Ladder Capital Corp
Form 10-Q
May 04, 2018
Table of Contents

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

Or

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

For the transition period from to

Commission file number:
001-36299

Ladder Capital Corp
(Exact name of registrant as specified in its charter)

Delaware	80-0925494
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
345 Park Avenue, New York	10154
(Address of principal executive offices)	(Zip Code)

(212) 715-3170
(Registrant's telephone number, including area code)

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

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 ý No o

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

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

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

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

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 May 3, 2018
Class A Common Stock, $0.001 par value	97,959,669
Class B Common Stock, $0.001 par value	13,317,419

Table of Contents

LADDER CAPITAL CORP

FORM 10-Q
March 31, 2018

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 our Annual Report on Form 10-K for the year ended December 31, 2017 ("Annual Report"), as well as our consolidated financial statements, related notes, and the other financial information appearing elsewhere in this Quarterly Report and our other filings with the United States Securities and Exchange Commission ("SEC");
- changes in general economic conditions, in our industry and in the commercial finance and the real estate markets;
- changes to our business and investment strategy;
- our ability to obtain and maintain financing arrangements;
- the financing and advance rates for our assets;
- our actual and expected leverage and liquidity;
- the adequacy of collateral securing our loan portfolio and a decline in the fair value of our assets;
- interest rate mismatches between our assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our assets;
- changes in prepayment rates on our mortgages and the loans underlying our mortgage-backed and other asset-backed securities;
- the effects of hedging instruments and the degree to which our hedging strategies may or may not protect us from interest rate and credit risk volatility;
- the increased rate of default or decreased recovery rates on our assets;
- the adequacy of our policies, procedures and systems for managing risk effectively;
- a potential downgrade in the credit ratings assigned to our investments;
- our compliance with, and the impact of and changes in, governmental regulations, tax laws and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes and our ability and the ability of our subsidiaries to operate in compliance with REIT requirements;
- our ability and the ability of our subsidiaries to maintain our and their exemptions from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act");
- potential liability relating to environmental matters that impact the value of properties we may acquire or the properties underlying our investments;
- the inability of insurance covering real estate underlying our loans and investments to cover all losses;
- the availability of investment opportunities in mortgage-related and real estate-related instruments and other securities;

- fraud by potential borrowers;
- the availability of qualified personnel;
- the impact of the Tax Cuts and Jobs Act and/or estimates concerning the impact of the Tax Cuts and Jobs Act, which are subject to change based on further analysis and/or IRS guidance;
- the degree and nature of our competition; and
- the market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy.

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.

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" r (1) prior to the February 2014 initial public offering ("IPO") of the Class A common stock of Ladder Capital Corp and related transactions, to LCFH ("Predecessor") and its consolidated subsidiaries and (2) after our IPO and related transactions, to Ladder Capital Corp and its consolidated subsidiaries.

Table of Contents

Part I - Financial Information

Item 1. Financial Statements (Unaudited)

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

Index to Consolidated Financial Statements (Unaudited)

Table of Contents

Ladder Capital Corp
Consolidated Balance Sheets
(Dollars in Thousands)

	March 31, 2018(1) (Unaudited)	December 31, 2017(1)
Assets		
Cash and cash equivalents	$68,373	$76,674
Restricted cash	44,786	106,009
Mortgage loan receivables held for investment, net, at amortized cost:		
Mortgage loans held by consolidated subsidiaries	3,528,185	3,282,462
Provision for loan losses	(7,000)	(4,000)
Mortgage loan receivables held for sale	273,636	230,180
Real estate securities	1,100,105	1,106,517
Real estate and related lease intangibles, net	980,859	1,032,041
Investments in unconsolidated joint ventures	34,564	35,441
FHLB stock	77,915	77,915
Derivative instruments	92	888
Accrued interest receivable	27,225	25,875
Other assets	102,554	55,613
Total assets	$6,231,294	$6,025,615
Liabilities and Equity		
Liabilities		
Debt obligations, net:		
Secured and unsecured debt obligations	$4,624,608	$4,379,826
Due to brokers	—	14
Derivative instruments	—	2,606
Amount payable pursuant to tax receivable agreement	1,570	1,656
Dividends payable	1,228	30,528
Accrued expenses	38,941	59,619
Other liabilities	61,655	63,220
Total liabilities	4,728,002	4,537,469
Commitments and contingencies (Note 18)	—	—
Equity		
Class A common stock, par value $0.001 per share, 600,000,000 shares authorized; 100,634,049 and 96,258,847 shares issued and 97,956,103 and 93,641,260 shares outstanding	99	94
Class B common stock, par value $0.001 per share, 100,000,000 shares authorized; 13,317,419 and 17,667,251 shares issued and outstanding	13	18
Additional paid-in capital	1,368,548	1,306,136
Treasury stock, 2,677,947 and 2,617,587 shares, at cost	(32,684)	(31,956)
Dividends in Excess of Earnings	(18,659)	(39,112)
Accumulated other comprehensive income (loss)	(7,880)	(212)
Total shareholders’ equity	1,309,437	1,234,968
Noncontrolling interest in operating partnership	184,201	240,861
Noncontrolling interest in consolidated joint ventures	9,654	12,317
Total equity	1,503,292	1,488,146
Total liabilities and equity	$6,231,294	$6,025,615

(1) Includes amounts relating to consolidated variable interest entities. See Note 3.

