MICROSOFT CORP
Form 10-Q
April 24, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to

Commission File Number: 001-37845

MICROSOFT CORPORATION

(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	91-1144442 (I.R.S. Employer Identification No.)
One Microsoft Way, Redmond, Washington (Address of principal executive offices)	98052-6399 (Zip Code)

(425) 882-8080

(Registrant's telephone number, including area code)

None

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

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

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

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

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

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

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

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

Class	Outstanding as of April 18, 2019
Common Stock, $0.00000625 par value per share	7,662,817,920 shares

MICROSOFT CORPORATION

FORM 10-Q

For the Quarter Ended March 31, 2019

INDEX

2

PART I

Item 1

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INCOME STATEMENTS

(In millions, except per share amounts) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Revenue:				
Product	$ 15,448	$ 15,114	$ 48,966	$ 47,338
Service and other	15,123	11,705	43,160	32,937
Total revenue	30,571	26,819	92,126	80,275
Cost of revenue:				
Product	3,441	3,425	12,975	11,903
Service and other	6,729	5,844	19,523	16,708
Total cost of revenue	10,170	9,269	32,498	28,611
Gross margin	20,401	17,550	59,628	51,664
Research and development	4,316	3,715	12,363	10,793
Sales and marketing	4,565	4,335	13,251	12,709
General and administrative	1,179	1,208	3,460	3,483
Operating income	10,341	8,292	30,554	24,679
Other income, net	145	349	538	1,115
Income before income taxes	10,486	8,641	31,092	25,794
Provision for income taxes	1,677	1,217	5,039	18,096
Net income	$ 8,809	$ 7,424	$ 26,053	$ 7,698

Earnings per share:				
Basic	$ 1.15	$ 0.96	$ 3.39	$ 1.00
Diluted	$ 1.14	$ 0.95	$ 3.36	$ 0.99
Weighted average shares outstanding:				
Basic	7,672	7,698	7,679	7,706
Diluted	7,744	7,794	7,759	7,798

Refer to accompanying notes.

PART I

Item 1

COMPREHENSIVE INCOME STATEMENTS

(In millions) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net income	$ 8,809	$ 7,424	$ 26,053	$ 7,698
Other comprehensive income (loss), net of tax:				
Net change related to derivatives	(33)	7	(93)	(106)
Net change related to investments	714	(1,016)	1,334	(2,182)
Translation adjustments and other	67	255	(252)	508
Other comprehensive income (loss)	748	(754)	989	(1,780)
Comprehensive income	$ 9,557	$ 6,670	$ 27,042	$ 5,918

Refer to accompanying notes. Refer to Note 16 – Accumulated Other Comprehensive Income (Loss) for further information.

PART I

Item 1

BALANCE SHEETS

(In millions) (Unaudited)

	March 31, 2019	June 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	$11,212	$11,946
Short-term investments	120,406	121,822
Total cash, cash equivalents, and short-term investments	131,618	133,768
Accounts receivable, net of allowance for doubtful accounts of $336 and $377	19,269	26,481
Inventories	1,951	2,662
Other	7,049	6,751
Total current assets	159,887	169,662
Property and equipment, net of accumulated depreciation of $35,431 and $29,223	33,648	29,460
Operating lease right-of-use assets	7,121	6,686
Equity investments	2,403	1,862
Goodwill	41,861	35,683
Intangible assets, net	8,103	8,053
Other long-term assets	10,258	7,442
Total assets	$263,281	$258,848
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$7,544	$8,617
Current portion of long-term debt	6,515	3,998
Accrued compensation	5,764	6,103
Short-term income taxes	1,950	2,121
Short-term unearned revenue	24,251	28,905
Other	7,837	8,744

Total current liabilities	53,861	58,488
Long-term debt	66,585	72,242
Long-term income taxes	29,514	30,265
Long-term unearned revenue	3,884	3,815
Deferred income taxes	1,838	541
Operating lease liabilities	5,972	5,568
Other long-term liabilities	6,763	5,211
Total liabilities	168,417	176,130
Commitments and contingencies		
Stockholders' equity:		
Common stock and paid-in capital – shares authorized 24,000; outstanding 7,666 and 7,677	77,791	71,223
Retained earnings	18,338	13,682
Accumulated other comprehensive loss	(1,265)	(2,187)
Total stockholders' equity	94,864	82,718
Total liabilities and stockholders' equity	$263,281	$258,848

Refer to accompanying notes.

PART I

Item 1

CASH FLOWS STATEMENTS

(In millions) (Unaudited)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Operations				
Net income	$8,809	$7,424	$26,053	$7,698
Adjustments to reconcile net income to net cash from operations:				
Depreciation, amortization, and other	2,926	2,710	8,758	7,745
Stock-based compensation expense	1,172	969	3,462	2,928
Net recognized gains on investments and derivatives	(95)	(438)	(470)	(1,645)
Deferred income taxes	(320)	(396)	(740)	(2,754)
Changes in operating assets and liabilities:				
Accounts receivable	460	1,285	7,258	5,326
Inventories	12	(75)	710	107
Other current assets	(14)	(149)	(864)	(113)
Other long-term assets	(517)	(213)	(969)	(835)
Accounts payable	(197)	(393)	(1,032)	138
Unearned revenue	20	91	(4,543)	(2,780)
Income taxes	276	645	(879)	17,280
Other current liabilities	649	546	(1,017)	(975)
Other long-term liabilities	339	145	350	346
Net cash from operations	13,520	12,151	36,077	32,466
Financing				
Repayments of short-term debt, maturities of 90 days or less, net	0	(7,373)	0	(7,324)
Proceeds from issuance of debt	0	0	0	7,183
Repayments of debt	0	(4,883)	(3,000)	(9,379)
Common stock issued	274	251	834	747
Common stock repurchased	(4,753)	(3,781)	(14,910)	(8,359)
Common stock cash dividends paid	(3,526)	(3,232)	(10,290)	(9,473)
Other, net	404	(640)	(835)	(946)
Net cash used in financing	(7,601)	(19,658)	(28,201)	(27,551)

Investing				
Additions to property and equipment	(2,565)	(2,934)	(9,874)	(7,652)
Acquisition of companies, net of cash acquired, and purchases of intangible and other assets	(269)	(248)	(2,107)	(454)
Purchases of investments	(5,846)	(26,885)	(42,255)	(105,000)
Maturities of investments	5,893	7,674	14,889	19,252
Sales of investments	1,424	26,256	30,831	90,553
Securities lending payable	0	(19)	0	(90)
Net cash from (used in) investing	(1,363)	3,844	(8,516)	(3,391)
Effect of foreign exchange rates on cash and cash equivalents	18	25	(94)	34
Net change in cash and cash equivalents	4,574	(3,638)	(734)	1,558
Cash and cash equivalents, beginning of period	6,638	12,859	11,946	7,663
Cash and cash equivalents, end of period	$ 11,212	$ 9,221	$ 11,212	$ 9,221

Refer to accompanying notes.

PART I

Item 1

STOCKHOLDERS' EQUITY STATEMENTS

(In millions) (Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Common stock and paid-in capital				
Balance, beginning of period	$ 77,556	$ 70,192	$ 71,223	$ 69,315
Common stock issued	274	251	6,521	747
Common stock repurchased	(1,218)	(995)	(3,433)	(2,572)
Stock-based compensation expense	1,172	969	3,462	2,928
Other, net	7	1	18	0
Balance, end of period	77,791	70,418	77,791	70,418
Retained earnings				
Balance, beginning of period	16,585	8,567	13,682	17,769
Net income	8,809	7,424	26,053	7,698
Common stock cash dividends	(3,518)	(3,225)	(10,592)	(9,696)
Common stock repurchased	(3,538)	(2,792)	(11,482)	(5,797)
Cumulative effect of accounting changes	0	0	677	0
Balance, end of period	18,338	9,974	18,338	9,974
Accumulated other comprehensive income (loss)				
Balance, beginning of period	(2,013)	(399)	(2,187)	627
Other comprehensive income (loss)	748	(754)	989	(1,780)
Cumulative effect of accounting changes	0	0	(67)	0
Balance, end of period	(1,265)	(1,153)	(1,265)	(1,153)
Total stockholders' equity	$ 94,864	$ 79,239	$ 94,864	$ 79,239

Cash dividends declared per common share	$ 0.46	$ 0.42	$ 1.38	$ 1.26

Refer to accompanying notes.

PART I

Item 1

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — ACCOUNTING POLICIES

Accounting Principles

Our unaudited interim consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Microsoft Corporation fiscal year 2018 Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on August 3, 2018.

We have recast certain prior period amounts related to investments, derivatives, and fair value measurements to conform to the current period presentation based on our adoption of the new accounting standard for financial instruments. We have also recast prior period commercial cloud revenue to include the commercial portion of LinkedIn to provide a comparable view of our commercial cloud business performance. The commercial portion of LinkedIn includes LinkedIn Recruiter, Sales Navigator, premium business subscriptions, and other services for organizations. The recast of these prior period amounts had no impact on our consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of Microsoft Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated.

Estimates and Assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples of estimates and assumptions include: for revenue recognition, determining the nature and timing of satisfaction of performance obligations, and determining the standalone selling price of performance obligations, variable consideration, and other obligations such as product returns and refunds; loss contingencies; product warranties; the fair value of and/or potential impairment of goodwill and intangible assets for our reporting units; product life cycles; useful lives of our tangible and intangible assets; allowances for doubtful accounts; the market value of, and demand for, our inventory; stock-based compensation forfeiture rates; when technological feasibility is achieved for our products; the potential outcome of future tax consequences of events that have been recognized on our consolidated financial statements or tax returns; and determining the timing and amount of impairments for investments. Actual results and outcomes may differ from management's estimates and assumptions.

Financial Instruments

Investments

We consider all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. The fair values of these investments approximate their carrying values. In general, investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations.

PART I

Item 1

Debt investments are classified as available-for-sale and realized gains and losses are recorded using the specific identification method. Changes in fair value, excluding other-than-temporary impairments, are recorded in other comprehensive income (“OCI”). Debt investments are impaired when a decline in fair value is judged to be other-than-temporary. Fair value is calculated based on publicly available market information or other estimates determined by management. We employ a systematic methodology on a quarterly basis that considers available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds its fair value, we evaluate, among other factors, general market conditions, credit quality of debt instrument issuers, and the duration and extent to which the fair value is less than cost. We also evaluate whether we have plans to sell the security or it is more likely than not that we will be required to sell the security before recovery. In addition, we consider specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, and operational and financing cash flow factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in other income (expense), net and a new cost basis in the investment is established.

Equity investments with readily determinable fair values are measured at fair value. Equity investments without readily determinable fair values are measured using the equity method, or measured at cost with adjustments for observable changes in price or impairments (referred to as the measurement alternative). We perform a qualitative assessment on a quarterly basis and recognize an impairment if there are sufficient indicators that the fair value of the investment is less than carrying value. Changes in value are recorded in other income (expense), net.

We lend certain fixed-income and equity securities to increase investment returns. These transactions are accounted for as secured borrowings and the loaned securities continue to be carried as investments on our consolidated balance sheets. Cash and/or security interests are received as collateral for the loaned securities with the amount determined based upon the underlying security lent and the creditworthiness of the borrower. Cash received is recorded as an asset with a corresponding liability.

Derivatives

Derivative instruments are recognized as either assets or liabilities and measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

For derivative instruments designated as fair value hedges, gains and losses are recognized in other income (expense), net with offsetting gains and losses on the hedged items. For options designated as fair value hedges, changes in the time value are excluded from the assessment of hedge effectiveness and recognized in other income (expense), net.

For derivative instruments designated as cash flow hedges, the effective portion of the gains and losses are initially reported as a component of OCI and subsequently recognized in revenue when the hedged exposure is recognized in revenue. Gains and losses on derivatives representing either hedge components excluded from the assessment of effectiveness or hedge ineffectiveness are recognized in other income (expense), net.

For derivative instruments that are not designated as hedges, gains and losses from changes in fair values are primarily recognized in other income (expense), net.

Fair Value Measurements

We account for certain assets and liabilities at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – inputs are based upon unadjusted quoted prices for identical instruments in active markets. Our Level 1 investments include U.S. government securities, common and preferred stock, and mutual funds. Our Level 1 derivative assets and liabilities include those actively traded on exchanges.

PART I

Item 1

- Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. the Black-Scholes model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices for currencies. Our Level 2 investments include commercial paper, certificates of deposit, U.S. agency securities, foreign government bonds, mortgage- and asset-backed securities, corporate notes and bonds, and municipal securities. Our Level 2 derivative assets and liabilities primarily include certain over-the-counter option and swap contracts.
- Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models. Our Level 3 assets and liabilities include investments in corporate notes and bonds, and goodwill and intangible assets, when they are recorded at fair value due to an impairment charge. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities.

We measure equity investments without readily determinable fair values on a nonrecurring basis. The fair values of these investments are determined based on valuation techniques using the best information available, and may include quoted market prices, market comparables, and discounted cash flow projections.

Our other current financial assets and current financial liabilities have fair values that approximate their carrying values.

Contract Balances

As of March 31, 2019 and June 30, 2018, long-term accounts receivable, net of allowance for doubtful accounts, were $2.0 billion and $1.8 billion, respectively, and are included in other long-term assets on our consolidated balance sheets.

Recent Accounting Guidance

Recently Adopted Accounting Guidance

Income Taxes – Intra-Entity Asset Transfers

In October 2016, the Financial Accounting Standards Board ("FASB") issued new guidance requiring an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. We adopted the guidance effective July 1, 2018. Adoption of the guidance was applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. We recorded a net cumulative-effect adjustment that resulted in an increase in retained earnings of $557 million, which reversed the previous deferral of income tax consequences and recorded new deferred tax assets from intra-entity transfers involving assets other than inventory, partially offset by a U.S. deferred tax liability related to global intangible low-taxed income ("GILTI"). Adoption of the standard resulted in an increase in long-term deferred tax assets of $2.8 billion, an increase in long-term deferred tax liabilities of $2.1 billion, and a reduction in other current assets of $152 million. As a result of the Tax Cuts and Jobs Act ("TCJA"), we are continuing to evaluate the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems. Adoption of the standard had no impact to cash from or used in operating, financing, or investing on our consolidated cash flows statements.

