	4.25% - 2018 - 2026	N/A	N/A	N/A	N/A	N/A
Total Debt Obligations	\$5,646,628	\$4,601,011	\$1,496,384		0.38% - 2016 - 2024	N/A	(17)	2,354,675	2,371,000	N/A
					5.875% - 2017 - 2021	N/A	N/A (19)	N/A (19)	N/A (19)	N/A (19)

- (1) September 30, 2016 LIBOR rates are used to calculate interest rates for floating rate debt.
- (2) One additional 12-month period at Company's option.
- (3) First mortgage commercial real estate loans. It does not include the real estate collateralizing such loans.
- (4) Three additional 12-month periods at Company's option.
- (5) Includes \$16.4 million of loans made to consolidated subsidiaries.
- (6) Two additional 364-day periods at Company's option.
- (7) First mortgage and mezzanine commercial real estate loans. It does not include the real estate collateralizing such loans.
- (8) Includes \$16.1 million of loans made to consolidated subsidiaries.
- (9) One additional 12-month extension period and two additional 6-month extension periods at Company's option.
- (10) Includes \$5.2 million of loans made to consolidated subsidiaries.
- (11) Commercial real estate securities. It does not include the real estate collateralizing such securities.
- (12) Represents uncommitted securities repurchase facilities for which there is no committed amount subject to future advances.
- (13) One additional 12-month period at Company's option.
- (14) 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.
- (15) Real estate.
- (16) Using undepreciated carrying value of commercial real estate to approximate fair value.
- (17) 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.
- (18) Presented net of unamortized debt issuance costs of \$4.6 million at September 30, 2016.
- (19) The obligations under the senior unsecured notes are guaranteed by the Company and certain of its subsidiaries.

Edgar Filing: Ladder Capital Corp - Form 10-Q

December 31, 2015

Debt Obligations	Committed Financing	Debt Obligations Outstanding	Committed but Unfunded	Interest Rate at December 31, 2015(1)	Current Term Maturity	Remaining Extension Options	Eligible Collateral	Carrying Amount of Collateral	Fair Value of Collateral
Committed Loan Repurchase Facility	\$ 600,000	\$ 229,533	\$ 370,467	2.08% - 2.93%	10/30/2016	(2)	(3)	\$ 364,978	\$ 366,600
Committed Loan Repurchase Facility	400,000	204,262	195,738	2.44% - 4.33%	4/10/2016	(4)	(5)	299,714	342,300
Committed Loan Repurchase Facility	450,000	269,779	180,221	2.58% - 4.33%	5/24/2016	(2)	(3)	436,901	466,640
Committed Loan Repurchase Facility	35,000	575	34,425	3.02%	10/24/2016	(8)	(9)	—	794
Total Committed Loan Repurchase Facilities	1,485,000	704,149	780,851					1,101,593	1,176,400
Committed Securities Repurchase Facility	300,000	161,887	138,113	0.88% - 1.34%	10/31/2016	N/A	(11)	193,530	193,530
Uncommitted Securities Repurchase Facility	N/A (12)	394,719	N/A (6)	0.73% - 2.02%	1/2016	N/A	(11)	458,615	458,615
Total Repurchase Facilities	1,785,000	1,260,755	918,964					1,753,738	1,828,500
Borrowings Under Credit Agreement	50,000	—	50,000		1/24/2016	N/A	(13)	—	—
Revolving Credit Facility	75,000	—	75,000		2/11/2017	(2)	N/A (14)	N/A (14)	N/A (14)
Mortgage Loan Financing	544,663	544,663	—	4.25% - 6.75%	2018 - 2025	N/A	(15)	711,090	788,360
Borrowings from the FHLB	2,237,113	1,856,700	380,413	0.28% - 2.74%	2016 - 2024	N/A	(13)	2,317,534	2,323,700

Edgar Filing: Ladder Capital Corp - Form 10-Q

Senior Unsecured Notes	619,555	612,605	(16)—	5.875% - 7.375%	2017 -2021	N/A	N/A (17)	N/A (17)	N/A (17)
Total Debt Obligations	\$5,311,331	\$4,274,723	\$1,424,377					\$4,782,362	\$4,940,000