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

Table of Contents

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

	Three Months Ended March 31,	
	2018	2017
Net interest income		
Interest income	$78,206	$57,512
Interest expense	44,713	31,415
Net interest income	33,493	26,097
Provision for loan losses	3,000	—
Net interest income after provision for loan losses	30,493	26,097
Other income		
Operating lease income	24,560	19,630
Tenant recoveries	3,577	1,579
Sale of loans, net	4,888	(999)
Realized gain (loss) on securities	(1,099)	5,361
Unrealized gain (loss) on Agency interest-only securities	204	159
Realized gain on sale of real estate, net	31,010	2,331
Fee and other income	6,252	4,466
Net result from derivative transactions	14,959	(1,981)
Earnings (loss) from investment in unconsolidated joint ventures	52	(74)
Gain (loss) on extinguishment of debt	(69)	(54)
Total other income	84,334	30,418
Costs and expenses		
Salaries and employee benefits	17,096	16,042
Operating expenses	5,548	5,479
Real estate operating expenses	8,817	7,454
Fee expense	843	693
Depreciation and amortization	10,823	8,592
Total costs and expenses	43,127	38,260
Income (loss) before taxes	71,700	18,255
Income tax expense (benefit)	3,902	(1,375)
Net income (loss)	67,798	19,630
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	(8,422)	(322)
Net (income) loss attributable to noncontrolling interest in operating partnership	(8,501)	(5,838)
Net income (loss) attributable to Class A common shareholders	$50,875	$13,470

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

Table of Contents

	Three Months Ended March 31,	
	2018	2017
Earnings per share:		
Basic	$0.53	$ 0.18
Diluted	$0.53	$ 0.18
Weighted average shares outstanding:		
Basic	95,187,312	76,871,990
Diluted	95,389,219	109,334,847
Dividends per share of Class A common stock (Note 12)	$0.315	$ 0.300

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

Table of Contents

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

	Three Months Ended March 31, 2018	2017
Net income (loss)	$67,798	$19,630
Other comprehensive income (loss)		
Unrealized gain (loss) on securities, net of tax:		
Unrealized gain (loss) on real estate securities, available for sale	(9,956)	10,485
Reclassification adjustment for (gains) included in net income	1,099	(5,734)
Total other comprehensive income (loss)	(8,857)	4,751
Comprehensive income	58,941	24,381
Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures	(8,422)	(322)
Comprehensive income of combined Class A common shareholders and Operating Partnership unitholders	$50,519	$24,059
Comprehensive (income) attributable to noncontrolling interest in operating partnership	(7,172)	(7,472)
Comprehensive income attributable to Class A common shareholders	$43,347	$16,587

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

Table of Contents

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

	Shareholders' Equity								Noncontrolling Interests		
	Class A Common Stock		Class B Common Stock								
	Shares	Par	Shares	Par	Additional Paid-in-Capital	Treasury Stock	Retained Earnings/(Dividends in Excess of Earnings)	Accumulated Other Comprehensive Income (Loss)	Operating Partnership	Consolidated Joint Ventures	Total Sha Equity/Pa Capital
Balance, December 31, 2017	93,641	$94	17,668	$18	$1,306,136	$(31,956)	$(39,112)	$(212)	$240,861	$12,317	$1,488
Contributions	—	—	—	—	—	—	—	—	—	2,635	2,635
Distributions	—	—	—	—	—	—	—	—	(4,273)	(13,720)	(17,993
Amendment of the par value of the Class B shares from no par value per share to $0.001 per share	—	—	—	—	—	—	—	—	—	—	—
Equity based compensation	—	—	—	—	2,400	—	—	—	—	—	2,400
Grants of restricted stock	25	—	—	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Re-issuance of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock and units	(49)	—	—	—	—	(728)	—	—	—	—	(728
Forfeitures	(11)	—	—	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	—	—	—	(30,422)	—	—	—	(30,422
Stock dividends	—	—	—	—	—	—	—	—	—	—	—
Exchange of noncontrolling interest for	4,350	5	(4,350)	(5)	60,110	—	—	(143)	(59,654)	—	313

common stock											
Adjustment for deferred taxes/tax receivable agreement as a result of the exchange of Class B shares	—	—	—	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	—	—	—	50,875	—	8,501	8,422	67,798
Other comprehensive income (loss)	—	—	—	—	—	—	—	(7,528)	(1,329)	—	(8,857
Rebalancing of ownership percentage between Company and Operating Partnership	—	—	—	—	(98)	—	—	3	95	—	—
Balance, March 31, 2018	97,956	$99	13,318	$13	$1,368,548	$(32,684)	$(18,659)	$(7,880)	$184,201	$9,654	$1,503

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

Table of Contents

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

	Shareholders' Equity								Noncontrolling Interests		
	Class A Common Stock		Class B Common Stock								
	Shares	Par	Shares	Par	Additional Paid-in-Capital	Treasury Stock	Retained Earnings/(Dividends in Excess of Earnings)	Accumulated Other Comprehensive Income (Loss)	Operating Partnership	Consolidated Joint Ventures	Total Sh Equity/P Capital
Balance, December 31, 2016	71,586	$72	38,003	$38	$992,307	$(11,244)	$(11,148)	$1,365	$533,246	$4,918	$1,50
Contributions	—	—	—	—	—	—	—	—	—	7,479	7,479
Distributions	—	—	—	—	—	—	—	—	(42,218)	(306)	(42,52
Equity based compensation	—	—	—	—	18,965	—	—	—	—	—	18,96
Grants of restricted stock	1,997	1	—	—	(1)	—	—	—	—	—	—
Purchase of treasury stock	(190)	—	—	—	—	(2,588)	—	—	—	—	(2,588
Shares acquired to satisfy minimum required federal and state tax withholding on vesting restricted stock and units	(1,323)	(1)	—	—	—	(18,124)	—	—	—	—	(18,12
Forfeitures	(10)	—	—	—	—	—	—	—	—	—	—
Dividends declared	—	—	—	—	—	—	(105,921)	—	—	—	(105,9
Stock dividends	814	1	432	1	17,317	—	(17,319)	—	—	—	—
Exchange of noncontrolling interest for common stock	20,767	21	(20,767)	(21)	280,714	—	—	1,696	(284,763)	—	(2,353
Net income (loss)	—	—	—	—	—	—	95,276	—	30,377	226	125,87
Other comprehensive income (loss)	—	—	—	—	—	—	—	(2,915)	695	—	(2,220
Rebalancing of ownership percentage between	—	—	—	—	(3,166)	—	—	(358)	3,524	—	—