Financial Instruments – Recognition, Measurement, Presentation, and Disclosure

In January 2016, the FASB issued a new standard related to certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most prominent among the changes in the standard is the requirement for changes in the fair value of our equity investments, with certain exceptions, to be recognized through net income rather than OCI.

PART I

Item 1

We adopted the standard effective July 1, 2018. Adoption of the standard was applied using a modified retrospective approach through a cumulative-effect adjustment from accumulated other comprehensive income (“AOCI”) to retained earnings as of the effective date, and we elected to measure equity investments without readily determinable fair values at cost with adjustments for observable changes in price or impairments. The cumulative-effect adjustment included any previously held unrealized gains and losses held in AOCI related to our equity investments carried at fair value as well as the impact of recording the fair value of certain equity investments carried at cost. The impact on our consolidated balance sheets upon adoption was not material. Adoption of the standard had no impact to cash from or used in operating, financing, or investing on our consolidated cash flows statements.

Recent Accounting Guidance Not Yet Adopted

Financial Instruments – Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued new guidance related to accounting for hedging activities. This guidance expands strategies that qualify for hedge accounting, changes how many hedging relationships are presented in the financial statements, and simplifies the application of hedge accounting in certain situations. The standard will be effective for us beginning July 1, 2019, with early adoption permitted for any interim or annual period before the effective date. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. We evaluated the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems, and do not expect the impact to be material upon adoption.

Financial Instruments – Credit Losses

In June 2016, the FASB issued a new standard to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. We will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for us beginning July 1, 2020, with early adoption permitted beginning July 1, 2019. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align our credit loss methodology with the new standard. We are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

NOTE 2 — EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and stock awards.

The components of basic and diluted EPS were as follows:

	Three Months Ended		Nine Months Ended	
(In millions, except per share amounts)	March 31,		March 31,	
	2019	2018	2019	2018
Net income available for common shareholders (A)	$ 8,809	$ 7,424	$ 26,053	$ 7,698
Weighted average outstanding shares of common stock (B)	7,672	7,698	7,679	7,706
Dilutive effect of stock-based awards	72	96	80	92
Common stock and common stock equivalents (C)	7,744	7,794	7,759	7,798
Earnings Per Share				
Basic (A/B)	$ 1.15	$ 0.96	$ 3.39	$ 1.00
Diluted (A/C)	$ 1.14	$ 0.95	$ 3.36	$ 0.99

PART I

Item 1

Anti-dilutive stock-based awards excluded from the calculations of diluted EPS were immaterial during the periods presented.

NOTE 3 — OTHER INCOME (EXPENSE), NET

The components of other income (expense), net were as follows:

(In millions)	Three Months Ended March 31, 2019	2018	Nine Months Ended March 31, 2019	2018
Interest and dividends income	$ 668	$ 575	$ 2,053	$ 1,578
Interest expense	(671)	(691)	(2,017)	(2,061)
Net recognized gains on investments	44	510	381	1,851
Net gains (losses) on derivatives	51	(72)	89	(206)
Net gains (losses) on foreign currency remeasurements	37	20	(32)	(49)
Other, net	16	7	64	2
Total	$ 145	$ 349	$ 538	$ 1,115

Net Recognized Gains (Losses) on Investments

Net recognized gains (losses) on debt investments were as follows:

(In millions)	Three Months Ended March 31, 2019	2018	Nine Months Ended March 31, 2019	2018
Realized gains from sales of available-for-sale securities	$ 6	$ 4	$ 19	$ 22
Realized losses from sales of available-for-sale securities	(10)	(334)	(100)	(673)

Other-than-temporary impairments of investments	0	(1)	(7)	(6)
Total	$ (4)	$ (331)	$ (88)	$ (657)

Net recognized gains (losses) on equity investments were as follows:

(In millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Net realized gains on investments sold	$ 5	$ 857	$ 238	$ 2,549
Net unrealized gains on investments still held	50	0	241	0
Impairments of investments	(7)	(16)	(10)	(41)
Total	$ 48	$ 841	$ 469	$ 2,508

PART I

Item 1

NOTE 4 — INVESTMENTS

Investment Components

The components of investments were as follows:

(In millions)	Fair Value Level	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
March 31, 2019								
Changes in Fair Value Recorded in Other Comprehensive Income								
Commercial paper	Level 2	$ 1,623	$ 0	$ 0	$ 1,623	$ 1,424	$ 199	$ 0
Certificates of deposit	Level 2	1,738	0	0	1,738	1,517	221	0
U.S. government securities	Level 1	105,168	836	(342)	105,662	0	105,662	0
U.S. agency securities	Level 2	290	0	0	290	0	290	0
Foreign government bonds	Level 2	6,753	2	(10)	6,745	4,002	2,743	0
Mortgage- and asset-backed securities	Level 2	3,427	5	(8)	3,424	0	3,424	0
Corporate notes and bonds	Level 2	7,426	60	(19)	7,467	0	7,467	0
Corporate notes and bonds	Level 3	15	0	0	15	0	15	0
Municipal securities	Level 2	263	41	(1)	303	0	303	0
Total debt investments		$ 126,703	$ 944	$ (380)	$ 127,267	$ 6,943	$ 120,324	$ 0
Equity investments	Level 1				$ 653	$ 383	$ 0	$ 270
Equity investments	Other				2,133	0	0	2,133
Total equity investments					$ 2,786	$ 383	$ 0	$ 2,403
Cash					$ 3,886	$ 3,886	$ 0	$ 0

Derivatives, net [a]	82	0	82	0
Total	$134,021	$ 11,212	$ 120,406	$ 2,403

PART I

Item 1

(In millions)	Fair Value Level	Cost Basis	Unrealized Gains	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-term Investments	Equity Investments
June 30, 2018								
Changes in Fair Value Recorded in								
Other Comprehensive Income								
Commercial paper	Level 2	$ 2,513	$ 0	$ 0	$ 2,513	$ 2,215	$ 298	$ 0
Certificates of deposit	Level 2	2,058	0	0	2,058	1,865	193	0
U.S. government securities	Level 1	108,120	62	(1,167)	107,015	2,280	104,735	0
U.S. agency securities	Level 2	1,742	0	0	1,742	1,398	344	0
Foreign government bonds	Level 1	22	0	0	22	0	22	0
Foreign government bonds	Level 2	5,063	1	(10)	5,054	0	5,054	0
Mortgage- and asset-backed securities	Level 2	3,864	4	(13)	3,855	0	3,855	0
Corporate notes and bonds	Level 2	6,929	21	(56)	6,894	0	6,894	0
Corporate notes and bonds	Level 3	15	0	0	15	0	15	0
Municipal securities	Level 2	271	37	(1)	307	0	307	0
Total debt investments		$ 130,597	$ 125	$ (1,247)	$ 129,475	$ 7,758	$ 121,717	$ 0
Equity investments	Level 1				$ 533	$ 246	$ 0	$ 287
Equity investments	Level 3				18	0	0	18
Equity investments	Other				1,558	0	1	1,557
Total equity investments					$ 2,109	$ 246	$ 1	$ 1,862
Cash					$ 3,942	$ 3,942	$ 0	$ 0
Derivatives, net [(a)]					104	0	104	0
Total					$ 135,630	$ 11,946	$ 121,822	$ 1,862

(a) Refer to Note 5 – Derivatives for further information on the fair value of our derivative instruments.
Equity investments presented as "Other" in the tables above include investments without readily determinable fair values measured using the equity method or measured at cost with adjustments for observable changes in price or impairments, and investments measured at fair value using net asset value as a practical expedient which are not categorized in the fair value hierarchy. As of March 31, 2019 and June 30, 2018, equity investments without readily determinable fair values measured at cost with adjustments for observable changes in price or impairments were $1.2 billion and $697 million, respectively.

As of March 31, 2019, we had no collateral received under agreements for loaned securities. As of June 30, 2018, collateral received under agreements for loaned securities was $1.8 billion and primarily comprised U.S. government and agency securities.

Unrealized Losses on Debt Investments

Debt investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

	Less than 12 Months		12 Months or Greater			
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
March 31, 2019						
U.S. government and agency securities	$6,485	$(23)	$54,161	$(319)	$60,646	$(342)
Foreign government bonds	4,229	(2)	88	(8)	4,317	(10)
Mortgage- and asset-backed securities	989	(3)	561	(5)	1,550	(8)
Corporate notes and bonds	1,024	(6)	1,151	(13)	2,175	(19)
Municipal securities	7	0	13	(1)	20	(1)
Total	$12,734	$ (34)	$ 55,974	$ (346)	$ 68,708	$ (380)

14

PART I

Item 1

	Less than 12 Months		12 Months or Greater			
(In millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
June 30, 2018						
U.S. government and agency securities	$82,352	$(1,064)	$4,459	$(103)	$86,811	$(1,167)
Foreign government bonds	3,457	(7)	13	(3)	3,470	(10)
Mortgage- and asset-backed securities	2,072	(9)	96	(4)	2,168	(13)
Corporate notes and bonds	3,111	(43)	301	(13)	3,412	(56)
Municipal securities	45	(1)	0	0	45	(1)
Total	$91,037	$ (1,124)	$ 4,869	$ (123)	$ 95,906	$ (1,247)

Unrealized losses from fixed-income securities are primarily attributable to changes in interest rates. Management does not believe any remaining unrealized losses represent other-than-temporary impairments based on our evaluation of available evidence.

Debt Investment Maturities

(In millions)	Cost Basis	Estimated Fair Value
March 31, 2019		
Due in one year or less	$48,902	$48,729
Due after one year through five years	51,977	52,189
Due after five years through 10 years	24,920	25,428
Due after 10 years	904	921

Total	$ 126,703	$ 127,267

NOTE 5 — DERIVATIVES

We use derivative instruments to manage risks related to foreign currencies, equity prices, interest rates, and credit; to enhance investment returns; and to facilitate portfolio diversification. Our objectives for holding derivatives include reducing, eliminating, and efficiently managing the economic impact of these exposures as effectively as possible. Our derivative programs include strategies that both qualify and do not qualify for hedge accounting treatment.

Foreign Currency

Certain forecasted transactions, assets, and liabilities are exposed to foreign currency risk. We monitor our foreign currency exposures daily to maximize the economic effectiveness of our foreign currency hedge positions. Option and forward contracts are used to hedge a portion of forecasted international revenue and are designated as cash flow hedging instruments. Principal currencies hedged include the euro, Japanese yen, British pound, Canadian dollar, and Australian dollar.

Foreign currency risks related to certain non-U.S. dollar denominated securities are hedged using foreign exchange forward contracts that are designated as fair value hedging instruments.

Certain options and forwards not designated as hedging instruments are also used to manage the variability in foreign exchange rates on certain balance sheet amounts and to manage other foreign currency exposures.

Equity

Securities held in our equity investments portfolio are subject to market price risk. Market price risk is managed relative to broad-based global and domestic equity indices using certain convertible preferred investments, options, futures, and swap contracts not designated as hedging instruments. In the past, to hedge our price risk, we also used and designated equity derivatives as hedging instruments, including puts, calls, swaps, and forwards.

PART I

Item 1

Other

Interest Rate

Securities held in our fixed-income portfolio are subject to different interest rate risks based on their maturities. We manage the average maturity of our fixed-income portfolio to achieve economic returns that correlate to certain broad-based fixed-income indices using exchange-traded option and futures contracts, and over-the-counter swap and option contracts, none of which are designated as hedging instruments.

In addition, we use “To Be Announced” forward purchase commitments of mortgage-backed assets to gain exposure to agency mortgage-backed securities. These meet the definition of a derivative instrument in cases where physical delivery of the assets is not taken at the earliest available delivery date.

Credit

Our fixed-income portfolio is diversified and consists primarily of investment-grade securities. We use credit default swap contracts, not designated as hedging instruments, to manage credit exposures relative to broad-based indices and to facilitate portfolio diversification. We use credit default swaps as they are a low-cost method of managing exposure to individual credit risks or groups of credit risks.

Credit-Risk-Related Contingent Features

Certain of our counterparty agreements for derivative instruments contain provisions that require our issued and outstanding long-term unsecured debt to maintain an investment grade credit rating and require us to maintain minimum liquidity of $1.0 billion. To the extent we fail to meet these requirements, we will be required to post collateral, similar to the standard convention related to over-the-counter derivatives. As of March 31, 2019, our long-term unsecured debt rating was AAA, and cash investments were in excess of $1.0 billion. As a result, no collateral was required to be posted.

The following table presents the notional amounts of our outstanding derivative instruments measured in U.S. dollar equivalents:

(In millions)	March 31, 2019	June 30, 2018
Designated as Hedging Instruments		
Foreign exchange contracts sold	$7,937	$11,101
Not Designated as Hedging Instruments		

Foreign exchange contracts purchased	8,576	9,425
Foreign exchange contracts sold	10,166	13,374
Equity contracts purchased	50	49
Equity contracts sold	6	5
Other contracts purchased	1,330	878
Other contracts sold	426	472

PART I

Item 1

Fair Values of Derivative Instruments

The following table presents our derivative instruments:

(In millions)	Derivative Assets	Derivative Liabilities	Derivative Assets	Derivative Liabilities
	March 31,		June 30,	
	2019		2018	
Changes in Fair Value Recorded in Other Comprehensive Income				
Designated as Hedging Instruments				
Foreign exchange contracts	$58	$0	$174	$ 0
Changes in Fair Value Recorded in Net Income				
Designated as Hedging Instruments				
Foreign exchange contracts	85	(1)	95	0
Not Designated as Hedging Instruments				
Foreign exchange contracts	109	(114)	256	(197)
Equity contracts	5	(2)	2	(7)
Other contracts	16	(5)	11	(3)
Gross amounts of derivatives	273	(122)	538	(207)
Gross amounts of derivatives offset in the balance sheet	(85)	85	(152)	153
Cash collateral received	0	(49)	0	(235)
Net amounts of derivatives	$188	$(86)	$386	$ (289)

Reported as

Short-term investments	$82	$0	$104	$ 0
Other current assets	100	0	260	0
Other long-term assets	6	0	22	0
Other current liabilities	0	(67)	0	(288)
Other long-term liabilities	0	(19)	0	(1)
Total	$188	$(86)	$386	$ (289)

Gross derivative assets and liabilities subject to legally enforceable master netting agreements for which we have elected to offset were $263 million and $122 million, respectively, as of March 31, 2019, and $533 million and $207 million, respectively, as of June 30, 2018.