- (1) December 31, 2015 LIBOR rates are used to calculate interest rates for floating rate debt.
- (2) Two additional 12-month periods at Company's option.
- (3) First mortgage commercial real estate loans. It does not include the real estate collateralizing such loans.
- (4) Two additional 364-day periods at Company's option.
- (5) First mortgage and mezzanine commercial real estate loans. It does not include the real estate collateralizing such loans.
- (6) Includes \$36.5 million of loans made to consolidated subsidiaries.
- (7) Includes \$28.2 million of loans made to consolidated subsidiaries.
- (8) Two 6-month extension periods.
- (9) First mortgage commercial real estate loans held for sale. It does not include the real estate collateralizing such loans.
- (10) Includes \$0.8 million of loans made to consolidated subsidiaries.
- (11) Investment grade commercial real estate securities. It does not include the real estate collateralizing such securities.
- (12) Represents uncommitted securities repurchase facilities for which there is no committed amount subject to future advances.
- (13) First mortgage and mezzanine commercial real estate loans and investment grade commercial real estate securities. It does not include the real estate collateralizing such loans and securities.
- (14) 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.
- (15) Using undepreciated carrying value of commercial real estate to approximate fair value.
- (16) Presented net of unamortized debt issuance costs of \$6.9 million at December 31, 2015.
- (17) 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 five committed master repurchase agreements, as outlined in the September 30, 2016 table above, totaling \$1.7 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, and maximum leverage ratios. The Company believes it was in compliance with all covenants as of September 30, 2016 and December 31, 2015.

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 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 February 19, 2015, the Company executed an amendment and extension of one of its credit facilities with a major banking institution, providing for, among other things, extending the maximum term of the facility to May 24, 2018, limiting the recourse exposure to the Company and modifying the pricing terms of the facility.

On April 10, 2015, the Company executed an amendment and extension of one of its credit facilities with a major banking institution, providing for, among other things, the extension of the maximum term of the facility to April 10, 2019 and increasing the maximum funding capacity of the facility to \$400.0 million.

On August 14, 2015, the Company executed an amendment of one of its credit facilities with a major banking institution, providing for, among other things, an increase in the maximum funding capacity to \$600.0 million.

On October 25, 2015, the Company entered into a committed loan repurchase facility with a major banking institution with total capacity of \$35.0 million and an initial maturity date of October 24, 2016, with two six-month extension periods.

On December 15, 2015, the Company executed an amendment of one of its credit facilities with a major banking institution, providing for, among other things, changes to our financial covenants and an increase in the maximum advance rate on certain assets, subject to the buyer's discretion.

On April 19, 2016, the Company entered into an amendment to its committed loan repurchase facility with one of its multiple major banking institutions, adding two one-year extension options and extending the maximum term of such facility to May 24, 2020.

On June 27, 2016, the Company executed an amendment and extension of one of its credit facilities with a major banking institution, with an effective date of July 1, 2016, providing for, among other things, the extension of the maximum term of the facility to July 1, 2018 and increasing the maximum funding capacity to \$400.0 million.

On June 28, 2016, the Company entered into a committed loan repurchase facility with a major banking institution with total capacity of \$100.0 million and a final maturity date of June 28, 2019.

On August 3, 2016, the Company executed a committed loan repurchase facility with a major banking institution with total capacity of \$100.0 million and an initial maturity date of August 2, 2019, with one twelve-month extension period, followed by two six-month extension periods. In connection with the execution of this new facility, the Company terminated its existing committed loan repurchase facility with total capacity of \$35.0 million.

As of September 30, 2016, we had repurchase agreements with nine counterparties, with total debt obligations outstanding of \$1.5 billion. As of September 30, 2016, three counterparties, Deutsche Bank, J.P. Morgan and Wells Fargo, held collateral that exceeded the amounts borrowed under the related repurchase agreements by more than \$75.0 million, or 5% of our total equity. As of September 30, 2016, the weighted average haircut, or the percent of collateral value in excess of the loan amount, under our repurchase agreements was 29.7%. There have been no significant fluctuations in haircuts across asset classes on our repurchase facilities.