Company and Operating Partnership Balance, December 31, 2017	93,641	$94	17,668	$18	$1,306,136	$(31,956)	$(39,112)	$(212)	$240,861	$12,317	$1,48

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

11

Table of Contents

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$67,798	$19,630
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
(Gain) loss on extinguishment of debt	69	54
Depreciation and amortization	10,823	8,592
Unrealized (gain) loss on derivative instruments	(1,772)	5,649
Unrealized (gain) loss on Agency interest-only securities	(204)	(159)
Unrealized (gain) loss on investment in mutual fund	(43)	(40)
Provision for loan losses	3,000	—
Amortization of equity based compensation	2,400	7,254
Amortization of deferred financing costs included in interest expense	2,328	2,436
Amortization of premium on mortgage loan financing	(253)	(226)
Amortization of above- and below-market lease intangibles	(382)	(25)
Amortization of premium/(accretion) of discount and other fees on loans	(4,794)	(2,468)
Amortization of premium/(accretion) of discount and other fees on securities	1,000	1,483
Realized (gain) loss on sale of mortgage loan receivables held for sale	(4,888)	999
Realized (gain) loss on real estate securities	1,099	(5,361)
Realized gain on sale of real estate, net	(31,010)	(2,331)
Realized gain on sale of derivative instruments	(13)	—
Origination of mortgage loan receivables held for sale	(532,878)	(279,898)
Repayment of mortgage loan receivables held for sale	133	247
Proceeds from sales of mortgage loan receivables held for sale	439,261 (1)	—
(Income) loss from investments in unconsolidated joint ventures in excess of distributions received	(52)	74
Deferred tax asset (liability)	443	(2,728)
Payments pursuant to tax receivable agreement	—	(230)
Changes in operating assets and liabilities:		
Accrued interest receivable	(1,349)	(2,826)
Other assets	6,157	29,476
Accrued expenses and other liabilities	(21,991)	(22,781)
Net cash provided by (used in) operating activities	(65,118)	(243,179)

Table of Contents

	Three Months Ended March 31, 2018	2017
Cash flows from investing activities:		
Purchase of derivative instruments	—	(199)
Sale of derivative instruments	114	—
Purchases of real estate securities	(135,072)	(43,572)
Repayment of real estate securities	2,954	74,285
Proceeds from sales of real estate securities	122,356	361,323
Origination of mortgage loan receivables held for investment	(434,632)	(249,829)
Repayment of mortgage loan receivables held for investment	194,303	68,251
Basis recovery of Agency interest-only securities	5,407	17,874
Capital distribution from investment in unconsolidated joint ventures	1,250	—
Capitalization of interest on investment in unconsolidated joint ventures	(322)	(234)
Purchases of real estate	(24,466)	(3,892)
Capital improvements of real estate	(1,883)	(752)
Proceeds from sale of real estate	87,885 (2)	6,325
Net cash provided by (used in) investing activities	(182,106)	229,580
Cash flows from financing activities:		
Deferred financing costs paid	(1,240)	(8,143)
Proceeds from borrowings under debt obligations	1,312,451	2,666,161
Repayment of borrowings under debt obligations	(1,057,704)	(2,231,899)
Cash dividends paid to Class A common shareholders	(59,721)	(48,367)
(Increase) decrease in amount due from trustee included in other assets	—	(302,281)
Capital distributed to noncontrolling interests in operating partnership	(4,273)	(21,034)
Capital contributed by noncontrolling interests in consolidated joint ventures	2,635	—
Capital distributed to noncontrolling interests in consolidated joint ventures	(13,720)	—
Payment of liability assumed in exchange for shares for the minimum withholding taxes on vesting restricted stock	(728)	(13,258)
Net cash provided by (used in) financing activities	177,700	41,179
Net increase (decrease) in cash, cash equivalents and restricted cash	(69,524)	27,580
Cash, cash equivalents and restricted cash at beginning of period	182,683	89,428
Cash, cash equivalents and restricted cash at end of period	$113,159	$117,008

Table of Contents

	Three Months Ended March 31, 2018	2017
Supplemental information:		
Cash paid for interest, net of amounts capitalized	$57,406	$26,773
Cash paid (received) for income taxes	90	(1,147)
Non-cash investing and financing activities:		
Securities and derivatives purchased, not settled	14	(2,167)
Repayment in transit of mortgage loans receivable held for investment	54,803	—
Reduction in proceeds from sales of real estate	11,050	—
Transfer from mortgage loans receivable held for sale to mortgage loans receivable held for investment, at amortized cost	55,403	119,952
Assumption of debt obligations by real estate buyer	(11,050)	—
Exchange of noncontrolling interest for common stock	59,658	93,691
Change in deferred tax asset related to exchanges of noncontrolling interest for common stock	(226)	845
Increase in amount payable pursuant to tax receivable agreement	(86)	40
Rebalancing of ownership percentage between Company and Operating Partnership	95	(4,219)
Dividends declared, not paid	1,228	1,017
Stock dividends	—	17,319

(1) Includes cash proceeds received in the current year that relate to prior year sales of loans of $0.5 million.
(2) Includes cash proceeds received in the current year that relate to prior year sales of real estate of $1.4 million.

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

	March 31, 2018	March 31, 2017	December 31, 2017
Cash and cash equivalents	$68,373	$62,568	$ 76,674
Restricted cash	44,786	54,440	106,009
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	$113,159	$117,008	$ 182,683

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

Table of Contents

Ladder Capital Corp
Notes to Consolidated Financial Statements

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 March 31, 2018, Ladder Capital Corp has a 88.0% 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 consolidated financial statements and LCFH's consolidated financial statements.