The following table presents the fair value of our derivatives instruments on a gross basis:

(In millions)	Level 1	Level 2	Level 3	Total
March 31, 2019				
Derivative assets	$ 0	$270	$ 3	$273
Derivative liabilities	0	(122)	0	(122)
June 30, 2018				
Derivative assets	1	535	2	538
Derivative liabilities	(1)	(206)	0	(207)

17

PART I

Item 1

Fair Value Hedge Gains (Losses)

We recognized in other income (expense), net the following gains (losses) on contracts designated as fair value hedges and their related hedged items:

(In millions)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2019	2018	2019	2018
Foreign Exchange Contracts				
Derivatives	$ 129	$ (260)	$ 140	$ (224)
Hedged items	(81)	288	(19)	298
Total amount of ineffectiveness	$ 48	$ 28	$ 121	$ 74
Equity Contracts				
Derivatives	$ 0	$ 126	$ 0	$ (181)
Hedged items	0	(126)	0	181
Total amount of ineffectiveness	$ 0	$ 0	$ (10) For repurchase agreements - long term and mortgage loan financing, the carrying value approximates the fair value discounting the expected cash flows at current market rates. If the collateral is determined to be impaired, the related financing would be revalued accordingly. There are no impairments on any positions.	

(11) Fair value for Participation Financing - Mortgage Loan Receivable approximates amortized cost as this is a loan participation to a third party.

51

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, 2018 and December 31, 2017 ($ in thousands):

September 30, 2018

Financial Instruments Reported at Fair Value on Consolidated Statements of Financial Condition	Outstanding Face Amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
CMBS(1)	$ 883,416	$—	$ —	$878,741	$878,741
CMBS interest-only(1)	2,272,679 (2)	—	—	61,638	61,638
GNMA interest-only(3)	138,026 (2)	—	—	2,755	2,755
Agency securities(1)	678	—	—	664	664
GNMA permanent securities(1)	32,916	—	—	33,263	33,263
Corporate bonds(1)	1,250	—	—	1,228	1,228
Nonhedge derivatives(4)	43,500	—	57	—	57
		$—	$ 57	$978,289	$978,346
Liabilities:					
Nonhedge derivatives(4)	721,071	$—	$ 280	$—	$280

Financial Instruments Not Reported at Fair Value on Consolidated Statements of Financial Condition	Outstanding Face Amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
Mortgage loan receivable held for investment, net, at amortized cost:					
Mortgage loans held by consolidated subsidiaries	$ 3,830,115	$—	$ —	$3,806,114	$3,806,114
Provision for loan losses	N/A	—	—	(17,600)	(17,600)
Mortgage loan receivable held for sale	377,352	—	—	384,945	384,945
FHLB stock	57,915	—	—	57,915	57,915
		$—	$ —	$4,231,374	$4,231,374
Liabilities:					0
Repurchase agreements - short-term	603,303	$—	$ —	$603,303	$603,303
Repurchase agreements - long-term	370,313	—	—	370,313	370,313
Mortgage loan financing	754,027	—	—	719,689	719,689
CLO debt	672,001	—	—	672,001	672,001
Participation Financing - Mortgage Loan Receivable	2,516	—	—	2,516	2,516
Borrowings from the FHLB	1,212,000	—	—	1,208,116	1,208,116
Senior unsecured notes	1,166,201	—	—	1,142,863	1,142,863
		$—	$ —	$4,718,801	$4,718,801

(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.

Table of Contents

(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.

December 31, 2017

Financial Instruments Reported at Fair Value on Consolidated Statements of Financial Condition	Outstanding Face Amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
CMBS(1)	$ 945,167	$—	$—	$953,499	$953,499
CMBS interest-only(1)	3,140,297 (2)	—	—	113,071	113,071
GNMA interest-only(3)	172,916 (2)	—	—	4,477	4,477
Agency securities(1)	720	—	—	728	728
GNMA permanent securities(1)	33,745	—	—	34,742	34,742
Nonhedge derivatives(4)	594,140	—	888	—	888
		$—	$888	$1,106,517	$1,107,405
Liabilities:					
Nonhedge derivatives(4)	$ 54,160	$—	$2,606	$—	$2,606

Financial Instruments Not Reported at Fair Value on Consolidated Statements of Financial Condition	Outstanding Face Amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
Mortgage loan receivable held for investment, net, at amortized cost:					
Mortgage loans held by consolidated subsidiaries	$ 3,300,709	$—	$—	$3,292,035	$3,292,035
Provision for loan losses	N/A	—	—	(4,000)	(4,000)
Mortgage loan receivables held for sale	232,527	—	—	236,428	236,428
FHLB stock	77,915	—	—	77,915	77,915
		$—	$—	$3,602,378	$3,602,378
Liabilities:					0
Repurchase agreements - short-term	371,427	$—	$—	$371,427	$371,427
Repurchase agreements - long-term	101,983	—	—	101,983	101,983
Mortgage loan financing	692,394	—	—	693,055	693,055
Participation Financing - Mortgage Loan Receivable	688,479	—	—	688,479	688,479
Liability for transfers not considered sales	3,107	—	—	3,107	3,107
Borrowings from the FHLB	1,370,000	—	—	1,369,544	1,369,544
Senior unsecured notes	1,166,201	—	—	1,187,187	1,187,187
		$—	$—	$4,414,782	$4,414,782

(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.

53

Table of Contents

(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.

The following table summarizes changes in Level 3 financial instruments reported at fair value on the consolidated statements of financial condition for the nine months ended September 30, 2018 and 2017 ($ in thousands):

Level 3	2018	2017
Balance at January 1,	$1,106,517	$2,100,947
Transfer from level 2	—	—
Purchases	303,007	184,464
Sales	(306,109)	(993,739)
Paydowns/maturities	(93,185)	(93,232)
Amortization of premium/discount	(17,842)	(49,376)
Unrealized gain/(loss)	(9,203)	4,051
Realized gain/(loss) on sale(1)	(4,896)	19,182
Balance at September 30,	$978,289	$1,172,297

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

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

September 30, 2018

Financial Instrument	Carrying Value	Valuation Technique	Unobservable Input	Minimum	Weighted Average	Maximum
CMBS (1)	$878,741	Discounted cash flow	Yield (4)	— %	3.52 %	21.47 %
			Duration (years)(5)	0.00	2.58	7.79
CMBS interest-only (1)	61,638 (2)	Discounted cash flow	Yield (4)	1.62 %	5.19 %	8.36 %
			Duration (years)(5)	0.31	3.09	7.12
			Prepayment speed (CPY)(5)	100.00	100.00	100.00
GNMA interest-only (3)	2,755 (2)	Discounted cash flow	Yield (4)	— %	5.52 %	10.3 %
			Duration (years)(5)	0.00	3.20	4.52
			Prepayment speed (CPJ)(5)	5.00	12.77	25.00
Agency securities (1)	664	Discounted cash flow	Yield (4)	— %	2.35 %	3.24 %
			Duration (years)(5)	0.00	2.93	4.04
GNMA permanent securities (1)	33,263	Discounted cash flow	Yield (4)	— %	3.58 %	4.28 %
			Duration (years)(5)	0.00	5.85	6.09

Corporate bonds (1)	1,228	Discounted cash flow	Yield (4)	4.42 %	4.42 %	4.42 %
			Duration (years)(5)	2.19	2.19	2.19
Total	$978,289					

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

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

54

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

Sensitivity of the Fair Value to Changes in the Unobservable Inputs

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

December 31, 2017

Financial Instrument	Carrying Value	Valuation Technique	Unobservable Input	Minimum	Weighted Average	Maximum
CMBS (1)	$953,499	Discounted cash flow	Yield (3)	0.61 %	3 %	18.32 %
			Duration (years)(4)	0.12	3.19	7.84
CMBS interest-only (1)	113,071 (2)	Discounted cash flow	Yield (3)	2.7 %	3.52 %	6.31 %
			Duration (years)(4)	0.39	3.06	4.46
			Prepayment speed (CPY)(4)	100.00	100.00	100.00
GNMA interest-only (3)	4,477 (2)	Discounted cash flow	Yield (4)	4.46 %	11.85 %	71.88 %
			Duration (years)(5)	0.44	2.43	5.19
			Prepayment speed (CPJ)(5)	5.00	12.19	35.00
Agency securities (1)	728	Discounted cash flow	Yield (4)	1.4 %	2.16 %	2.52 %
			Duration (years)(5)	0.00	3.22	4.72
GNMA permanent securities (1)	34,742	Discounted cash flow	Yield (4)	2.62 %	3.44 %	6.93 %
			Duration (years)(5)	1.40	5.75	5.94
Total	$1,106,517					

(1) CMBS, CMBS interest-only 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.
(2) The amounts presented represent the principal amount of the mortgage loans outstanding in the pool in which the interest-only securities participate.
(3) Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

Sensitivity of the Fair Value to Changes in the Unobservable Inputs

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

55

Table of Contents

10. 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, 2018 and December 31, 2017 ($ in thousands):

September 30, 2018

Contract Type	Notional	Fair Value Asset(1)	Fair Value Liability(1)	Remaining Maturity (years)
Caps				
1MO LIB	$96,471	$—	$ —	1.60
Futures				
5-year Swap	$231,500	$—	$ 104	0.25
10-year Swap	386,300	—	173	0.25
5-year U.S. Treasury Note	6,800	—	3	0.25
Total futures	624,600	—	280	
Credit derivatives				
VIX	43,500	57	—	0.30
Total credit derivatives	43,500	57	—	
Total derivatives	$764,571	$57	$ 280	

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

December 31, 2017

Contract Type	Notional	Fair Value Asset(1)	Fair Value Liability(1)	Remaining Maturity (years)
Futures				
5-year Swap	304,300	656	—	0.25
10-year Swap	248,100	133	153	0.25
5-year U.S. Treasury Note	11,400	47	—	0.25
10-year U.S. Treasury Note	—	—	911	
Total futures	563,800	836	1,064	
Swaps				
3 Month LIBOR(2)	50,000	—	1,542	2.68
Credit Derivatives				
CDX	34,500	52	—	0.12
Total credit derivatives	34,500	52	—	
Total derivatives	$648,300	$888	$ 2,606	

(1) Shown as derivative instruments, at fair value, in the accompanying consolidated balance sheets.
(2) The Company is paying fixed interest rates on these swaps.

56

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 consolidated statements of operations for the three and nine months ended September 30, 2018 and 2017 ($ in thousands):

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

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
	Unrealized Gain/(Loss)	Realized Gain/(Loss)	Net Result from Derivative Transactions	Unrealized Gain/(Loss)	Realized Gain/(Loss)	Net Result from Derivative Transactions
Contract Type						
Futures	$(2,587)	$ 2,192	$ (395)	$(4,249)	$ (13,571)	$ (17,820)
Swaps	277	(242)	35	561	(780)	(219)
Credit Derivatives	110	(98)	12	178	(491)	(313)
Total	$(2,200)	$ 1,852	$ (348)	$(3,510)	$ (14,842)	$ (18,352)

The Company’s counterparties held $6.9 million and $9.6 million of cash margin as collateral for derivatives as of September 30, 2018 and December 31, 2017, respectively, which is included in restricted cash in the consolidated balance sheets.

Futures

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

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

57

Table of Contents

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, 2018 and December 31, 2017, the Company was in compliance with these requirements and not in default on its indebtedness. As of September 30, 2018, there was no cash collateral held by the derivative counterparties for these derivatives. As of December 31, 2017, there was $4.1 million of cash collateral held by the derivative counterparties for these derivatives, included in restricted cash in the consolidated statements of financial condition. No additional cash would be required to be posted if the acceleration of payment under the derivatives was triggered.

Table of Contents

11. 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, 2018 and 2017. The Company’s accounting policy is to record derivative asset and liability positions on a gross basis, therefore, the following tables present the gross derivative asset and liability positions recorded on the balance sheets, while also disclosing the eligible amounts of financial instruments and cash collateral to the extent those amounts could offset the gross amount of derivative asset and liability positions. The actual amounts of collateral posted by or received from counterparties may be in excess of the amounts disclosed in the following tables as the following only disclose amounts eligible to be offset to the extent of the recorded gross derivative positions.

As of September 30, 2018
Offsetting of Financial Assets and Derivative Assets
($ in thousands)

Description	Gross amounts of recognized assets	Gross amounts offset in the balance sheet	Net amounts of assets presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
				Financial instruments	Cash collateral received/(posted)(1)	
Derivatives	$ 57	$ —	$ 57	$ —	$ —	$ 57
Total	$ 57	$ —	$ 57	$ —	$ —	$ 57

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

As of September 30, 2018
Offsetting of Financial Liabilities and Derivative Liabilities
($ in thousands)

Description	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
				Financial instruments collateral	Cash collateral posted/(received)(1)	
Derivatives	$ 280	$ —	$ 280	$ —	$ 280	$ —
Repurchase agreements	973,617	—	973,617	973,617	—	—
Total	$ 973,897	$ —	$ 973,897	$ 973,617	$ 280	$ —

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

As of December 31, 2017
Offsetting of Financial Assets and Derivative Assets
($ in thousands)

Description	Gross amounts of recognized assets	Gross amounts offset in the	Net amounts of assets presented	Gross amounts not offset in the balance sheet	Net amount

		balance sheet	in the balance sheet	Financial instruments	Cash collateral received/(posted)(1)	
Derivatives	$ 888	$ —	$ 888	$ —	$ —	$ 888
Total	$ 888	$ —	$ 888	$ —	$ —	$ 888

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

59

Table of Contents

As of December 31, 2017
Offsetting of Financial Liabilities and Derivative Liabilities
($ in thousands)

Description	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheet	Net amounts of liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet Financial instruments collateral	Cash collateral posted/(received)(1)	Net amount
Derivatives	$ 2,606	$ —	$ 2,606	$ —	$ 2,606	$ —
Repurchase agreements	473,410	—	473,410	473,410	—	—
Total	$ 476,016	$ —	$ 476,016	$ 473,410	$ 2,606	$ —

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

Master netting agreements that the Company has entered into with its derivative and repurchase agreement counterparties allow for netting of the same transaction, in the same currency, on the same date. Assets, liabilities, and collateral subject to master netting agreements as of September 30, 2018 and 2017 are disclosed in the tables above. The Company does not present its derivative and repurchase agreements net on the consolidated financial statements as it has elected gross presentation.