Borrowings under Credit Agreement

On January 24, 2013, the Company entered into a \$50.0 million credit agreement with one of its multiple committed financing counterparties in order to finance its securities and lending activities (the "Credit Agreement"). LCFH is subject to customary affirmative covenants and negative covenants, including limitations on the assumption or incurrence of additional liens or debt, restrictions on certain payments or transfers of assets, and restrictions on the amendment of contracts or documents related to the assets under pledge. Under the Credit Agreement, LCFH is subject to customary financial covenants relating to maximum leverage, minimum tangible net worth, and minimum liquidity consistent with our other credit facilities. The Company's ability to borrow under the Credit Agreement is dependent on, among other things, LCFH's compliance with the financial covenants. The Company believes it was in compliance with all covenants as of December 31, 2015. The Credit Agreement matured on June 23, 2016 with no further extension options.

Borrowings under Credit and Security Agreement

On October 31, 2014, the Company entered into a credit and security agreement (the "Credit and Security Agreement") with a major banking institution to finance one of its assets in the amount of \$46.8 million and an interest rate of LIBOR plus 185 basis points. On September 21, 2015, the debt was repaid, and the Credit and Security Agreement was terminated.

Revolving Credit Facility

On February 11, 2014, the Company entered into a revolving credit facility (the "Revolving Credit Facility"), which was subsequently amended on February 26, 2016 to increase its maximum funding capacity. The Revolving Credit Facility provides for an aggregate maximum borrowing amount of \$143.0 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. The Revolving Credit Facility has a three-year maturity, which may be extended by two 12-month periods subject to the satisfaction of customary conditions, including the absence of default. Interest on the Revolving Credit Facility is one-month LIBOR plus 3.50% 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.

41

Debt Issuance Costs

As discussed in Note 2, Significant Accounting Policies in the Annual Report, the Company considers its committed loan master repurchase facilities, borrowings under the Credit Agreement 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, 2016 and December 31, 2015, the amount of unamortized costs relating to such facilities are \$1.9 million and \$3.4 million, respectively, and are included in other assets in the combined 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 65% and 95% of the fair value of collateral.

Mortgage Loan Financing

During the nine months ended September 30, 2016 and 2015, the Company executed 10 and 36 term debt agreements, respectively, to finance properties in its real estate portfolio. These nonrecourse debt agreements provide for fixed rate financing at rates, ranging from 4.25% to 6.75%, maturing between 2018 - 2026 as of September 30, 2016. These loans have carrying amounts of \$575.5 million and \$544.7 million, net of unamortized premiums of \$5.6 million and \$6.1 million at September 30, 2016 and December 31, 2015, 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 \$0.2 million and \$0.7 million of premium amortization, which decreased interest expense, for the three and nine months ended September 30, 2016, respectively. The Company recorded \$0.2 million and \$0.7 million of premium amortization, which decreased interest expense, for the three and nine months ended September 30, 2015, respectively. The loans are collateralized by real estate and related lease intangibles, net, of \$746.1 million and \$711.1 million as of September 30, 2016 and December 31, 2015, respectively.

Mortgage Loan Receivable Financing (Nonrecourse)

During the three months ended September 30, 2016, financial assets (loans), with a combined principal balance of \$324.4 million, have been treated as sales in accordance with ASC Topic 860 — Transfers and Servicing, in connection with a securitization transaction. In addition, during the three months ended September 30, 2016, of the three assets (loans), with a combined principal balance of \$137.6 million, \$61.6 million, non-controlling, pari passu interests were also transferred as part of a securitization transaction. Since effective control continued to reside with the retained portions of the loans, the transfers are considered nonrecourse secured borrowings in which the full loan assets remain on the Company's consolidated balance sheets in mortgage loan receivables held for investment, net, at amortized cost and the sale proceeds of \$63.2 million are recognized in debt obligations. The Company expects to sell the retained portions of the loans in a future securitization and relinquish control. During the nine months ended September 30, 2015, the transfers of financial assets via sales of loans were treated as sales under ASC Topic 860 — Transfers and Servicing.