Ladder Capital Corp was formed as a Delaware corporation on May 21, 2013. The Company conducted 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. The IPO transactions described herein are referred to as the "IPO 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"), the Company effected an internal realignment as of December 31, 2014. 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 the Company's 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., 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 the Company's internal books and records into two pools within LCFH or such subsidiary, Series TRS and Series REIT (collectively, the "Series"), respectively. Series REIT and Series TRS have separate boards, officers, books and records, bank accounts, and tax identification numbers. 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"). Ladder Capital Corp remains the general partner of Series REIT of LCFH. 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 and Series TRS LP Units are exchangeable for an equal number of shares ("TRS Shares") of LC TRS I (a "TRS Exchange");

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 Series Units and Ladder Capital Corp Class B common stock, is reflected as a noncontrolling interest in

Ladder Capital Corp’s consolidated financial statements.

Table of Contents

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

As a result of the Company's ownership interest in LCFH and LCFH's election under Section 754 of the 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 of March 4, 2015, the Company made the necessary TRS and check-the-box elections began to elect to be taxed as a REIT starting with its tax return for the year ended December 31, 2015, filed in September 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). In the opinion of management, the unaudited financial information for the interim periods presented in this report reflects all normal and recurring adjustments necessary for a fair statement of results of operations, financial position and cash flows. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017, which are included in the Company's Annual Report, as certain disclosures would substantially duplicate those contained in the audited consolidated financial statements have not been included in this interim report. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year. The interim consolidated financial statements have been prepared, without audit, and do not necessarily include all information and footnotes necessary for a fair statement of our consolidated financial position, results of operations and cash flows in accordance with GAAP.

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

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

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

Table of Contents

Use of Estimates

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

- valuation of real estate securities;
- allocation of purchase price for acquired real estate;
- impairment, and useful lives, of real estate;
- useful lives of intangible assets;
- valuation of derivative instruments;
- valuation of deferred tax asset (liability);
- amounts payable pursuant to the Tax Receivable Agreement;
- determination of effective yield for recognition of interest income;
- adequacy of provision for loan losses;
- 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.

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 March 31, 2018 and December 31, 2017. At March 31, 2018 and December 31, 2017, and at various times during the years, the balances exceeded the insured limits.

Restricted Cash

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

Out-of-Period Adjustments

During the first quarter of 2017, the Company recorded an out-of-period adjustment to reduce depreciation expense of $0.8 million related to prior periods. The Company has concluded that this adjustment is not material to the financial position or results of operations for the three months ended March 31, 2017 or any prior periods; accordingly, the Company recorded the related adjustment in the three month period ended March 31, 2017.

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

Table of Contents

Change in Accounting Principle

As more fully described in Note 4, on June 29, 2017, the Company completed its first sponsored securitization transaction whereby it transferred $625.7 million of loans to LCCM 2017-LC26 securitization trust. The Company initially concluded that the transfer restrictions placed on the Third Party Purchaser ("TPP") of the risk retention securities, imposed by the risk retention rules of the Dodd-Frank Act, precluded sale accounting under ASC 860 and, accordingly, the Company originally accounted for the transaction as a financing in its interim financial statements for the periods ended June 30, 2017 and September 30, 2017. As a result of industry discussions, in November 2017 the staff of the Securities and Exchange Commission (the "SEC staff") indicated that, despite such restrictions, they would not take exception to a registrant treating such transfers as sales if they otherwise met all the criteria for sale accounting. The Company believes treatment of such transfers as sales is more consistent with the substance of such transaction and, accordingly, changed its accounting principle to treat such transfers as sales in the quarter ended December 31, 2017. In accordance with generally accepted accounting principles, the Company reflected this change in accounting principle retrospectively to prior interim periods within 2017. The retrospective changes will be reflected in the Company's quarterly reports for the quarters ended June 30, 2018 and September 30, 2018 to the comparable 2017 interim periods.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), that outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most then-current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. ASU 2014-09 was initially scheduled to become effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period; early adoption was not permitted. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) — Deferral of the Effective Date ("ASU 2015-14"), which deferred the effective date of ASU 2014-09 for one year and permitted early adoption as early as the original effective date of ASU 2014-09. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. In 2016, the FASB issued additional guidance to clarify the implementation guidance, ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"); ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2017-10"); 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"), ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients ("ASU 2016-12"); and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers ("ASU 2016-20"). In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) ("ASU 2017-05"). In September 2017, the FASB issued ASU 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission f Prior SEC Staff Announcements and Observer Comments (SEC Update) (“ASU 2017-13”). In November 2017, the FASB issued ASU 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606) (SEC Update) (“ASU 2017-14”). These amendments provide additional clarification and implementation guidance on the previously issued ASU 2014-09.

Under the full retrospective method, a company will apply the rules to contracts in all reporting periods presented, subject to certain allowable exceptions. Under the modified retrospective method, a company will apply the rules to all contracts existing as of January 1, 2018, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to previous rules. The Company believes the effects on its existing accounting policies will be associated with its non-leasing revenue components, specifically the amount, timing and presentation of tenant expense reimbursements revenue. The Company adopted the standard using the modified retrospective approach on January 1, 2018 and there was no cumulative effect adjustment recognized. The Company's revenues impacted by this standard are included in tenant recoveries in the consolidated statements of income.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), which was further amended in February and in March 2018 by ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities ("ASU 2018-03") and ASU 2018-04, Investments—Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update) ("ASU 2018-04") to clarify certain aspects of ASU 2016-01 and to update Securities and Exchange Commission ("SEC") interpretive guidance in connection with the provisions of ASU 2016-01. These updates provide guidance for the recognition, measurement, presentation, and disclosure of financial instruments. Among other changes, the updates require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, and clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entities' other deferred tax assets. These standards are effective for public companies for fiscal years beginning after December 15, 2017, and for interim periods within those fiscal years. The Company adopted the guidance effective January 1, 2018, using the modified retrospective method. Upon adoption, the fair value of the Company's loan portfolio is now presented using an exit price method. Also, the Company is no longer required to disclose the methodologies used for estimating fair value of financial assets and liabilities that are not measured at fair value on a recurring or nonrecurring basis. The remaining requirements of this update did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) ("ASU 2017-09"). The ASU provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. ASU 2017-09 does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions or award classification and would not be required if the changes are considered non-substantive. The amendments of this ASU are effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company adopted the guidance effective January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sale-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous lease standard, Leases (Topic 840). The standard is effective for the Company on January 1, 2019, with an early adoption permitted. The Company continues to evaluate the effect the adoption of ASU 2016-02 will have on the Company's financial position and/or results of operations. The Company currently believes that the adoption of ASU 2016-02 will not have a material impact for operating leases where it is a lessor and will continue to record revenues from rental properties for its operating leases on a straight-line basis. However, for leases where the Company is the lessee, primarily for the Company's corporate headquarters and regional offices, the Company will measure the present value of the future lease payments and recognize a right-of-use asset and corresponding lease liability on its balance sheet.