Table of Contents

12. EQUITY STRUCTURE AND ACCOUNTS

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

Class A Common Stock

Voting Rights

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

Dividend Rights

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

Liquidation Rights

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

Other Matters

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

Allocation of Income and Loss

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

Class B Common Stock

Voting Rights

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

No Dividend or Liquidation Rights

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

Exchange for Class A Common Stock

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

Table of Contents

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

During the nine months ended September 30, 2017, 13,737,365 Series REIT LP Units and 13,737,365 Series TRS LP Units were collectively exchanged for 13,737,365 shares of Class A common stock; and 13,737,365 shares of Class B common stock were canceled. We received no other consideration in connection with these exchanges.

Stock Repurchases

On October 30, 2014, the board of directors authorized the Company to repurchase up to $50.0 million of the Company's Class A common stock from time to time without further approval. Stock repurchases by the Company are generally made for cash in open market transactions at prevailing market prices but may also be made in privately negotiated transactions or otherwise. The timing and amount of purchases are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. During the nine months ended September 30, 2018 and 2017, the Company repurchased no shares of Class A common stock. All repurchased shares are recorded in treasury stock at cost. As of September 30, 2018, the Company has a remaining amount available for repurchase of $41.8 million, which represents 2.5% in the aggregate of its outstanding Class A common stock, based on the closing price of $16.94 per share on such date.

Dividends

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

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

Table of Contents

The following table presents dividends declared (on a per share basis) of Class A common stock for the years ended December 31, 2018 and 2017:

Declaration Date	Dividend per Share	
February 27, 2018	$ 0.315	
May 30, 2018	0.325	
September 5, 2018	0.325	
November 1, 2018	0.570	(1)
Total	$ 1.535	
March 1, 2017	$ 0.300	
June 1, 2017	0.300	
September 1, 2017	0.300	
November 7, 2017	0.315	
Total	$ 1.215	

(1) On November 1, 2018, the Company's board of directors approved the fourth quarter 2018 dividend of $0.570 per share of the Company's Class A common stock in order to meet its annual REIT taxable income distribution requirement. The dividend will be paid as a combination of cash and Class A common stock, subject to shareholder elections.

Changes in Accumulated Other Comprehensive Income

The following table presents changes in accumulated other comprehensive income related to the cumulative difference between the fair market value and the amortized cost basis of securities classified as available for sale for the nine months ended September 30, 2018 and 2017 ($ in thousands):

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

63

Table of Contents

	Accumulated Other Comprehensive Income (Loss)	Accumulated Other Comprehensive Income of Noncontrolling Interests	Total Accumulated Other Comprehensive Income (Loss)
December 31, 2016	$ 1,365	$ 761	$ 2,126
Other comprehensive income (loss)	1,336	1,681	3,017
Exchange of noncontrolling interest for common stock	1,422	(1,422)	—
Rebalancing of ownership percentage between Company and Operating Partnership	(230)	230	—
September 30, 2017	$ 3,893	$ 1,250	$ 5,143

64

Table of Contents

13. NONCONTROLLING INTERESTS

Pursuant to ASC 810, Consolidation, on the accounting and reporting for noncontrolling interests and changes in ownership interests of a subsidiary, changes in a parent's ownership interest (and transactions with noncontrolling interest unitholders in the subsidiary), while the parent retains its controlling interest in its subsidiary, should be accounted for as equity transactions. The carrying amount of the noncontrolling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary, with the offset to equity attributable to the parent. Accordingly, as a result of LP unit exchanges which caused changes in ownership percentages between the Company's Class A shareholders and the noncontrolling interests in the Operating Partnership that occurred during the nine months ended September 30, 2018, the Company has increased noncontrolling interests in the Operating Partnership and decreased additional paid-in capital and accumulated other comprehensive income in the Company's shareholders' equity by $0.9 million as of September 30, 2018. Upon the adoption of ASU 2015-02, which amended ASC 810, Consolidation, in the quarter ended March 31, 2016, the Operating Partnership is now determined to be a VIE, however, since the Company was previously consolidating the Operating Partnership, the adoption of ASU 2015-02 had no material impact on the Company's consolidated financial statements.

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

Noncontrolling Interest in the Operating Partnership

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

Distributions to Noncontrolling Interest in the Operating Partnership

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

Allocation of Income and Loss

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

Noncontrolling Interest in Unconsolidated Joint Ventures

As of September 30, 2018, the Company consolidates nine ventures in which there are other noncontrolling investors, which own between 1.2% - 29.4% of such ventures. These ventures hold investments in a 40 property student housing portfolio, 21 office buildings, two industrial properties, one condominium complex and one apartment complex. The Company makes distributions and allocates income from these ventures to the noncontrolling interests in accordance with the terms of the respective governing agreements.

Table of Contents

14. EARNINGS PER SHARE

The Company's net income (loss) and weighted average shares outstanding for the three and nine months ended September 30, 2018 and 2017 consist of the following:

($ in thousands except share amounts)	For the Three Months Ended September 30, 2018	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Basic Net income (loss) available for Class A common shareholders	$ 66,630	$ 23,587	$ 155,911	$ 59,171
Diluted Net income (loss) available for Class A common shareholders	$ 74,038	$ 23,587	$ 177,875	$ 81,258
Weighted average shares outstanding				
Basic	96,935,986	85,135,685	96,317,513	79,416,957
Diluted	110,650,253	85,476,266	110,482,991	109,857,679

The calculation of basic and diluted net income (loss) per share amounts for the three and nine months ended September 30, 2018 and 2017 are described and presented below.

Basic Net Income (Loss) per Share

Numerator: utilizes net income (loss) available for Class A common shareholders for the three and nine months ended September 30, 2018 and 2017, respectively.

Denominator: utilizes the weighted average shares of Class A common stock for the three and nine months ended September 30, 2018 and 2017, respectively.

Diluted Net Income (Loss) per Share

Numerator: utilizes net income (loss) available for Class A common shareholders for the three and nine months ended September 30, 2018 and 2017, respectively, for the basic net income (loss) per share calculation described above, adding net income (loss) amounts attributable to the noncontrolling interest in the Operating Partnership using the as-if converted method for the Class B common shareholders while adjusting for additional corporate income tax expense (benefit) for the described net income (loss) add-back.

Denominator: utilizes the weighted average number of shares of Class A common stock for the three and nine months ended September 30, 2018 and 2017, respectively, for the basic net income (loss) per share calculation described above adding the dilutive effect of shares issuable relating to Operating Partnership exchangeable interests and the incremental shares of unvested Class A restricted stock using the treasury method.

Table of Contents

(In thousands except share amounts)	For the Three Months Ended September 30, 2018	For the Three Months Ended September 30, 2017(1)	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017
Basic Net Income (Loss) Per Share of Class A Common Stock				
Numerator:				
Net income (loss) attributable to Class A common shareholders	$ 66,630	$ 23,587	$ 155,911	$ 59,171
Denominator:				
Weighted average number of shares of Class A common stock outstanding	96,935,986	85,135,685	96,317,513	79,416,957
Basic net income (loss) per share of Class A common stock	$ 0.69	$ 0.28	$ 1.62	$ 0.75
Diluted Net Income (Loss) Per Share of Class A Common Stock				
Numerator:				
Net income (loss) attributable to Class A common shareholders	$ 66,630	$ 23,587	$ 155,911	$ 59,171
Add (deduct) - dilutive effect of:				
Amounts attributable to operating partnership's share of Ladder Capital Corp net income (loss)	8,991	—	22,786	21,205
Additional corporate tax (expense) benefit	(1,583)	—	(822)	882
Diluted net income (loss) attributable to Class A common shareholders	$ 74,038	$ 23,587	$ 177,875	$ 81,258
Denominator:				
Basic weighted average number of shares of Class A common stock outstanding	96,935,986	85,135,685	96,317,513	79,416,957
Add - dilutive effect of:				
Shares issuable relating to converted Class B common shareholders	13,202,202	—	13,800,597	30,211,137
Incremental shares of unvested Class A restricted stock	512,065	340,581	364,881	229,585
Diluted weighted average number of shares of Class A common stock outstanding	110,650,253	85,476,266	110,482,991	109,857,679
Diluted net income (loss) per share of Class A common stock	$ 0.67	$ 0.28	$ 1.61	$ 0.74

(1) For the three months ended September 30, 2017, shares issuable relating to converted Class B common shareholders are excluded from the calculation of diluted EPS as the inclusion of such potential common shares in the calculation would be anti-dilutive.

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

Table of Contents

15. STOCK BASED AND OTHER COMPENSATION PLANS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock Based Compensation Expense:				
Annual Incentive Awards Granted in 2015 With Respect to 2014 Performance	$—	$419	$172	$1,456
Annual Incentive Awards Granted in 2016 With Respect to 2015 Performance	323	439	971	1,654
Annual Incentive Awards Granted in 2017 With Respect to 2016 Performance(1)	524	752	1,655	6,538
Other 2017 Restricted Stock Awards(1)	76	78	257	225
Annual Incentive Awards Granted in 2017 With Respect to 2017 Performance(1)	1,122	—	3,325	—
2018 Restricted Stock Awards	95	—	230	—
Other 2018 Restricted Stock Awards(1)	9	—	12	—
Other Employee/Director Awards	13	27	45	608
Total Stock Based Compensation Expense	$2,162	$1,715	$6,667	$10,481
Phantom Equity Investment Plan	$—	$185	$—	$527
Ladder Capital Corp Deferred Compensation Plan	$601	$227	$1,519	$414
Bonus Expense	$9,210	$7,371	$26,772	$19,899

(1) Includes immediate vesting of retirement eligible employees, including Brian Harris.

2014 Omnibus Incentive Plan

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

Table of Contents

Annual Incentive Awards Granted in 2016 With Respect to 2015 Performance

Members of management were eligible to receive annual restricted stock awards (the “Annual Restricted Stock Awards”) and annual option awards (the “Annual Option Awards”) based on the performance of the Company. On February 18, 2016, Annual Restricted Stock Awards were granted to Management Grantees with an aggregate value of $9.1 million which represents 793,598 shares of restricted Class A common stock in connection with 2015 compensation. Fifty percent of each restricted stock award granted is subject to time-based vesting criteria, and the remaining 50% of each restricted stock award is subject to attainment of the Performance Target for the applicable years. The time-vesting restricted stock granted to the Management Grantees will generally vest in three installments on each of the first three anniversaries of the date of grant, subject to continued employment on the applicable vesting dates. The performance-vesting restricted stock will vest in three equal installments upon the compensation committee’s confirmation that the Company achieves a return on equity, based on core earnings divided by the Company’s average book value of equity, equal to or greater than 8% for such year (the “Performance Target”) for those years. If the Company misses the Performance Target during either the first or second calendar year but meets the Performance Target for a subsequent year during the three-year performance period and the Company’s return on equity for such subsequent year and any years for which it missed its Performance Target equals or exceeds the compounded return on equity of 8%, based on core earnings divided by the Company’s average book value of equity, the performance-vesting restricted stock which failed to vest because the Company previously missed its Performance Target will vest on the last day of such subsequent year (the “Catch-Up Provision”). If the term “core earnings” is no longer used in the Company’s SEC filings and approved by the compensation committee, then the Performance Target will be calculated using such other pre-tax performance measurement defined in the Company’s SEC filings, as determined by the compensation committee. The Company met the Performance Target for the years ended December 31, 2017 and 2016.

The Company has elected to recognize the compensation expense related to the time-based vesting of the Annual Restricted Stock Awards for the entire award on a straight-line basis over the requisite service period. As such, the compensation expense related to the February 18, 2016 Annual Restricted Stock Awards to Management Grantees is recognized as follows:

1. Compensation expense for restricted stock subject to time-based vesting criteria granted to Brian Harris was expensed in full on February 11, 2017, the Harris Retirement Eligibility Date.

2. Compensation expense for restricted stock subject to time-based vesting criteria granted to the Management Grantees other than Mr. Harris, will be expensed 1/3 each year, for three years on an annual basis following such grant.

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

On February 18, 2016, Annual Stock Option Awards were granted to Management Grantees with an aggregate grant date fair value of $1.0 million, which represents 289,326 shares of Class A common stock subject to the Annual Stock Option Awards. The stock option awards are subject to the same terms and conditions as those granted in 2015 except that the vesting period commenced in 2016 and the 2016 stock option awards included dividend equivalent rights. The actual grant date fair values of the Annual Option Awards granted to our Management Grantees were computed in accordance with FASB ASC Topic 718 using the Black Scholes model based on the following assumptions: (1) risk-free rate of 1.5%; (2) dividend yield of 9.8%; (3) expected life of six years; and (4) volatility of 48.0%.

On February 18, 2016, certain members of the board of directors each received Annual Restricted Stock Awards with a grant date fair value of $0.1 million, representing 12,636 shares of restricted Class A common stock, which will vest in full on the first anniversary of the date of grant, subject to continued service on the board of directors. Compensation expense for restricted stock subject to time-based vesting criteria granted to directors will be expensed in full on an annual basis following such grant.

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

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

Annual Incentive Awards Granted in 2017 With Respect to 2016 Performance

For 2016 performance, management received stock-based incentive equity. On February 18, 2017, Annual Restricted Stock Awards were granted to Management Grantees with an aggregate value of $10.2 million which represents 736,461 shares of restricted Class A common stock in connection with 2016 compensation. In accordance with the Harris Employment Agreement, Mr. Harris' annual awards were fully vested at grant. For other Management Grantees, fifty percent of each restricted stock award granted is subject to time-based vesting criteria, and the remaining 50% of each restricted stock award is subject to attainment of the Performance Target for the applicable years. The time-vesting restricted stock will vest in three installments on each of the first three anniversaries of the date of grant, subject to continued employment on the applicable vesting dates and subject to the applicable Retirement Eligibility Date. The performance-vesting restricted stock will vest in three equal installments upon the compensation committee's confirmation that the Company achieves the Performance Target for the years ended December 31, 2017, 2018 and 2019, respectively. The Catch-Up Provision applies to the performance vesting portion of this award.