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 March 21, 2016, Tuebor's advance limit was updated to the lowest of \$2.9 billion, 40% of Tuebor's total assets or 150% of the Company's total equity.

As of September 30, 2016, Tuebor had \$1.8 billion of borrowings outstanding (with an additional \$406.3 million of committed term financing available from the FHLB), with terms of overnight to eight years (with a weighted average of 2.4 years), interest rates of 0.38% to 3.02% (with a weighted average of 1.05%), and advance rates of 61.0% to 95.2% of the collateral. As of September 30, 2016, collateral for the borrowings was comprised of \$1.6 billion of CMBS and U.S. Agency Securities and \$770.6 million of first mortgage commercial real estate loans.

As of December 31, 2015, Tuebor had \$1.9 billion of borrowings outstanding (with an additional \$380.4 million of committed term financing available from the FHLB), with terms of overnight to eight years (with a weighted average of 1.4 years), interest rates of 0.28% to 2.74% (with a weighted average of 0.84%), and advance rates of 58.7% to 95.2% of the collateral. As of December 31, 2015, collateral for the borrowings was comprised of \$1.7 billion of CMBS and U.S. Agency Securities and \$568.2 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 \$591.5 million of the member's capital was restricted from transfer to Tuebor's parent without prior approval of state insurance regulators at September 30, 2016.

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 40.1% of the Company's outstanding debt obligations as of September 30, 2016. 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

On September 19, 2012, LCFH issued \$325.0 million in aggregate principal amount of 7.375% senior notes due October 1, 2017 (the "2017 Notes"). The 2017 Notes require interest payments semi-annually in cash in arrears on April 1 and October 1 of each year, beginning on September 19, 2012. The 2017 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. On November 5, 2014, the board of directors authorized the Company to make up to \$325.0 million in repurchases of the 2017 Notes from time to time without further approval.

On December 17, 2014, the Company retired \$5.4 million of principal of the 2017 Notes for a repurchase price of \$5.6 million recognizing a \$0.2 million loss on extinguishment of debt. During the nine months ended September 30, 2016, the Company retired \$21.9 million of principal of the 2017 Notes for a repurchase price of \$21.4 million, recognizing a \$0.3 million net gain on extinguishment of debt after recognizing \$(0.2) million of unamortized debt issuance costs associated with the retired debt. The remaining \$297.7 million in aggregate principal amount of the 2017 Notes is due October 2, 2017.

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

Edgar Filing: Ladder Capital Corp - Form 10-Q

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. 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.

Edgar Filing: Ladder Capital Corp - Form 10-Q

During the nine months ended September 30, 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. The remaining \$266.2 million in aggregate principal amount of the 2021 Notes is due August 1, 2021.

LCFH issued the 2021 Notes and the 2017 Notes (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, 2016, the Company has a 59.5% 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 combined consolidated financial statements and LCFH’s consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Beginning April 1, 2015, the Company elected to early adopt ASU 2015-03 and appropriately retrospectively applied the guidance to its senior unsecured notes, to all periods presented. Unamortized debt issuance costs of \$4.6 million are included in senior unsecured notes as of September 30, 2016 and unamortized debt issuance costs of \$6.9 million are included in senior unsecured notes as of December 31, 2015 (previously included in other assets on the combined consolidated balance sheets).

Combined Maturity of Debt Obligations

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

Period ending December 31,	Borrowings by Maturity (1)
2016 (last 3 months)	\$ 1,444,838
2017	1,266,239
2018	403,295
2019	71,046
2020	113,802
Thereafter	1,300,309
Subtotal	\$ 4,599,529
Debt issuance costs included in senior unsecured notes	(4,598)
Premiums included in mortgage loan financing	6,080
Total	4,601,011

(1) Contractual payments under current maturities, some of which are subject to extensions.

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 \$899.4 million of the total equity is restricted from

payment as a dividend by the Company at September 30, 2016.