Table of Contents

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The guidance changes the impairment model for most financial assets. The new model uses a forward-looking expected loss method, which will generally result in earlier recognition of allowances for losses. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Company must apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently assessing the impact of this standard on the consolidated financial statements. In general, the allowance for credit losses is expected to increase when changing from an incurred loss to expected loss methodology. The models and methodologies that are currently used in estimating the allowance for credit losses are being evaluated to identify the changes necessary to meet the requirements of the new standard.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350) (“ASU 2017-04”). The ASU simplifies the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance will be applied prospectively and is effective for annual or any interim goodwill impairment tests in years beginning after December 15, 2019 with early adoption permitted. The Company does not currently expect any impact on its consolidated financial statements as the Company (absent a business combination) has no recorded goodwill.

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

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception, (“ASU 2017-11”). Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently assessing the potential impact of adopting ASU 2017-11 on its financial statements and related disclosures.

In January 2018, the FASB issued ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842, (“ASU 2018-01”). This ASU provides an optional transition practical expedient that, if elected, would not require companies to reconsider their accounting for existing or expired land easements before adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. This ASU will be effective January 1, 2019, and early adoption is permitted. The Company is currently assessing the potential impact of adopting ASU 2018-01 on its financial statements and related disclosures.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), ("ASU 2018-02"). This ASU allows an entity to elect to reclassify the stranded tax effects related to the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income into retained earnings. This ASU will be effective January 1, 2019, and early adoption is permitted. The Company is does not expect the adoption of ASU 2018-02 to have a material impact on its financial statements and related disclosures.

Table of Contents

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 (SEC Update), ("ASU 2018-05"), which included amendments to SEC paragraphs pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB 118"). The pronouncement addresses certain circumstances that may arise for registrants in accounting for the income tax effects of the Tax Cuts and Jobs Act, including when certain income tax effects of the Tax Cuts and Jobs Act are incomplete by the time financial statements are issued. The Company has complied with the amendments related to SAB 118, as discussed further in Note 16.

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

3. CONSOLIDATED VARIABLE INTEREST ENTITIES

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. The Operating Partnership is a VIE and as such, substantially all of the consolidated balance sheet is a consolidated VIE. In addition, the Operating Partnership consolidates the following CLO VIEs ($ in thousands):

	March 31, 2018 Notes 4 & 8	December 31, 2017 Notes 4 & 8
Mortgage loan receivables held for investment, net, at amortized cost	$881,719	880,385
Accrued interest receivable	4,427	4,252
Total assets	$886,146	$884,637
Senior and unsecured debt obligations	$690,507	$689,961
Accrued expenses	1,379	794
Total liabilities	691,887	690,755
Net equity in VIEs (eliminated in consolidation)	194,260	193,882
Total equity	194,260	193,882
Total liabilities and equity	$886,147	$884,637

21

Table of Contents

4. MORTGAGE LOAN RECEIVABLES

March 31, 2018 ($ in thousands)

	Outstanding Face Amount	Carrying Value	Weighted Average Yield (1)		Remaining Maturity (years)
Mortgage loans held by consolidated subsidiaries(2)	$ 3,550,544	$ 3,528,185	7.34	%	1.59
Provision for loan losses	N/A	(7,000)			
Mortgage loan receivables held for investment, net, at amortized cost	3,550,544	3,521,185			
Mortgage loan receivables held for sale	274,090	273,636	5.09	%	9.71
Total	$ 3,824,634	$ 3,794,821	7.19	%	2.18

(1) March 31, 2018 London Interbank Offered Rate (“LIBOR”) rates are used to calculate weighted average yield for floating rate loans.
(2) Includes amounts relating to consolidated variable interest entities. See Note 3.

On June 29, 2017, the Company transferred its interests in $625.7 million of loans to the LCCM 2017-LC26 securitization trust. The assets transferred to the trust were comprised of 34 loans to third parties having a combined outstanding face amount of $549.0 million and a combined carrying value of $547.7 million as well as 23 former intercompany loans secured by certain of the Company’s real estate assets, having a combined principal balance of $76.7 million (which had not previously been recognized for accounting purposes because they eliminated in consolidation). In connection with this transaction, pursuant to the 5% risk retention requirement of the Dodd-Frank Act described in Part I, Item 1A “Risk Factors,” in the Annual Report, the Company (i) retained a $12.9 million restricted “vertical interest” consisting of approximately 2% in each class of securities issued by the trust, which must be held by the Company until the principal balance of the pool has been reduced to a level prescribed by the risk retention rules and (ii) sold an approximately 3% restricted “horizontal interest” in the form of 98% of the controlling classes (excluding the 2% included in the vertical interest) to a TPP, which must be held by the TPP for at least five years. In addition, the Company purchased $62.7 million of securities issued by the trust, which are not restricted.