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

1. Compensation expense for stock granted to Brian Harris will be expensed immediately in accordance with the Harris Retirement Eligibility Date.

2. Compensation expense for restricted stock subject to time-based vesting criteria granted to Pamela McCormack will be expensed 1/3 each year, for three years, on an annual basis in advance of the McCormack Retirement Eligibility Date.

3. Compensation expense for restricted stock subject to time-based vesting criteria granted to Michael Mazzei will be expensed 1/3 each year, for three years, on an annual basis.

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

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

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

Table of Contents

Other 2017 Restricted Stock Awards

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

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

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

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

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

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

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

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

Table of Contents

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

Annual Incentive Awards Granted in 2017 With Respect to 2017 Performance

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

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

1. Compensation expense for stock granted to Brian Harris will be expensed immediately in accordance with the Harris Retirement Eligibility Date.

2. Compensation expense for restricted stock subject to time-based vesting criteria granted to Pamela McCormack will be expensed 1/3 each year, for three years, on an annual basis in advance of the McCormack Retirement Eligibility Date.

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

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

Upon a change in control (as defined in the respective award agreements), all restricted stock awards will become fully vested, if (1) the Management Grantee continues to be employed through the closing of the change in control or (2) after the signing of definitive documentation related to the change in control, but prior to its closing, the

Management Grantee's employment is terminated without cause or due to death or disability or the Management Grantee resigns for Good Reason. The compensation committee retains the right, in its sole discretion, to provide for the accelerated vesting (in whole or in part) of the restricted stock and option awards granted.

Table of Contents

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

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

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

2018 Restricted Stock Awards

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

Other 2018 Restricted Stock Awards

On April 24, 2018, a new employee of the Company received a Restricted Stock Award with a grant date fair value of $0.1 million, representing 3,566 shares of restricted Class A common stock, which will vest in three equal installments on each of the first three anniversaries of the date of grant, subject to continued employment on the applicable vesting dates. Compensation expense shall be recognized on a straight-line basis over the requisite service period.

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

Table of Contents

Summary of Restricted Stock and Stock Option Expense and Shares/Options Nonvested/Outstanding

A summary of the grants is presented below ($ in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Number of Shares/Options	Weighted Average Fair Value	Number of Shares	Weighted Average Fair Value	Number of Shares/Options	Weighted Average Fair Value	Number of Shares/Options	Weighted Average Fair Value
Grants - Class A Common Stock (restricted)	4,720	$ 75	—	$ —	33,656	$ 500	859,061	$ 11,995
Grants - Class A Common Stock (restricted) dividends	—	—	—	—	—	—	15,560	216
Amortization to compensation expense								
Ladder compensation expense		(2,162)		(1,715)		$ (6,667)		$ (10,481)
Total amortization to compensation expense		$ (2,162)		$ (1,715)		$ (6,667)		$ (10,481)

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

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

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

Table of Contents

The table below presents the number of unvested shares and outstanding stock options at September 30, 2017 and changes during 2017 of the Class A Common stock and Stock Options of Ladder Capital Corp granted under the 2014 Omnibus Incentive Plan:

	Restricted Stock	Stock Options
Nonvested/Outstanding at December 31, 2016	1,475,865	982,135
Granted	874,621	—
Exercised		—
Vested	(1,425,490)	
Forfeited	(10,000)	—
Expired		—
Nonvested/Outstanding at September 30, 2017	914,996	982,135
Exercisable at September 30, 2017		752,017

As of September 30, 2017 there was $7.4 million of total unrecognized compensation cost related to certain share-based compensation awards that is expected to be recognized over a period of up to 34 months, with a weighted-average remaining vesting period of 21.7 months.

Phantom Equity Investment Plan

LCFH maintained a Phantom Equity Investment Plan, effective on June 30, 2011 (the “Phantom Equity Plan”) in which certain eligible employees of LCFH, LCF and their subsidiaries participate. On July 3, 2014, the Board of Directors froze the Phantom Equity Plan and adopted the 2014 Deferred Compensation Plan, as defined and further described below. The Phantom Equity Plan is an annual deferred compensation plan pursuant to which participants could elect, or in some cases, non-management participants could be required, depending upon the participant’s specific level of compensation, to defer all or a portion of their annual cash performance-based bonuses as elective or mandatory contributions. Generally, if a participant’s total compensation was in excess of a certain threshold, a portion of such participant’s annual bonus, was required to be deferred into the Phantom Equity Plan. Otherwise, amounts could be deferred into the Phantom Equity Plan at the election of the participant, so long as such election was timely made in accordance with the terms and procedures of the Phantom Equity Plan.

In the event that a participant elected to (or was required to) defer a portion of his or her compensation pursuant to the Phantom Equity Plan, such amount was not paid to the participant and was instead credited to such participant’s notional account under the Phantom Equity Plan. Prior to the closing of our IPO, such amounts were invested, on a phantom basis, in the Series B Participating Preferred Units issued by LCFH until such amounts were eventually paid to the participant pursuant to the Phantom Equity Plan. Following our IPO, as described below, such amounts were invested on a phantom basis in shares of the Company’s Class A common stock. Mandatory contributions are subject to one-third vesting over a three year period following the applicable Phantom Equity Plan year in which the related compensation was earned. Elective contributions were immediately vested upon contribution. Unvested amounts are generally forfeited upon the participant’s involuntary termination for cause, a voluntary termination for which the participant’s employer would have grounds to terminate the participant for cause or a voluntary termination within one year of which the participant obtains employment with a financial services organization.

The date that the amounts deferred into the Phantom Equity Plan are paid to a participant depends upon whether such deferral is a mandatory deferral or an elective deferral. Elective deferrals are paid upon the earliest to occur of (1) a change in control (as defined in the Phantom Equity Plan), (2) the end of the participant’s employment, or (3) December 31, 2017. The vested amounts of the mandatory contributions are paid upon the first to occur of (A) a change in control and (B) the first to occur of (x) December 31, 2017 or (y) the date of payment of the annual bonus payments following December 31 of the third calendar year following the applicable plan year to which the underlying deferred annual bonus relates. The Company could elect to make, and did make, payments pursuant to the Phantom Equity Plan in the form of cash in an amount equal to the then fair market value of such shares of the Company's Class A common stock (or, prior to our IPO, the Series B Participating Preferred Units), and on May 14, 2014, the Compensation Committee made a global election to make all payments pursuant to the Phantom Equity Plan in the form of cash. Mandatory contributions that were paid at the time specified in clause 2(B) above were made in cash.

Table of Contents

Upon the closing of our IPO, each participant in the Phantom Equity Plan had his or her notional interest in LCFH's Series B Participating Preferred Units converted into a notional interest in the Company's Class A common stock, which notional conversion was based on the issuance price of our Class A common stock at the time of the IPO. On July 3, 2014, the board of directors froze the Phantom Equity Plan, effective as of such date, so that there will neither be future participants in the Phantom Equity Plan nor additional amounts contributed to any accounts outstanding under the Phantom Equity Plan. Amounts previously outstanding under the Phantom Equity Plan will be paid in accordance with their original payment terms, including limiting payment to the dates and events specified above. In connection with freezing the Phantom Equity Plan, the board of directors also updated the definition of fair market value for purposes of measuring the value of its Class A Common Stock, to provide that, generally, such value would be the closing price of such stock on the principal national securities exchange on which it is then traded.
The final payment, which closed the liability under the Phantom Equity Plan, was made on January 5, 2018. As of December 31, 2017, there were 42,270 phantom units that have been withdrawn from the plan, resulting in a liability of $1.0 million, which is included in accrued expenses on the consolidated balance sheets.

Ladder Capital Corp Deferred Compensation Plan

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

In the event that a participant elected to (or was required to) defer a portion of his or her compensation pursuant to the 2014 Deferred Compensation Plan, such amount was not paid to the participant and was instead credited to such participant's notional account under the 2014 Deferred Compensation Plan. Such amounts were then invested on a phantom basis in Class A common stock of the Company, or the phantom units, and a participant's account is credited with any dividends or other distributions received by holders of Class A common stock of the Company, which are subject to the same vesting and payment conditions as the applicable contributions. Elective contributions were immediately vested upon contribution. Mandatory contributions are subject to one-third vesting over a three-year period on a straight-line basis following the applicable year in which the related compensation was earned and mandatory contributions for compensation earned in 2015, 2016 and 2017 remain in the 2014 Deferred Compensation Plan, subject to vesting in 2018, 2019 and 2020, respectively.

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

Table of Contents

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

As of September 30, 2018, there are 369,896 phantom units outstanding, of which 243,352 are unvested, resulting in a liability of $6.3 million, which is included in accrued expenses on the consolidated balance sheets. As of December 31, 2017, there were 321,476 phantom units outstanding, of which 182,983 are unvested, resulting in a liability of $3.8 million, which is included in accrued expenses on the consolidated balance sheets.

Bonus Payments

On December 19, 2017, the board of directors of Ladder Capital Corp approved 2017 bonus payments to employees, including officers, totaling $49.3 million, which included $15.5 million of equity based compensation, which was granted on December 21, 2017. Cash bonuses of $17.1 million were paid on December 29, 2017. The remaining $16.8 million of cash bonuses were accrued for as of December 31, 2017 and paid to employees in full on January 5, 2018. On February 8, 2017, the board of directors of Ladder Capital Corp approved 2016 bonus payments to employees, including officers, totaling $39.5 million, which included $10.2 million of equity based compensation. The bonuses were accrued for as of December 31, 2016 and paid to employees in full on February 21, 2017. During the three and nine months ended September 30, 2018, the Company recorded compensation expense of $9.2 million and $26.8 million, respectively, related to 2018 bonuses. During the three and nine months ended September 30, 2017, the Company recorded compensation expense of $7.4 million and $19.9 million, respectively, related to 2017 bonuses.

Table of Contents

16. INCOME TAXES

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

Certain of the Company's subsidiaries have elected to be treated as TRSs. TRSs permit the Company to participate in certain activities from which REITs are generally precluded, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Code, and are conducted in entities which elect to be treated as taxable subsidiaries under the Code. To the extent these criteria are met, the Company will continue to maintain its qualification as a REIT. The Company's TRSs are not consolidated for U.S. federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by the Company with respect to its interest in TRSs.

There were $2.2 million and $2.6 million. corporate taxes payable (receivable) as of September 30, 2018 and December 31, 2017, respectively. There were $0.5 million NYC UBT taxes payable (receivable) at September 30, 2018 and December 31, 2017. Prepaid corporate taxes as of September 30, 2018 and December 31, 2017 were $7.5 million and $12.4 million, respectively.

As part of the recently enacted Tax Cuts and Jobs Act, the federal income tax rate applicable to TRS activities has been reduced. The Company has adjusted its deferred tax positions at the TRSs (including those resulting from the TRA) to reflect the reduced tax rate as part of its 2017 tax provision.

As of September 30, 2018 and December 31, 2017, the Company's net deferred tax assets (liabilities) were $(0.8) million and $(5.7) million, respectively, and are included in other assets (liabilities) in the Company's consolidated balance sheets. The Company believes it is more likely than not that any deferred tax assets will be realized in the future through reversal of temporary differences and/or generation of sufficient taxable income in future years in the appropriate tax jurisdictions.

As of December 31, 2017, the Company had a deferred tax asset of $5.8 million, relating to capital losses which it may only use to offset capital gains. As the realization of this deferred tax asset before its expiration was not more likely than not, the Company provided a full valuation allowance against this deferred tax asset. However, as of September 30, 2018, the Company has utilized all of its capital loss carryforwards and fully released its valuation allowance related to the tax attributes accordingly.

The Company's tax returns are subject to audit by taxing authorities. Generally, as of September 30, 2018, the tax years 2013 - 2017 remain open to examination by the major taxing jurisdictions in which the Company is subject to taxes. The IRS and New York State have undertaken routine audits of the Company's U.S. federal and state income tax returns for tax year 2014 and 2013-2015 respectively. The Company does not expect the audits to result in any material changes to the Company's financial position. The Company does not expect tax expense to have an impact on either short or long-term liquidity or capital needs.

Under U.S. GAAP, a tax benefit related to an income tax position may be recognized when it is more likely than not that the position will be sustained upon examination by the tax authorities based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. As of September 30, 2018 and December 31, 2017, the Company's unrecognized tax benefit is a liability for $0.8 million and is included in the accrued expenses in the Company's consolidated balance sheets. This unrecognized tax benefit, if recognized, would have a favorable impact on our effective income tax rate in future periods. As of September 30, 2018, the Company has not recognized a significant amount of any interest or penalties related to uncertain tax positions. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record a significant liability for unrecognized tax benefits within the next twelve months.

Table of Contents

Tax Receivable Agreement

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

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

As of September 30, 2018 and December 31, 2017, pursuant to the Tax Receivable Agreement, the Company recorded a liability of $1.6 million and $1.7 million, respectively, included in amount payable pursuant to tax receivable agreement in the consolidated balance sheets for TRA Members. The amount and timing of any payments may vary based on a number of factors, including the absence of any material change in the relevant tax law, the Company continuing to earn sufficient taxable income to realize all tax benefits, and assuming no additional exchanges that are subject to the Tax Receivable Agreement. Depending upon the outcome of these factors, the Company may be obligated to make substantial payments pursuant to the Tax Receivable Agreement. The actual payment amounts may differ from these estimated amounts, as the liability will reflect changes in prevailing tax rates, the actual benefit the Company realizes on its annual income tax returns, and any additional exchanges.

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

17. RELATED PARTY TRANSACTIONS

Ladder Select Bond Fund

On October 18, 2016, Ladder Capital Asset Management LLC (“LCAM”), a subsidiary of the Company and a registered investment adviser, launched the Ladder Select Bond Fund (the “Fund”), a mutual fund. In addition, on October 18, 2016, the Company made a $10.0 million investment in the Fund, which is included in other assets in the consolidated balance sheets. As of September 30, 2018, members of senior management have $0.9 million invested in the Fund. LCAM earns a 0.75% fee on assets under management, which may be reduced for expenses incurred in excess of the Fund’s expense cap of 0.95%.