Table of Contents

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is based upon 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, 2016 and December 31, 2015 are as follows (\$ in thousands):

September 30, 2016

	Outstanding Face Amount	Amortized Cost Basis	Fair Value	Fair Value Method	Weighted Average Yield %	Remaining Maturity/Duration (years)
Assets:						
CMBS(1)	\$ 2,169,241	\$2,199,698	\$2,241,393	Internal model, third-party inputs	2.79%	3.06
CMBS interest-only(1)	8,626,247	(2)343,218	347,367	Internal model, third-party inputs	3.52%	3.14
GNMA interest-only(3)	519,846	(2)21,444	19,356	Internal model, third-party inputs	4.02%	4.66
Agency securities(1)	798	828	830	Internal model, third-party inputs	1.29%	3.43
GNMA permanent securities(1)	40,120	40,977	42,013	Internal model, third-party inputs	3.85%	10.11
Mortgage loan receivables held for investment, at amortized cost	1,654,554	1,643,035	1,664,661	Discounted Cash Flow(4)	7.09%	1.70
Mortgage loan receivables held for sale	783,441	784,186	812,655	Internal model, third-party inputs(5)	4.40%	7.54
FHLB stock(6)	77,915	77,915	77,915	(6)	4.25%	N/A
Nonhedge derivatives(1)(7)	241,011	N/A	254	Counterparty quotations	N/A	1.81
Liabilities:						
Repurchase agreements - short-term	1,320,470	1,320,470	1,320,470	Discounted Cash Flow(8)	1.18%	0.18
	137,857	137,857	137,857		1.73%	1.96

Edgar Filing: Ladder Capital Corp - Form 10-Q

Repurchase agreements - long-term				Discounted Cash Flow(9)		
Revolving credit facility	100,000	100,000	100,000	Discounted Cash Flow(10)	3.69%	0.37
Mortgage loan financing	573,435	575,533	610,789	Discounted Cash Flow(9)	4.84%	7.33
Mortgage loan receivable financing	63,177	63,177	63,177	Sales Proceeds	N/A	N/A
Borrowings from the FHLB	1,844,700	1,844,700	1,857,780	Discounted Cash Flow	1.05%	2.39
Senior unsecured notes	563,872	559,274	552,794	Broker quotations, pricing services	6.67%	2.81
Nonhedge derivatives(1)(7)	1,035,500	N/A	9,368	Counterparty quotations	N/A	2.12

(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.

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

(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 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 the 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 borrowings under the revolving credit facility 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.

Edgar Filing: Ladder Capital Corp - Form 10-Q

Table of Contents

December 31, 2015

	Outstanding Face Amount	Amortized Cost Basis	Fair Value	Fair Value Method	Weighted Average Yield %	Remaining Maturity/Duration (years)
Assets:						
CMBS(1)	\$ 1,972,492	\$ 1,994,928	\$ 1,991,506	Internal model, third-party inputs	2.59 %	3.15
CMBS interest-only(1)	7,436,379	(2)348,222	344,423	Internal model, third-party inputs	3.81 %	3.34
GNMA interest-only(3)	632,175	(2)28,311	26,194	Internal model, third-party inputs	4.26 %	5.22
GNMA construction securities(1)	27,091	27,581	28,639	Internal model, third-party inputs	3.86 %	9.33
GNMA permanent securities(1)	16,249	16,685	16,455	Internal model, third-party inputs	3.94 %	5.43
Mortgage loan receivables held for investment, at amortized cost	1,749,556	1,738,645	1,756,774	Discounted Cash Flow(4)	7.56 %	1.38
Mortgage loan receivables held for sale	571,638	571,764	582,277	Internal model, third-party inputs(5)	4.56 %	6.20
FHLB stock(6)	77,915	77,915	77,915	(6)	3.50 %	N/A
Nonhedge derivatives(1)(7)	868,700	N/A	2,821	Counterparty quotations	N/A	0.69
Liabilities:						
Repurchase agreements - short-term	1,224,942	1,224,942	1,224,942	Discounted Cash Flow(8)	1.67 %	0.43
Repurchase agreements - long-term	35,813	35,813	35,813	Discounted Cash Flow(9)	1.87 %	1.40
Mortgage loan financing	540,764	544,663	557,841	Discounted Cash Flow(9)	4.86 %	7.93
Borrowings from the FHLB	1,856,700	1,856,700	1,861,584	Discounted Cash Flow	0.84 %	1.42
Senior unsecured notes	619,555	612,605	591,357	Broker quotations, pricing services	6.65 %	3.61
Nonhedge derivatives(1)(7)	374,200	N/A	5,504	Counterparty quotations	N/A	3.42