The Company initially concluded that the transfer restrictions placed on the TPP of the risk retention securities, imposed by the risk retention rules of the Dodd-Frank Act, precluded sale accounting under generally accepted accounting principles and, accordingly, the Company originally accounted for the transaction as a financing. As a result of industry discussions, in November 2017, the SEC staff indicated that, despite such restrictions, they would not take exception to a registrant treating such transfers as sales if they otherwise met all the criteria for sale accounting. The Company believes treatment of such transfers as sales is more consistent with the substance of such transaction, and accordingly, changed its accounting principles to treat such transfers as sales in the quarter ended December 31, 2017. In accordance with generally accepted accounting principles, the Company reflected this change in accounting principle retrospectively to prior interim periods within 2017. The retrospective changes will be reflected in the Company’s quarterly reports for the quarters ended June 30, 2018 and September 30, 2018 to the comparable 2017 interim periods.

In connection with the securitization transaction, the former intercompany loans, which are secured by real estate properties still owned by the Company, will continue to be reported as a financing transaction. As a result of the change in accounting principle, the Company recognized a gain of $26.1 million on the transaction when it closed on June 29, 2017. In addition, upon consummation, the Company recognized $12.9 million and $62.7 million in restricted and unrestricted securities, respectively, which are included in real estate securities on the Company’s consolidated balance sheets. The Company also recognized a liability for $78.8 million for 23 intercompany loans with a combined principal balance of $76.7 million.

As of March 31, 2018, $0.8 billion, or 22.8%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at fixed interest rates and $2.7 billion, or 77.2%, 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 March 31, 2018, $273.6 million, or 100.0%, of the carrying value of our mortgage loan receivables held for sale were at fixed interest rates.

Table of Contents

December 31, 2017 ($ in thousands)

	Outstanding Face Amount	Carrying Value	Weighted Average Yield (1)	Remaining Maturity (years)
Mortgage loans held by consolidated subsidiaries	$ 3,300,709	$ 3,282,462	7.18 %	1.61
Provision for loan losses	N/A	(4,000)		
Mortgage loan receivables held for investment, net, at amortized cost	3,300,709	3,278,462		
Mortgage loan receivables held for sale	232,527	230,180	4.88 %	8.17
Total	3,533,236	3,508,642	7.03 %	2.04

(1) December 31, 2017 LIBOR rates are used to calculate weighted average yield for floating rate loans.

As of December 31, 2017, $0.7 billion, or 22.0%, of the carrying value of our mortgage loan receivables held for investment, at amortized cost, were at fixed interest rates and $2.6 billion, or 78.0%, 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, 2017, $230.2 million, or 100%, of the carrying value of our mortgage loan receivables held for sale were at fixed interest rates.

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

	March 31, 2018		December 31, 2017	
	Outstanding Face Amount	Carrying Value	Outstanding Face Amount	Carrying Value
Mortgage loan receivables held for investment, net, at amortized cost:				
First mortgage loans	$ 3,391,782	$ 3,370,086	$ 3,140,788	$ 3,123,268
Mezzanine loans	158,762	158,099	159,921	159,194
Mortgage loan receivables held for investment, net, at amortized cost	3,550,544	3,528,185	3,300,709	3,282,462
Mortgage loan receivables held for sale				
First mortgage loans	274,090	273,636	232,527	230,180
Total mortgage loan receivables held for sale	274,090	273,636	232,527	230,180
Provision for loan losses	N/A	(7,000)	N/A	(4,000)
Total	$ 3,824,634	$ 3,794,821	$ 3,533,236	$ 3,508,642

Table of Contents

For the three months ended March 31, 2018 and 2017, the activity in our loan portfolio was as follows ($ in thousands):

	Mortgage loan receivables held for investment, net, at amortized cost: Mortgage loans held by consolidated subsidiaries	Provision for loan losses	Mortgage loan receivables held for sale
Balance, December 31, 2017	$3,282,462	$(4,000)	$ 230,180
Origination of mortgage loan receivables	434,632	—	532,878
Purchases of mortgage loan receivables	—	—	—
Repayment of mortgage loan receivables	(249,106)	—	(133)
Proceeds from sales of mortgage loan receivables	—	—	(438,774)
Realized gain on sale of mortgage loan receivables(1)	—	—	4,888
Transfer between held for investment and held for sale(2)	55,403	—	(55,403)
Accretion/amortization of discount, premium and other fees	4,794	—	—
Loan loss provision	—	(3,000)	—
Balance, March 31, 2018	$3,528,185	$(7,000)	$ 273,636

(1) Includes $0.5 million of realized losses on loans related to lower of cost or market adjustments for the three months ended March 31, 2018.

(2) During the three months ended March 31, 2018, the Company reclassified from mortgage loan receivables held for sale to mortgage loan receivables held for investment, net, at amortized cost, three loans with a combined outstanding face amount of $57.6 million, a combined book value of $55.4 million (fair value at date of reclassification) and a remaining maturity of 2.5 years. The loans had been recorded at lower of cost or market prior to their reclassification. The discount to fair value is the result of an increase in market interest rates since the loan's origination and not a deterioration in credit of the borrower or collateral coverage and the Company expects to collect all amounts due under the loan. These transfers have been reflected as non-cash items on the consolidated statement of cash flows for the three months ended March 31, 2018.

	Mortgage loan receivables held for investment, net, at amortized cost: Mortgage loans held by consolidated subsidiaries	Provision for loan losses	Mortgage loan receivables held for sale
Balance, December 31, 2016	$2,000,095	$(4,000)	$ 357,882
Origination of mortgage loan receivables	249,829	—	279,898
Repayment of mortgage loan receivables	(68,251)	—	(247)

Realized gain on sale of mortgage loan receivables(1)	—	—	(999)
Transfer between held for investment and held for sale(2)	119,952	—	(119,952)
Accretion/amortization of discount, premium and other fees	2,468	—	—
Balance, March 31, 2017	$2,304,093	$(4,000)	$ 516,582

(1) Includes $1.0 million of realized losses on loans related to lower of cost or market adjustments for the three months ended March 31, 2017.