Stockholders Agreement

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

Commercial Real Estate Loans

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

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

On July 6, 2017, Ladder provided a $21.0 million first mortgage loan to a borrower affiliated with The Related Companies to facilitate the acquisition of two commercial condominium units in the Brickell Heights mixed use development in Miami, Florida. The borrowing entity, Brickell Heights Commercial LLC, is 80% owned by a joint venture between Related Special Assets LLC, a personal investment vehicle for certain principals of The Related Companies, and another investor, with the remaining 20% interest belonging to an affiliate of The Related Group of Florida. This loan was sold to a securitization trust on October 31, 2017. For the three and nine months ended September 30, 2017, the Company earned $0.2 million in interest income related to this loan.

Table of Contents

Firm Relationships

DLA Piper LLP (US), of which Mr. Jeffrey B. Steiner, a member of the Company's board of directors, was a Partner until March 2018, and McDermott Will & Emery, of which Mr. Steiner is currently a Partner, each provide legal services to the Company. During the year ended December 31, 2017, the Company paid, or caused to be paid, to DLA Piper approximately $2.7 million in fees for legal services. Expenditures by the Company to DLA Piper and McDermott Will & Emery for the year ended December 31, 2018, for legal services in the aggregate are expected to be roughly equivalent to that amount. Mr. Steiner's son, Andrew Steiner, is an associate at the Company; during the year ended December 31, 2017, his compensation from the Company exceeded $120,000. Andrew Steiner's compensation and other benefits the year ended December 31, 2017 were comparable to those of other employees of the Company in similar positions and determined by the Company consistent with its compensation practices applicable to other similarly situated employees.

Table of Contents

18. COMMITMENTS AND CONTINGENCIES

Leases

In 2011, the Company entered into a lease for its primary office space, which commenced on October 1, 2011 and expires on January 31, 2022 with no extension option. In 2012, the Company entered into a lease for secondary office space. The lease commenced on May 15, 2012 and would have expired on May 14, 2015 with no extension option. This lease was amended, however, on October 2, 2014, extending the expiration date from May 14, 2015 to May 14, 2018. The Company recorded $0.3 million and $0.9 million of rental expense for the three and nine months ended September 30, 2018, respectively, which is included in operating expenses in the consolidated statements of income. The Company recorded $0.3 million and $0.9 million, of rental expense for the three and nine months ended September 30, 2017, respectively, which is included in operating expenses in the consolidated statements of income.

The following is a schedule of future minimum rental payments required under the above operating leases ($ in thousands):

Period Ending December 31,	Amount
2018 (last 3 months)	$ 295
2019	1,180
2020	1,180
2021	1,180
2022	99
Thereafter	—
Total	$ 3,934

Unfunded Loan Commitments

As of September 30, 2018, the Company’s off-balance sheet arrangements consisted of $386.0 million of unfunded commitments on mortgage loan receivables held for investment to provide additional first mortgage loan financing, at rates to be determined at the time of funding. As of December 31, 2017, the Company’s off-balance sheet arrangements consisted of $157.0 million of unfunded commitments of mortgage loan receivables held for investment to provide additional first mortgage loan financing, at rates to be determined at the time of funding. Such commitments are subject to our loan borrowers’ satisfaction of certain financial and nonfinancial covenants and may or may not be funded depending on a variety of circumstances including timing, credit metric hurdles, and other nonfinancial events occurring. These commitments are not reflected on the consolidated balance sheets.

Table of Contents

19. SEGMENT REPORTING

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

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

	Loans	Securities	Real Estate(1)	Corporate/Other(2)	Company Total
Three months ended September 30, 2018					
Interest income	$81,779	$8,541	$6	$ 60	$90,386
Interest expense	(17,232)	(1,482)	(9,213)	(23,549)	(51,476)
Net interest income (expense)	64,547	7,059	(9,207)	(23,489)	38,910
Provision for loan losses	(10,300)	—	—	—	(10,300)
Net interest income (expense) after provision for loan losses	54,247	7,059	(9,207)	(23,489)	28,610
Operating lease income	—	—	22,739	—	22,739
Tenant recoveries	—	—	2,258	—	2,258
Sale of loans, net	1,861	—	—	—	1,861
Realized gain (loss) on securities	—	(2,554)	—	—	(2,554)
Unrealized gain (loss) on Agency interest-only securities	—	142	—	—	142
Realized gain (loss) on sale of real estate, net	—	—	63,704	—	63,704
Fee and other income	3,895	—	—	956	4,851
Net result from derivative transactions	3,741	3,374	—	—	7,115
Earnings (loss) from investment in unconsolidated joint ventures	—	—	401	—	401
Gain (loss) on extinguishment/defeasance of debt	—	—	(4,323)	—	(4,323)
Total other income (expense)	9,497	962	84,779	956	96,194
Salaries and employee benefits	—	—	—	(15,792)	(15,792)
Operating expenses	61	—	—	(5,525)	(5,464)
Real estate operating expenses	—	—	(7,152)	—	(7,152)
Fee expense	(928)	(91)	(292)	—	(1,311)
Depreciation and amortization	—	—	(10,398)	(19)	(10,417)
Total costs and expenses	(867)	(91)	(17,842)	(21,336)	(40,136)
Income tax (expense) benefit	—	—	—	(1,204)	(1,204)
Segment profit (loss)	$62,877	$7,930	$57,730	$ (45,073)	$83,464
Total assets as of September 30, 2018	$4,162,949	$978,289	$1,036,110	$ 248,397	$6,425,745

83

Table of Contents

	Loans	Securities	Real Estate(1)	Corporate/Other(2)	Company Total
Three months ended September 30, 2017					
Interest income	$56,763	$9,986	$3	$ 81	$66,833
Interest expense	(11,317)	(1,456)	(7,847)	(16,865)	(37,485)
Net interest income (expense)	45,446	8,530	(7,844)	(16,784)	29,348
Provision for loan losses	—	—	—	—	—
Net interest income (expense) after provision for loan losses	45,446	8,530	(7,844)	(16,784)	29,348
Operating lease income	—	—	22,924	—	22,924
Tenant recoveries	—	—	2,382	—	2,382
Sale of loans, net	(775)	—	—	—	(775)
Realized gain (loss) on securities	—	6,688	—	—	6,688
Unrealized gain (loss) on Agency interest-only securities	—	577	—	—	577
Realized gain on sale of real estate, net	(159)	—	3,387	—	3,228
Fee and other income	1,447	—	2,057	834	4,338
Net result from derivative transactions	990	(1,338)	—	—	(348)
Earnings from investment in unconsolidated joint ventures	—	—	127	—	127
Total other income	1,503	5,927	30,877	834	39,141
Salaries and employee benefits	6,700	—	—	(19,955)	(13,255)
Operating expenses	99	—	—	(4,889)	(4,790)
Real estate operating expenses	—	—	(9,351)	—	(9,351)
Fee expense	(992)	(68)	(182)	—	(1,242)
Depreciation and amortization	—	—	(10,583)	(23)	(10,606)
Total costs and expenses	5,807	(68)	(20,116)	(24,867)	(39,244)
Income tax (expense) benefit	—	—	—	576	576
Segment profit (loss)	$52,756	$14,389	$2,917	$ (40,241)	$29,821
Total assets as of December 31, 2017	$3,508,642	$1,106,517	$1,067,482	$ 342,974	$6,025,615

Table of Contents

	Loans	Securities	Real Estate(1)	Corporate/Other(2)	Company Total
Nine months ended September 30, 2018					
Interest income	$228,273	$25,217	$16	$ 316	$253,822
Interest expense	(46,286)	(3,423)	(25,799)	(69,098)	(144,606)
Net interest income (expense)	181,987	21,794	(25,783)	(68,782)	109,216
Provision for loan losses	(13,600)	—	—	—	(13,600)
Net interest income (expense) after provision for loan losses	168,387	21,794	(25,783)	(68,782)	95,616
Operating lease income	—	—	71,556	—	71,556
Tenant recoveries	—	—	7,750	—	7,750
Sale of loans, net	12,893	—	—	—	12,893
Realized gain (loss) on securities	—	(4,896)	—	—	(4,896)
Unrealized gain (loss) on Agency interest-only securities	—	456	—	—	456
Realized gain (loss) on sale of real estate, net	—	—	96,341	—	96,341
Fee and other income	10,823	72	3,416	3,268	17,579
Net result from derivative transactions	14,516	14,640	—	—	29,156
Earnings from investment in unconsolidated joint ventures	—	—	466	—	466
Gain (loss) on extinguishment/defeasance of debt	(69)	—	(4,323)	—	(4,392)
Total other income (expense)	38,163	10,272	175,206	3,268	226,909
Salaries and employee benefits	—	—	—	(46,754)	(46,754)
Operating expenses	61	—	—	(16,669)	(16,608)
Real estate operating expenses	—	—	(23,806)		(23,806)
Fee expense	(2,160)	(297)	(496)	—	(2,953)
Depreciation and amortization	—	—	(31,840)	(56)	(31,896)
Total costs and expenses	(2,099)	(297)	(56,142)	(63,479)	(122,017)
Tax (expense) benefit	—	—	—	(5,679)	(5,679)
Segment profit (loss)	$204,451	$31,769	$93,281	$ (134,672)	$194,829
Total assets as of September 30, 2018	$4,162,949	$978,289	$1,036,110	$ 248,397	$6,425,745

85

Table of Contents

	Loans	Securities	Real Estate(1)	Corporate/Other(2)	Company Total
Nine months ended September 30, 2017					
Interest income	$154,939	$35,236	$9	$ 131	$190,315
Interest expense	(28,693)	(5,179)	(20,770)	(49,919)	(104,561)
Net interest income (expense)	126,246	30,057	(20,761)	(49,788)	85,754
Provision for loan losses	—	—	—	—	—
Net interest income (expense) after provision for loan losses	126,246	30,057	(20,761)	(49,788)	85,754
Operating lease income	—	—	64,741	—	64,741
Tenant recoveries	—	—	5,121	—	5,121
Sale of loans, net	24,129	—	—	—	24,129
Realized gain (loss) on securities	—	19,182	—	—	19,182
Unrealized gain (loss) on Agency interest-only securities	—	1,034	—	—	1,034
Realized gain on sale of real estate, net	—	—	7,790	—	7,790
Fee and other income	4,798	—	6,040	2,540	13,378
Net result from derivative transactions	(11,199)	(7,153)	—	—	(18,352)
Earnings from investment in unconsolidated joint ventures	—	—	64	—	64
Gain (loss) on extinguishment/defeasance of debt	—	—	—	(54)	(54)
Total other income	17,728	13,063	83,756	2,486	117,033
Salaries and employee benefits	—	—	—	(43,786)	(43,786)
Operating expenses	212	—	—	(16,310)	(16,098)
Real estate operating expenses	—	—	(24,861)		(24,861)
Fee expense	(2,798)	(230)	(528)	—	(3,556)
Depreciation and amortization	—	—	(29,253)	(70)	(29,323)
Total costs and expenses	(2,586)	(230)	(54,642)	(60,166)	(117,624)
Income tax (expense) benefit	—	—	—	(4,654)	(4,654)
Segment profit (loss)	$141,388	$42,890	$8,353	$ (112,122)	$80,509
Total assets as of December 31, 2017	$3,508,642	$1,106,517	$1,067,482	$ 342,974	$6,025,615

(1) Includes the Company's investment in unconsolidated joint ventures that held real estate of $36.1 million and $35.4 million as of September 30, 2018 and December 31, 2017, respectively.

(2) Corporate/Other represents all corporate level and unallocated items including any intercompany eliminations necessary to reconcile to consolidated Company totals. This caption also includes the Company's investment in unconsolidated joint ventures and strategic investments that are not related to the other reportable segments above, including the Company's investment in FHLB stock of $57.9 million and $77.9 million as of September 30, 2018 and December 31, 2017, respectively, the Company's deferred tax asset (liability) of $(0.8) million and $(5.7) million as of September 30, 2018 and December 31, 2017, respectively and the Company's senior unsecured notes of $1.2 billion as of September 30, 2018 and December 31, 2017.

86

Table of Contents

20. SUBSEQUENT EVENTS

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

Table of Contents

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

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes of Ladder Capital Corp included within this Quarterly Report and the Annual Report. This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See “Cautionary Statement Regarding Forward-Looking Statements” within this Quarterly Report and “Risk Factors” within the Annual Report for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements as a result of various factors, including but not limited to, those in “Risk Factors” set forth within the Annual Report. References to “Ladder,” the “Company,” and “we,” “our” and “us” refer to Ladder Capital Corp, a Delaware corporation incorporated in 2013, and its consolidated subsidiaries.

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

Overview

We are a leading commercial real estate finance company structured as an internally-managed REIT. We conduct our business through three commercial real estate-related business lines: loans, securities, and real estate investments. We believe that our in-house origination platform, ability to flexibly allocate capital among complementary product lines, credit-centric underwriting approach, access to diversified financing sources, and experienced management team position us well to deliver attractive returns on equity to our shareholders through economic and credit cycles.

Our businesses, including balance sheet lending, conduit lending, securities investments, and real estate investments, provide for a stable base of net interest and rental income. We have originated $22.4 billion of commercial real estate loans from our inception through September 30, 2018. During this timeframe, we also acquired $10.1 billion of predominantly investment grade-rated securities secured by first mortgage loans on commercial real estate and $1.7 billion of selected net leased and other real estate assets.

As part of our commercial mortgage lending operations, we originate conduit loans, which are first mortgage loans on stabilized, income producing commercial real estate properties that we intend to make available for sale in commercial mortgage-backed securities (“CMBS”) securitizations. From our inception in October 2008 through September 30, 2018, we originated $15.3 billion of conduit loans, $15.0 billion of which were sold into 56 CMBS securitizations, making us, by volume, the second largest non-bank contributor of loans to CMBS securitizations in the United States in such period. Our sales of loans into securitizations are generally, historically accounted for as true sales, not financings, and we generally retain no ongoing interest in loans which we securitize unless we are required to do so as issuer pursuant to the risk retention requirements of the Dodd-Frank Act. The securitization of conduit loans enables us to reinvest our equity capital into new loan originations or allocate it to other investments.