(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.
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.
- (4) Fair value for fixed rate mortgage loan receivables, held for investment is measured using a hypothetical securitization model utilizing market data from recent securitization spreads and pricing.
- (5) 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.
- (6) 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.
- (7) The outstanding face amount of the nonhedge derivatives represents the notional amount of the underlying contracts.
Fair value for repurchase agreement liabilities 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.
- (8) For the 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.
- (9)
-

Table of Contents

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, 2016 and December 31, 2015 (\$ in thousands):

September 30, 2016

Financial Instruments Reported at Fair Value on Combined Consolidated Statements of Financial Condition	Outstanding Face Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Assets:					
CMBS(1)	\$ 2,169,241	\$—	\$2,241,393		\$2,241,393
CMBS interest-only(1)	8,626,247	(2)—	347,367		347,367
GNMA interest-only(3)	519,846	(2)—	19,356		19,356
Agency securities(1)	798	—	830		830
GNMA permanent securities(1)	40,120	—	42,013		42,013
Nonhedge derivatives(4)	241,011	—254	—		254
		\$—254	\$2,650,959		\$2,651,213
Liabilities:					
Nonhedge derivatives(4)	1,035,500	\$—9,368	\$—		\$9,368
Financial Instruments Not Reported at Fair Value on Combined Consolidated Statements of Financial Condition					
	Outstanding Face Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Assets:					
Mortgage loan receivable held for investment	\$ 1,654,554	\$—	\$1,664,661		\$1,664,661
Mortgage loan receivable held for sale	783,441	—	812,655		812,655
FHLB stock	77,915	—	77,915		77,915
		\$—	\$2,555,231		\$2,555,231
Liabilities:					
Repurchase agreements - short-term	1,320,470	\$—	\$1,320,470		\$1,320,470
Repurchase agreements - long-term	137,857	—	137,857		137,857
Revolving credit facility	100,000	—	100,000		100,000
Mortgage loan financing	573,435	—	610,789		610,789
Mortgage loan receivable financing	63,177	—	63,177		63,177
Borrowings from the FHLB	1,844,700	—	1,857,780		1,857,780
Senior unsecured notes	563,872	—	552,794		552,794
		\$—	\$4,642,867		\$4,642,867

(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.

Table of Contents

December 31, 2015

Financial Instruments Reported at Fair Value on Combined Consolidated Statements of Financial Condition	Outstanding Face Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Assets:					
CMBS(1)	\$ 1,972,492	\$—	\$—	\$1,991,506	\$1,991,506
CMBS interest-only(1)	7,436,379	(3)—	—	344,423	344,423
GNMA interest-only(2)	632,175	(3)—	—	26,194	26,194
GNMA construction securities(1)	27,091	—	—	28,639	28,639
GNMA permanent securities(1)	16,249	—	—	16,455	16,455
Nonhedge derivatives(4)	868,700	—	2,821	—	2,821
		\$—	\$2,821	\$2,407,217	\$2,410,038
Liabilities:					
Nonhedge derivatives(4)	374,200	—	5,504	—	5,504

Financial Instruments Not Reported at Fair Value on Combined Consolidated Statements of Financial Condition	Outstanding Face Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Assets:					
Mortgage loan receivable held for investment	1,749,556	—	—	1,756,774	1,756,774
Mortgage loan receivable held for sale	571,638	—	—	582,277	582,277
FHLB stock	77,915	—	—	77,915	77,915
		\$—	\$—	\$2,416,966	\$2,416,966
Liabilities:					
Repurchase agreements - short-term	1,224,942	—	—	1,224,942	1,224,942
Repurchase agreements - long-term	35,813	—	—	35,813	35,813
Mortgage loan financing	540,764	—	—	557,841	557,841
Borrowings from the FHLB	1,856,700	—	—	1,861,584	1,861,584
Senior unsecured notes	619,555	—	—	591,357	591,357
		\$—	\$—	\$4,271,537	\$4,271,537

(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.