(2) During the three months ended March 31, 2017, the Company reclassified from mortgage loan receivables held for sale to mortgage loan receivables held for investment, net, at amortized cost, a loan with an outstanding face amount of $120.0 million, a book value of $119.9 million (fair value at date of reclassification) and a remaining maturity of three years. The loan had been recorded at lower of cost or market prior to its reclassification. The discount to fair value is the result of an increase in market interest rates since the loan's origination and not a deterioration in credit of the borrower or collateral coverage and the Company expects to collect all amounts due under the loan. This transfer has been reflected as a non-cash item on the consolidated statement of cash flows for the three months ended March 31, 2017.

Table of Contents

During the three months ended March 31, 2018, the transfers of financial assets via sales of loans were treated as sales under ASC Topic 860 — Transfers and Servicing.

At March 31, 2018 and December 31, 2017, there was $0.4 million and $0.2 million, respectively, of unamortized discounts included in our mortgage loan receivables held for investment, at amortized cost, on our 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, other than the two loans discussed below, are individually impaired as of March 31, 2018 and none of its loans are individually impaired as of December 31, 2017.

In addition, 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 of $0.3 million, based on a targeted percentage level which it seeks to maintain over the life of the portfolio, as disclosed in the tables below. Historically, with the exception of the two loans discussed below, the Company has not incurred losses on any originated loans.

As of March 31, 2018, two of the Company's loans, which were originated simultaneously as part of a single transaction, and had a carrying value of $26.9 million, were in default. These loans are directly and indirectly secured by the same property and are considered collateral dependent because repayment is expected to be provided solely by the underlying collateral. At the time of the initial loan funding in July 2015, the borrowers faced an uncertain situation as the parent company of the sole tenant of the underlying retail property had just filed for bankruptcy protection. The tenant subsequently vacated the property and the original lease was terminated by the tenant as part of their bankruptcy proceedings. In response to default by the borrowers, the loans were accelerated in March 2016. Subsequently, in August 2016, the borrowers filed for bankruptcy protection. In September 2017, the bankruptcy court approved a replacement lease proposed by the mortgage borrower for the property. That tenant commenced paying rent in September 2017, retroactive to August 2017 as ordered by the bankruptcy court.

The Company placed these loans on non-accrual status in July 2017. In assessing these collateral dependent loans for collectability, the most significant consideration is the fair value of the underlying real estate collateral, which includes an in-place long-dated retail lease. The value of such properties are most significantly affected by the contractual lease payments and the appropriate market discount rates, which are driven by the general interest environment and the retail tenant's credit worthiness. Through December 31, 2017, the Company believed no loss provision was necessary as the estimated fair value of the property less the cost to sell the same exceeded the combined carrying value of the loans.

During the three months ended March 31, 2018, after considering the status of the on-going bankruptcy proceedings, rising interest rates and credit spreads for retail lease properties, the Company recorded a provision for loss on these loans of $2.7 million. The Company continues to pursue all of its legal remedies on these loans.

As of March 31, 2018 and December 31, 2017 there were no other loans on non-accrual status.

Table of Contents

Provision for Loan Losses ($ in thousands)

	Three Months Ended March 31,	
	2018	2017
Provision for loan losses at beginning of period	$4,000	$4,000
Provision for loan losses	3,000	—
Provision for loan losses at end of period	$7,000	$4,000

Table of Contents

5. REAL ESTATE SECURITIES

Commercial mortgage backed securities ("CMBS"), CMBS interest-only securities, Agency securities, Government National Mortgage Association ("GNMA") construction securities and Government National Mortgage Association ("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 March 31, 2018 and December 31, 2017 ($ in thousands):

March 31, 2018

			Gross Unrealized				Weighted Average			
Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value	# of Securities	Rating (1)	Coupon %	Yield %	Remaining Duration (years)
CMBS(2)	$983,104	$991,436	$331	$(9,483)	$982,284 (3)	98	AAA	3.34%	2.89%	2.93
CMBS interest-only(2)(4)	2,492,711	79,162	192	(319)	79,035 (5)	21	AAA	0.87%	3.46%	2.99
GNMA interest-only(4)(6)	165,307	4,540	142	(707)	3,975	13	AA+	0.57%	6.60%	4.04
Agency securities(2)	706	727	—	(29)	698	2	AA+	2.80%	1.77%	2.78
GNMA permanent securities(2)	33,472	33,757	468	(112)	34,113	6	AA+	3.97%	3.62%	5.50
Total	$3,675,300	$1,109,622	$1,133	$(10,650)	$1,100,105	140		1.54%	2.96%	3.02

(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, 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) As more fully described in Note 4, certain securities that were purchased from the LCCM LC-26 securitization trust are designated as risk retention securities under the Dodd-Frank Act and are therefore subject to transfer restrictions over the term of the securitization trust and are classified as held-to-maturity and reported at amortized cost. Includes $11.5 million of such restricted securities.

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

(5) As more fully described in Note 4, certain securities that were purchased from the LCCM LC-26 securitization trust are designated as risk retention securities under the Dodd-Frank Act and are therefore subject to transfer restrictions over the term of the securitization trust and are classified as held-to-maturity and reported at amortized cost. Includes $1.0 million of such restricted securities.

(6) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings. The Company's Agency interest-only securities are considered to be hybrid financial instruments that contain embedded derivatives. As a result, the Company accounts for them as hybrid instruments in their entirety at fair value with changes in fair value recognized in unrealized gain (loss) on Agency interest-only securities in the

consolidated statements of income in accordance with ASC 815.