As of September 30, 2018, we had $6.4 billion in total assets and $1.6 billion of total equity. Our assets included $4.2 billion of loans, $1.0 billion of securities, and $1.0 billion of real estate.

88

Table of Contents

We have a diversified and flexible financing strategy supporting our business operations, including unsecured debt and significant committed term financing from leading financial institutions. As of September 30, 2018, we had $266.2 million in aggregate principal amount of 5.875% senior notes due 2021 (the “2021 Notes”), $500.0 million in aggregate principal amount of 5.25% senior notes due 2022 (the “2022 Notes”) and $400.0 million in aggregate principal amount of 5.25% senior notes due 2025 (the “2025 Notes,” collectively with the 2021 Notes and the 2022 Notes, the “Notes”). In addition, as of September 30, 2018, we had $4.8 billion of debt financing outstanding. This financing was comprised of $1.2 billion of financing from the Federal Home Loan Bank (the “FHLB”), $849.9 million committed secured term repurchase agreement financing, $123.7 million of other securities financing, $743.2 million of third-party, non-recourse mortgage debt and $672.0 million of collateralized loan obligation (“CLO”) debt. There were no borrowings outstanding under our Revolving Credit Facility and $2.5 million of participation financing - mortgage loan receivable. As of September 30, 2018, we had $2.2 billion of committed, undrawn funding capacity available, consisting of $266.4 million of availability under our $266.4 million Revolving Credit Facility, $721.5 million of undrawn committed FHLB financing and $1.2 billion of other undrawn committed financings. As of September 30, 2018, our debt-to-equity ratio was 3.1:1.0, as we employ leverage prudently to maximize financial flexibility. Our adjusted leverage, a non-GAAP financial measure, was 2.6:1.0 as of September 30, 2018. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of adjusted leverage and a reconciliation to debt obligations, net.

Ladder was founded in October 2008 and we completed our IPO in February 2014. We are led by a disciplined and highly aligned management team. As of September 30, 2018, our management team and directors held interests in our Company comprising 12.1% of our total equity. On average, our management team members have 29 years of experience in the industry. Our management team includes Brian Harris, Chief Executive Officer; Pamela McCormack, President; Marc Fox, Chief Financial Officer; Thomas Harney, Head of Merchant Banking & Capital Markets; and Robert Perelman, Head of Asset Management. Additional officers of Ladder include Kelly Porcella, General Counsel and Secretary, and Kevin Moclair, Chief Accounting Officer. We employ 74 full-time industry professionals.

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

Table of Contents

Our Businesses

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

	September 30, 2018		December 31, 2017	
Loans				
Balance sheet loans:				
Balance sheet first mortgage loans	$3,647,710	56.8 %	$3,123,268	51.9 %
Other commercial real estate-related loans	157,677	2.5 %	159,194	2.6 %
Provision for loan losses	(17,600)	(0.3)%	(4,000)	(0.1)%
Total balance sheet loans	3,787,787	59.0 %	3,278,462	54.4 %
Conduit first mortgage loans	375,162	5.8 %	230,180	3.8 %
Total loans	4,162,949	64.8 %	3,508,642	58.2 %
Securities				
CMBS investments	940,379	14.6 %	1,066,570	17.7 %
U.S. Agency Securities investments	36,682	0.6 %	39,947	0.7 %
Corporate bonds	1,228	— %	—	— %
Total securities	978,289	15.2 %	1,106,517	18.4 %
Real Estate				
Real estate and related lease intangibles, net	1,000,010	15.6 %	1,032,041	17.1 %
Total real estate	1,000,010	15.6 %	1,032,041	17.1 %
Other Investments				
Investments in unconsolidated joint ventures	36,100	0.6 %	35,441	0.6 %
FHLB stock	57,915	0.9 %	77,915	1.3 %
Total other investments	94,015	1.5 %	113,356	1.9 %
Total investments	6,235,263	97.1 %	5,760,556	95.6 %
Cash, cash equivalents and restricted cash	84,913	1.3 %	182,683	3.0 %
Other assets	105,569	1.6 %	82,376	1.4 %
Total assets	$6,425,745	100.0 %	$6,025,615	100.0 %

We invest in the following types of assets:

Loans

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

Table of Contents

We generally seek to hold our balance sheet first mortgage loans for investment although we also maintain the flexibility to contribute such loans into a CLO or similar structure, sell participation interests or “b-notes” in our mortgage loans or sell such mortgage loans as whole loans. These investments have been typically repaid at or prior to maturity (including by being refinanced by us into a new conduit first mortgage loan upon property stabilization). As of September 30, 2018, we held a portfolio of 169 balance sheet first mortgage loans with an aggregate book value of $3.6 billion. Based on the loan balances and the “as-is” third-party FIRREA appraised values at origination, the weighted average loan-to-value ratio of this portfolio was 68.4% at September 30, 2018.

Other Commercial Real Estate-Related Loans. We selectively invest in note purchase financings, subordinated debt, mezzanine debt and other structured finance products related to commercial real estate that are generally held for investment. As of September 30, 2018, we held a portfolio of 32 other commercial real estate-related loans with an aggregate book value of $157.7 million. Based on the loan balance and the “as-is” third-party FIRREA appraised values at origination, the weighted average loan-to-value ratio of the portfolio was 69.5% at September 30, 2018.

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

Although our primary intent is to sell our conduit first mortgage loans to CMBS trusts, we generally seek to maintain the flexibility to keep them on our balance sheet, sell participation interests or “b-notes” in our conduit first mortgage loans or sell conduit first mortgage loans as whole loans. From our inception in 2008 through September 30, 2018, we have originated and funded $15.3 billion of conduit first mortgage loans and securitized $15.0 billion of such mortgage loans in 56 separate transactions, including two securitizations in 2010, three securitizations in 2011, six securitizations in 2012, six securitizations in 2013, 10 securitizations in 2014, 10 securitizations in 2015, six securitizations in 2016, seven securitizations in 2017 and six securitizations in 2018. We generally securitize our loans together with certain financial institutions, which to date have included affiliates of Deutsche Bank Securities Inc., J.P. Morgan Securities LLC, UBS Securities LLC and Wells Fargo Securities, LLC. We have also completed three single-asset securitizations, executed a Ladder-only multi-borrower securitization from Ladder’s CMBS shelf in June 2017 and completed our first contributions of shorter-term loans into CLO transactions in the fourth quarter of 2017. As of September 30, 2018, we held 18 first mortgage loans that were substantially available for contribution into a securitization with an aggregate book value of $375.2 million. Based on the loan balances and the “as-is” third-party Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) appraised values at origination, the weighted average loan- to-value ratio of this portfolio was 59.1% at September 30, 2018. The Company holds these conduit loans in its taxable REIT subsidiary (“TRS”).

Table of Contents

The following charts set forth our total outstanding balance sheet first mortgage loans, other commercial real estate-related loans, mortgage loans transferred but not considered sold and conduit first mortgage loans as of September 30, 2018 and a breakdown of our loan portfolio by loan size and geographic location and asset type of the underlying real estate.

Table of Contents

Securities

CMBS Investments. We invest in CMBS secured by first mortgage loans on commercial real estate and own predominantly AAA-rated securities. These investments provide a stable and attractive base of net interest income and help us manage our liquidity. We have significant in-house expertise in the evaluation and trading of CMBS, due in part to our experience in originating and underwriting mortgage loans that comprise assets within CMBS trusts, as well as our experience in structuring CMBS transactions. AAA-rated CMBS investments in excess of $76.0 million and all other investment grade securities positions in excess of $51.0 million require the approval of our board of directors' Risk and Underwriting Committee. The Risk and Underwriting Committee also must approve the lesser of (x) $21,000,000 and (y) 10% of the total net asset value of the respective Ladder investment company for non-rated or sub-investment grade securities. As of September 30, 2018, the estimated fair value of our portfolio of CMBS investments totaled $940.4 million in 111 CUSIPs ($8.5 million average investment per CUSIP). As of September 30, 2018, included in the $940.4 million of CMBS securities are $12.1 million of CMBS securities designated as risk retention securities under the Dodd-Frank Act which are subject to transfer restrictions over the term of the securitization trust. As of that date, 99.9% of our CMBS investments were rated investment grade by Standard & Poor's Ratings Group, Moody's Investors Service, Inc. or Fitch Ratings Inc., consisting of 79.1% AAA/Aaa-rated securities and 20.8% of other investment grade-rated securities, including 16.7% rated AA/Aa, 2% rated A/A and 2.1% rated BBB/Baa. In the future, we may invest in CMBS securities or other securities that are unrated. As of September 30, 2018, our CMBS investments had a weighted average duration of 2.4 years. The commercial real estate collateral underlying our CMBS investment portfolio is located throughout the United States. As of September 30, 2018, by property count and market value, respectively, 53.3% and 91.8% of the collateral underlying our CMBS investment portfolio was distributed throughout the top 25 metropolitan statistical areas ("MSAs") in the United States, with 4.9% and 10.3%, by property count and market value, respectively, of the collateral located in the New York-Newark-Edison MSA, and the concentrations in each of the remaining top 24 MSAs ranging from 0.0% to 7.8% by property count and 0.0% to 68.5% by market value.

U.S. Agency Securities Investments. Our U.S. Agency Securities portfolio consists of securities for which the principal and interest payments are guaranteed by a U.S. government agency, such as the Government National Mortgage Association ("GNMA"), or by a government-sponsored enterprise ("GSE"), such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"). In addition, these securities are secured by first mortgage loans on commercial real estate. Investments in U.S. Agency Securities are subject to the same Risk and Underwriting Committee approval requirements as CMBS investments, as described above. As of September 30, 2018, the estimated fair value of our portfolio of U.S. Agency Securities was $36.7 million in 20 CUSIPs ($1.8 million average investment per CUSIP), with a weighted average duration of 5.1 years. The commercial real estate collateral underlying our U.S. Agency Securities portfolio is located throughout the United States. As of September 30, 2018, by market value, 76.8% and 17.7% of the collateral underlying our U.S. Agency Securities, excluding the collateral underlying our Agency interest-only securities, was located in New York and California, respectively, with no other state having a concentration greater than 10.0%. By property count, California represented 75.9% and New York represented 3.4% of such collateral. While the specific geographic concentration of our Agency interest-only securities portfolio as of September 30, 2018 is not obtainable, risk relating to any such possible concentration is mitigated by the interest payments of these securities being guaranteed by a U.S. government agency or a GSE.

Real Estate

Commercial Real Estate Properties. As of September 30, 2018, we owned 137 single tenant net leased properties with an aggregate book value of $671.3 million. These properties are fully leased on a net basis where the tenant is generally responsible for payment of real estate taxes, property, building and general liability insurance and property and building maintenance expenses. As of September 30, 2018, our net leased properties comprised a total of 5.2

million square feet, 100% leased with an average age since construction of 14.3 years and a weighted average remaining lease term of 13.6 years. Commercial real estate investments in excess of $20.0 million require the approval of our board of directors' Risk and Underwriting Committee.

Table of Contents

In addition, as of September 30, 2018, we owned 69 diversified commercial real estate properties with an aggregate book value of $318.9 million. Through separate joint ventures, we owned a 40 property student housing portfolio in Isla Vista, CA with a book value of $82.9 million and an occupancy rate of 100.0%, a portfolio of 12 office buildings in Richmond, VA with a book value of $78.2 million with an 91.2% occupancy rate, an apartment complex in Miami, FL with a book value of $36.0 million and an occupancy rate of 87.0%, an unleased industrial building in Lithia Springs, GA with an aggregate book value of $24.5 million, a portfolio of seven office buildings in Richmond, VA with a book value of $15.8 million and an 80.3% occupancy rate, a 13-story office building in Oakland County, MI with a book value of $11.1 million and a 81.8% occupancy rate, a two-story office building in Grand Rapids, MI with a book value of $8.5 million and a 100.0% occupancy rate, and a single-tenant industrial building in Grand Rapids, MI with a book value of $5.2 million. We also own a single-tenant office building in Ewing, NJ with a book value of $28.5 million, a single-tenant office building in Crum Lynne, PA with a book value of $10.3 million, a single-tenant two-story office building in Wayne, NJ with a book value of $8.3 million, a shopping center in Carmel, NY with a book value of $6.3 million and a 43.0% occupancy rate, and an office building in Peoria, IL with a book value of $3.3 million and a 50.8% occupancy rate.

Residential Real Estate. We sold eight condominium units at Veer Towers in Las Vegas, NV, during the nine months ended September 30, 2018, generating aggregate gains on sale of $3.1 million. As of September 30, 2018, we owned five residential condominium units at Veer Towers in Las Vegas, NV with a book value of $1.3 million through a joint venture, and we expect to substantially complete the sale of these remaining units in 2018 or early 2019. As of September 30, 2018, there were two condominium units under contract for sale. As of September 30, 2018, none of the remaining condominium units we hold were rented and occupied.

We sold 18 condominium units at Terrazas River Park Village in Miami, FL, during the nine months ended September 30, 2018, generating aggregate gains on sale of $0.9 million. As of September 30, 2018, we owned 30 residential condominium units at Terrazas River Park Village in Miami, FL with a book value of $8.4 million, and we intend to sell these remaining units in less than 18 to 24 months. As of September 30, 2018, four condominium units were under contract for sale with a book value of $0.9 million. As of September 30, 2018, the remaining condominium units we hold were 62.0% rented and occupied. During the nine months ended September 30, 2018, the Company recorded $0.5 million of rental income from the condominium units.

The Company holds these residential condominium units in its TRS.