Table of Contents

The following table summarizes changes in Level 3 financial instruments reported at fair value on the combined consolidated statements of financial condition for the nine months ended September 30, 2016 and 2015 (\$ in thousands):

Level 3	2016	2015
Balance at January 1,	\$2,407,217	\$2,683,744
Transfer from level 2	—	86,577
Purchases	853,341	574,433
Sales	(308,429)	(783,189)
Paydowns/maturities	(307,847)	(116,390)
Amortization of premium/discount	(56,151)	(50,630)
Unrealized gain/(loss)	53,304	(3,575)
Realized gain/(loss) on sale	9,524	24,412
Balance at September 30,	\$2,650,959	\$2,415,382

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, 2016

Financial Instrument	Carrying Value	Valuation Technique	Unobservable Input	Minimum	Weighted Average	Maximum
CMBS (1)	\$2,241,393	Discounted cash flow	Yield (4)	(0.11)%	2.59 %	19.14 %
			Duration (years)(5)	0.00	3.76	9.15
CMBS interest-only (1)	347,367	(2) Discounted cash flow	Yield (4)	2.35 %	3.4 %	4.11 %
			Duration (years)(5)	0.97	3.12	4.51
			Prepayment speed (CPY)(5)	100.00	100.00	100.00
GNMA interest-only (3)	19,356	(2) Discounted cash flow	Yield (4)	(8.39)%	6.28 %	45.01 %
			Duration (years)(5)	0.13	2.37	6.67
			Prepayment speed (CPJ)(5)	5.00	13.88	35.00
Agency securities (1)	830	Discounted cash flow	Yield (4)	1.4 %	1.72 %	1.92 %
			Duration (years)(5)	0.00	3.59	5.83
GNMA permanent securities (1)	42,013	Discounted cash flow	Yield (4)	2.68 %	3.63 %	6.76 %
			Duration (years)(5)	1.35	8.61	10.16
Total	\$2,650,959					

CMBS, CMBS interest-only securities, Agency securities, GNMA construction securities, and GNMA permanent (1) securities 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.

- (3) The amounts presented represent the principal amount of the mortgage loans outstanding in the pool in which the interest-only securities participate.

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.

Table of Contents

December 31, 2015

Financial Instrument	Carrying Value	Valuation Technique	Unobservable Input	Minimum	Weighted Average	Maximum
CMBS (1)	\$1,991,506	Discounted cash flow	Yield (3)	—	% 2.19	% 9.21
			Duration (years)(4)	0.00	4.06	7.91
CMBS interest-only (1)	344,423	(2) Discounted cash flow	Yield (3)	0.09	% 4.13	% 4.51
			Duration (years)(4)	1.90	3.30	4.24
			Prepayment speed (CPY)(4)	100.00	100.00	100.00
GNMA interest-only (3)	26,194	(2) Discounted cash flow	Yield (4)	—	% 9.21	% 10
			Duration (years)(5)	0.32	2.41	5.18
			Prepayment speed (CPJ)(5)	5.00	14.57	35.00
Agency securities (1)	28,639	Discounted cash flow	Yield (4)	0.58	% 3.47	% 3.51
			Duration (years)(5)	0.00	10.34	10.48
GNMA permanent securities (1)	16,455	Discounted cash flow	Yield (4)	—	% 3.25	% 6.62
			Duration (years)(5)	1.66	5.72	7.21
Total	\$2,407,217					

CMBS, CMBS interest-only securities, GNMA construction securities, and GNMA permanent securities are (1) 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.

Sensitivity of the Fair Value to Changes in the Unobservable Inputs

(3) Significant increase (decrease) in the unobservable input in isolation would result in significantly lower (higher) fair value measurement.