Table of Contents

December 31, 2017

			Gross Unrealized				Weighted Average			
Asset Type	Outstanding Face Amount	Amortized Cost Basis	Gains	Losses	Carrying Value	# of Securities	Rating (1)	Coupon %	Yield %	Remaining Duration (years)
CMBS(2)	$945,167	$954,397	$2,748	$(3,646)	$953,499	(3)96	AAA	3.28%	2.79%	2.89
CMBS interest-only(2)(4)	3,140,297	112,609	796	(334)	113,071	(5)25	AAA	0.81%	3.16%	3.08
GNMA interest-only(4)(6)	172,916	5,245	157	(925)	4,477	13	AA+	0.58%	6.70%	4.18
Agency securities(2)	720	743	—	(15)	728	2	AA+	2.82%	1.80%	2.94
GNMA permanent securities(2)	33,745	34,386	595	(239)	34,742	6	AA+	3.98%	3.62%	5.66
Total	$4,292,845	$1,107,380	$4,296	$(5,159)	$1,106,517	142		1.37%	2.87%	3.00

(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, 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) As more fully described in Note 4, certain securities which were purchased from the LCCM LC-26 securitization trust are designated as risk retention securities under the Dodd-Frank Act which are subject to transfer restrictions over the term of the securitization trust and are classified as held-to-maturity and reported at amortized cost. Includes $11.7 million of such restricted securities.

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

(5) As more fully described in Note 4, certain securities which were purchased from the LCCM LC-26 securitization trust are designated as risk retention securities under the Dodd-Frank Act which are subject to transfer restrictions over the term of the securitization trust and are classified as held-to-maturity and reported at amortized cost. Includes $1.1 million of such restricted securities.

(6) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings. The Company's Agency interest-only securities are considered to be hybrid financial instruments that contain embedded derivatives. As a result, the Company accounts for them as hybrid instruments in their entirety at fair value with changes in fair value recognized in unrealized gain (loss) on Agency interest-only securities in the consolidated statements of income in accordance with ASC 815.

The following is a breakdown of the carrying value of the Company's securities by remaining maturity based upon expected cash flows at March 31, 2018 and December 31, 2017 ($ in thousands):

March 31, 2018

Asset Type	Within 1 year	1-5 years	5-10 years	After 10 years	Total
CMBS(1)	$ 291,904	$516,442	$173,938	$ —	$982,284

CMBS interest-only(1)	334	78,701	—	—	79,035
GNMA interest-only(2)	74	3,440	452	9	3,975
Agency securities(1)	—	698	—	—	698
GNMA permanent securities(1)	—	1,713	32,400	—	34,113
Total	$ 292,312	$600,994	$206,790	$ 9	$1,100,105

28

Table of Contents

December 31, 2017

Asset Type	Within 1 year	1-5 years	5-10 years	After 10 years	Total
CMBS(1)	$ 285,982	$544,278	$123,239	$ —	$953,499
CMBS interest-only(1)	537	112,534	—	—	113,071
GNMA interest-only(2)	76	3,906	484	11	4,477
Agency securities(1)	—	728	—	—	728
GNMA permanent securities(1)	—	1,797	32,945	—	34,742
Total	$ 286,595	$663,243	$156,668	$ 11	$1,106,517

(1) CMBS, CMBS interest-only securities, Agency 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.

(2) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

There were $1.0 million and $0.4 million of realized losses on securities recorded as other than temporary impairments for the three months ended March 31, 2018 and 2017, respectively. The determination of whether a security is other-than-temporarily impaired involves judgments and assumptions based on subjective and objective factors. Consideration is given to (i) the length of time and the extent to which the fair value has been less than amortized cost, (ii) the financial condition and near-term prospects of recovery in fair value of the security, and (iii) the Company's intent to sell the security and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. The Company has no intention to sell the securities before recovery of its amortized cost basis. 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

6. REAL ESTATE AND RELATED LEASE INTANGIBLES, NET

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

	March 31, 2018	December 31, 2017
Land	$173,811	$213,992
Building	793,504	789,622
In-place leases and other intangibles	179,418	189,490
Less: Accumulated depreciation and amortization	(165,874)	(161,063)
Real estate and related lease intangibles, net	$980,859	$1,032,041
Below market lease intangibles, net (other liabilities)	$(42,000)	$(42,607)

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

	Three Months Ended March 31,	
	2018	2017
Depreciation expense (1)	$7,786	$5,720
Amortization expense	3,018	2,849
Total real estate depreciation and amortization expense	$10,804	$8,569

(1) Depreciation expense on the consolidated statements of income also includes $19 thousand and $23 thousand of depreciation on corporate fixed assets for the three months ended March 31, 2018 and 2017, respectively.

The Company’s intangible assets are comprised of in-place leases, favorable leases compared to market leases and other intangibles. At March 31, 2018, gross intangible assets totaled $179.4 million with total accumulated amortization of $61.1 million, resulting in net intangible assets of $118.3 million, including $6.1 million of unamortized favorable lease intangibles which are included in real estate and related lease intangibles, net on the consolidated balance sheets. At December 31, 2017, gross intangible assets totaled $189.5 million with total accumulated amortization of $60.9 million, resulting in net intangible assets of $128.6 million, including $8.9 million of unamortized favorable lease intangibles which are included in real estate and related lease intangibles, net on the consolidated balance sheets. For the three months ended March 31, 2018 and 2017, the Company recorded a net reduction in operating lease income of $0.2 million and $0.3 million, respectively, for amortization of above market lease intangibles acquired. For the three months ended March 31, 2018 and 2017, the Company recorded a net increase in operating lease income of $0.6 million and $0.3 million, for amortization of below market lease intangibles acquired, respectively.

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 March 31, 2018 ($ in thousands):

Period Ending December 31,	Amount
2018 (last 9 months)	$7,049
2019	9,389
2020	9,249

2021	8,637
2022	6,359
Thereafter	72,296
Total	$112,979

Table of Contents

There were $0.7 million and $0.9 million of unbilled rent receivables included in other assets on the consolidated balance sheets as of March 31, 2018 and December 31, 2017, respectively.

There was unencumbered real estate of $96.5 million and $128.7 million as of March 31, 2018 and December 31, 2017, respectively.

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 March 31, 2018 ($ in thousands):

Period Ending December 31,	Amount
2018 (last 9 months)	$75,456
2019	95,873
2020	88,398
2021	86,142
2022	80,847
Thereafter	564,298
Total	$