(4) 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.

Table of Contents

9. 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, 2016 and December 31, 2015 (\$ in thousands):

September 30, 2016

Contract Type	Notional	Fair Value		Remaining Maturity (years)
		Asset	Liability(1)	
Futures				
5-year Swap	\$643,200	\$99	\$ 1,607	0.25
10-year Swap	517,500	58	2,816	0.25
5-year U.S. Treasury Note	21,200	5	2	0.25
10-year U.S. Treasury Note Ultra	1,100	2	—	0.25
Total futures	1,183,000	164	4,425	
Swaps				
3 Month LIBOR	50,000	—	4,474	3.97
Credit derivatives				
CMBX	10,000	79	—	5.32
CDX	33,500	—	469	2.18
S&P 500 PUT OPTION 12/16/16	11	11	—	0.21
Total credit derivatives	43,511	90	469	
Total derivatives	\$1,276,511	\$254	\$ 9,368	

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

December 31, 2015

Contract Type	Notional	Fair Value		Remaining Maturity (years)
		Asset(1)	Liability(1)	
Futures				
5-year Swap	670,100	2,122	—	0.25
10-year Swap	477,900	463	1,451	0.25
5-year U.S. Treasury Note	800	3	—	0.25
10-year U.S. Treasury Note	600	3	—	0.25
Total futures	1,149,400	2,591	1,451	
Swaps				
3 Month LIBOR	50,000	—	3,686	4.72
Credit Derivatives				
CMBX	10,000	230	—	5.59
CDX	33,500	—	367	2.92
Total credit derivatives	43,500	230	367	
Total derivatives	\$1,242,900	\$2,821	\$ 5,504	

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

51

Table of Contents

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 combined consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 (\$ in thousands):

Contract Type	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
	Unrealized Gain/(Loss)	Realized Gain/(Loss)	Net Result from Derivative Transactions	Unrealized Gain/(Loss)	Realized Gain/(Loss)	Net Result from Derivative Transactions
Futures	\$16,876	\$ (7,617)	\$ 9,259	\$ (5,401)	\$ (58,634)	\$ (64,035)
Swaps	683	(311)	372	(582)	(972)	(1,554)
Credit Derivatives	(176)	(99)	(275)	(290)	(269)	(559)
Total	\$17,383	\$ (8,027)	\$ 9,356	\$ (6,273)	\$ (59,875)	\$ (66,148)

Contract Type	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Unrealized Gain/(Loss)	Realized Gain/(Loss)	Net Result from Derivative Transactions	Unrealized Gain/(Loss)	Realized Gain/(Loss)	Net Result from Derivative Transactions
Futures	\$ (13,281)	\$ (27,990)	\$ (41,271)	\$ (8,468)	\$ (44,400)	\$ (52,868)
Swaps	(768)	(476)	(1,244)	(306)	(1,574)	(1,880)
Credit Derivatives	291	(18)	273	367	(213)	154
Total	\$ (13,758)	\$ (28,484)	\$ (42,242)	\$ (8,407)	\$ (46,187)	\$ (54,594)

The Company's counterparties held \$30.7 million and \$18.9 million of cash margin as collateral for derivatives as of September 30, 2016 and December 31, 2015, respectively, which is included in cash collateral held by broker in the combined consolidated balance sheets.

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, 2016 and December 31, 2015, the Company was in compliance with these requirements and not in default on its indebtedness. As of September 30, 2016 and December 31, 2015, there was \$6.2 million and \$5.9 million of cash collateral held by the derivative counterparties for these derivatives, respectively, included in cash collateral held by brokers in the combined consolidated statements of financial condition. No additional cash would be required to be posted if the acceleration of payment under the derivatives was triggered.

Table of Contents

10. 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, 2016 and December 31, 2015. 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 than 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, 2016

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 Financial instruments	Cash collateral received/(posted)(1)	Net amount
Derivatives	\$ 254	\$ —	\$ 254	\$ —	\$ —	\$ 254
Total	\$ 254					