The following table, organized by tenant type and acquisition date, summarizes our owned properties as of September 30, 2018 ($ amounts in thousands):

Location	Acquisition date	Acquisition price/basis	Year built/reno.	Lease expiration (1)	Approx. square footage	Carrying value of asset	Mortgage loan outstanding (2)	Asset net of mortgage loan outstanding	Annual rental income (3)	Ownership Percentage (4)
Net Leased										
Moscow Mills, MO	04/12/18	$ 1,237	2018	1/31/33	9,026	$ 1,293	$ 992	$ 301	$ 90	100.0 %
Foley, MN	04/12/18	1,176	2018	1/1/33	7,489	1,217	884	333	85	100.0 %
Wonder Lake, IL	04/12/18	1,255	2017	7/31/32	9,100	1,306	944	362	91	100.0 %
Kirbyville, MO	04/02/18	1,156	2018	1/31/33	9,026	1,202	870	332	84	100.0 %

Gladwin, MI	04/02/18	1,171	2017	1/31/33	9,026	1,225	884	341	85	100.0	%
Rockford, MN	12/08/17	1,195	2017	10/31/32	9,002	1,209	884	325	87	100.0	%
Winterset, IA	12/08/17	1,258	2017	8/31/32	9,026	1,275	933	342	91	100.0	%
Kawkawlin, MI	10/05/17	1,234	2017	7/31/32	9,100	1,255	916	339	89	100.0	%
Aroma Park, IL	10/05/17	1,218	2017	7/31/32	9,002	1,224	950	274	88	100.0	%
East Peoria, IL	10/05/17	1,350	2017	7/31/32	9,100	1,356	1,019	337	98	100.0	%
Milford, IA	09/08/17	1,298	2017	6/1/32	9,100	1,318	988	330	94	100.0	%
Jefferson City, MO	06/02/17	1,241	2016	2/28/32	9,002	1,289	952	337	90	100.0	%
Denver, IA	05/31/17	1,183	2017	3/31/31	9,026	1,184	906	278	86	100.0	%
Port O'Connor, TX	05/25/17	1,255	2017	3/31/30	9,100	1,254	957	297	91	100.0	%
Wabasha, MN	05/25/17	1,280	2016	3/31/31	9,026	1,310	972	338	92	100.0	%
Jacksonville, FL	05/23/17	115,641	1989	9/30/31	822,540	135,446	83,415	52,031	7,403	100.0	%
Shelbyville, IL	05/23/17	1,132	2016	1/31/31	9,026	1,193	870	323	82	100.0	%

Table of Contents

Location	Acquisition date	Acquisition price/basis	Year built/reno.	Lease expiration (1)	Approx. square footage	Carrying value of asset (2)	Mortgage loan outstanding	Asset net of mortgage loan outstanding	Annual rental income (3)	Ownership Percentage (4)
Jesup, IA	05/05/17	1,163	2017	3/31/30	9,026	1,151	892	259	84	100.0 %
Hanna City, IL	04/11/17	1,141	2016	6/30/31	9,100	1,181	872	309	83	100.0 %
Ridgedale, MO	03/09/17	1,298	2016	6/30/31	9,002	1,312	1,000	312	94	100.0 %
Peoria, IL	02/06/17	1,183	2016	8/31/31	7,489	1,216	911	305	86	100.0 %
Carmi, IL	02/03/17	1,411	2016	10/31/31	9,100	1,385	1,109	276	102	100.0 %
Springfield, IL	11/16/16	1,308	2016	6/30/31	9,026	1,350	1,009	341	96	100.0 %
Fayetteville, NC	11/15/16	6,971	2008	10/31/34	14,820	6,524	4,923	1,601	450	100.0 %
Dryden Township, MI	10/26/16	1,190	2016	8/31/31	9,100	1,218	918	300	87	100.0 %
Lamar, MO	07/22/16	1,176	2016	5/31/31	9,100	1,169	908	261	86	100.0 %
Union, MO	07/01/16	1,227	2016	5/31/31	9,100	1,266	952	314	90	100.0 %
Pawnee, IL	07/01/16	1,201	2016	5/31/31	9,002	1,161	952	209	88	100.0 %
Decatur, IL	06/30/16	1,365	2016	5/31/31	9,002	1,401	1,058	343	100	100.0 %
Cape Girardeau, MO	06/30/16	1,281	2016	5/31/31	9,100	1,308	1,021	287	94	100.0 %
Linn, MO	06/30/16	1,122	2016	5/31/31	9,002	1,119	866	253	82	100.0 %
Rantoul, IL	06/21/16	1,204	2016	4/30/31	9,100	1,225	930	295	88	100.0 %
Flora Vista, NM	06/06/16	1,305	2016	4/30/31	9,002	1,243	1,008	235	95	100.0 %
Champaign, IL	06/03/16	1,324	2016	4/30/31	9,002	1,358	1,024	334	97	100.0 %
Mountain Grove, MO	06/03/16	1,279	2016	4/30/31	10,566	1,315	988	327	93	100.0 %
Decatur, IL	06/03/16	1,181	2016	4/30/31	9,002	1,199	947	252	86	100.0 %
San Antonio, TX	05/06/16	1,096	2015	3/31/31	9,100	1,075	888	187	80	100.0 %
Borger, TX	05/06/16	978	2016	3/31/31	9,100	975	785	190	71	100.0 %
St.Charles, MN	04/26/16	1,198	2016	3/31/31	9,026	1,174	962	212	87	100.0 %
Philo, IL	04/26/16	1,156	2016	3/31/31	9,026	1,165	925	240	84	100.0 %
Dimmitt, TX	04/26/16	1,319	2016	3/31/31	10,566	1,299	1,050	249	96	100.0 %
Radford, VA	12/23/15	1,564	2015	9/30/30	8,360	1,448	1,135	313	104	100.0 %
Albion, PA	12/23/15	1,525	2015	9/30/30	8,184	1,355	1,127	228	101	100.0 %
Rural Retreat, VA	12/23/15	1,399	2015	9/30/30	8,305	1,299	1,040	259	93	100.0 %
Mount Vernon, AL	12/23/15	1,224	2015	6/30/30	8,323	1,140	946	194	84	100.0 %
Malone, NY	12/16/15	1,474	2015	6/30/30	8,320	1,361	1,086	275	99	100.0 %
Mercedes, TX	12/16/15	1,263	2015	11/30/30	9,100	1,182	837	345	86	100.0 %
Gordonville, MO	11/10/15	1,207	2015	9/30/30	9,026	1,123	773	350	80	100.0 %
Rice, MN	10/28/15	1,242	2015	9/30/30	9,002	1,121	819	302	85	100.0 %
Bixby, OK	10/27/15	12,151	2012	12/31/32	75,996	11,301	7,977	3,324	769	100.0 %
Farmington, IL	10/23/15	1,408	2015	8/31/30	9,100	1,298	898	400	93	100.0 %
Grove, OK	10/20/15	5,583	2012	8/31/32	31,500	5,081	3,635	1,446	364	100.0 %
Jenks, OK	10/19/15	13,418	2009	9/24/33	80,932	12,406	6,826	3,580	912	100.0 %
Bloomington, IL	10/14/15	1,294	2015	8/31/30	9,026	1,197	819	378	85	100.0 %
Montrose, MN	10/14/15	1,193	2015	8/31/30	9,100	1,070	785	285	83	100.0 %
	10/14/15	1,137	2015	8/31/30	9,002	1,051	741	310	76	100.0 %

Lincoln County , MO										
Wilmington, IL	10/07/15	1,399	2015	8/31/30	9,002	1,292905	387	93	100.0	%
Danville, IL	10/07/15	1,160	2015	8/31/30	9,100	1,078741	337	76	100.0	%
Moultrie, GA	09/22/15	1,305	2014	6/30/29	8,225	1,171933	238	85	100.0	%
Rose Hill, NC	09/22/15	1,420	2014	6/30/29	8,320	1,2911,003	288	93	100.0	%
Rockingham, NC	09/22/15	1,158	2014	6/30/29	8,320	1,042824	218	76	100.0	%
Biscoe, NC	09/22/15	1,216	2014	6/30/29	8,320	1,098862	236	80	100.0	%
De Soto, IL	09/08/15	1,111	2015	7/31/30	9,100	1,017706	311	76	100.0	%
Kerrville, TX	08/28/15	1,236	2015	7/31/30	9,100	1,117769	348	84	100.0	%
Floresville, TX	08/28/15	1,312	2015	7/31/30	9,100	1,192815	377	89	100.0	%
Minot, ND	08/19/15	6,946	2012	1/31/34	55,440	6,4744,700	1,774	419	100.0	%

95

Table of Contents

Location	Acquisition date	Acquisition price/basis	Year built/reno.	Lease expiration (1)	Approx. square footage	Carrying value of asset (2)	Mortgage loan outstanding	Asset net of mortgage loan outstanding	Annual rental income (3)	Ownership Percentage (4)
Lebanon, MI	08/14/15	1,261	2015	7/31/30	9,050	1,176	821	355	85	100.0 %
Effingham County, IL	08/10/15	1,252	2015	6/30/30	9,002	1,154	821	333	85	100.0 %
Ponce, PR	08/03/15	9,345	2012	8/31/37	15,660	8,624	6,524	2,100	560	100.0 %
Tremont, IL	06/25/15	1,192	2015	5/31/30	9,026	1,085	790	295	82	100.0 %
Pleasanton, TX	06/24/15	1,377	2015	5/31/30	9,026	1,253	866	387	93	100.0 %
Peoria, IL	06/24/15	1,293	2015	5/31/30	9,002	1,177	856	321	87	100.0 %
Bridgeport, IL	06/24/15	1,241	2015	5/31/30	9,100	1,133	823	310	84	100.0 %
Warren, MN	06/24/15	1,090	2015	4/30/30	9,100	966	697	269	75	100.0 %
Canyon Lake, TX	06/18/15	1,443	2015	3/31/30	9,100	1,314	908	406	98	100.0 %
Wheeler, TX	06/18/15	1,127	2015	3/31/30	9,002	1,005	717	288	76	100.0 %
Aurora, MN	06/18/15	993	2015	3/31/30	9,100	904	629	275	68	100.0 %
Red Oak, IA	05/07/15	1,208	2014	10/31/29	9,026	1,078	779	299	84	100.0 %
Zapata, TX	05/07/15	1,204	2015	3/31/30	9,100	1,043	746	297	82	100.0 %
St. Francis, MN	03/26/15	1,180	2014	1/31/30	9,002	1,019	733	286	79	100.0 %
Yorktown, TX	03/25/15	1,301	2015	2/28/30	10,566	1,127	784	343	86	100.0 %
Battle Lake, MN	03/25/15	1,168	2014	2/28/30	9,100	1,001	720	281	78	100.0 %
Paynesville, MN	03/05/15	1,254	2015	11/30/26	9,100	1,114	804	310	89	100.0 %
Wheaton, MO	03/05/15	970	2015	11/30/29	9,100	851	650	201	69	100.0 %
Rotterdam, NY	03/03/15	12,619	1996	8/31/32	115,660	10,348	8,916	1,432	940	100.0 %
Hilliard, OH	03/02/15	6,384	2007	8/31/32	14,820	5,735	4,569	1,166	399	100.0 %
Niles, OH	03/02/15	5,200	2007	11/30/32	14,820	4,660	3,712	948	325	100.0 %
Youngstown, OH	02/20/15	5,400	2005	9/30/30	14,820	4,808	3,833	975	336	100.0 %
Kings Mountain, NC	01/29/15	24,167	1995	9/30/30	467,781	24,991	18,631	6,360	1,534	100.0 %
Iberia, MO	01/23/15	1,328	2015	12/31/29	10,542	1,169	894	275	94	100.0 %
Pine Island, MN	01/23/15	1,142	2014	4/30/27	9,100	988	769	219	81	100.0 %
Isle, MN	01/23/15	1,077	2014	1/31/30	9,100	930	723	207	77	100.0 %
Jacksonville, NC	01/22/15	8,632	2014	12/31/29	55,000	7,791	5,675	2,116	517	100.0 %
Evansville, IN	11/26/14	9,000	2014	12/31/35	71,680	7,997	6,421	1,576	540	100.0 %
Woodland Park, CO	11/14/14	3,969	2014	8/31/29	22,141	3,432	2,800	632	258	100.0 %
Bellport, NY	11/13/14	18,100	2014	8/16/34	87,788	16,003	12,829	3,174	1,119	100.0 %
Ankeny, IA	11/04/14	16,510	2013	10/30/34	94,872	14,684	11,701	2,983	991	100.0 %
Springfield, MO	11/04/14	11,675	2011	10/30/34	88,793	10,614	8,347	2,267	701	100.0 %
Cedar Rapids, IA	11/04/14	11,000	2012	10/30/34	79,389	9,438	7,796	1,642	660	100.0 %
Fairfield, IA	11/04/14	10,695	2011	10/30/34	69,280	9,361	7,583	1,778	642	100.0 %
Owatonna, MN	11/04/14	9,970	2010	10/30/34	70,825	8,794	7,113	1,681	598	100.0 %
Muscatine, IA	11/04/14	7,150	2013	10/30/34	78,218	7,719	5,101	2,618	429	100.0 %
Sheldon, IA	11/04/14	4,300	2011	10/30/34	35,385	3,842	3,068	774	258	100.0 %
Memphis, TN	10/24/14	5,310	1962	12/31/29	68,761	4,479	3,916	563	358	100.0 %
Bennett, CO	10/02/14	3,522	2014	8/31/29	21,930	3,014	2,487	527	229	100.0 %
Conyers, GA	08/28/14	32,530	2014	4/30/29	499,668	28,433	22,830	5,603	1,956	100.0 %

O'Fallon, IL	08/08/14	8,000	1984	1/31/28	141,436	6,8325,685	1,147	460	100.0	%
El Centro, CA	08/08/14	4,277	2014	6/30/29	19,168	3,7692,983	786	278	100.0	%
Durant, OK	01/28/13	4,991	2007	2/28/33	14,550	4,2493,235	1,014	323	100.0	%
Gallatin, TN	12/28/12	5,062	2007	9/30/32	14,820	4,3953,307	1,088	329	100.0	%
Mt. Airy, NC	12/27/12	4,492	2007	6/30/32	14,820	3,9412,937	1,004	292	100.0	%
Aiken, SC	12/21/12	5,926	2008	2/28/33	14,550	5,1133,868	1,245	384	100.0	%
Johnson City, TN	12/21/12	5,262	2007	3/30/32	14,550	4,4433,438	1,005	341	100.0	%
Palmview, TX	12/19/12	6,820	2012	8/31/37	14,820	5,8804,548	1,332	437	100.0	%
Ooltewah, TN	12/18/12	5,703	2008	1/31/33	14,550	4,8263,809	1,017	365	100.0	%

Table of Contents

Location	Acquisition date	Acquisition price/basis	Year built/reno.	Lease expiration (1)	Approx. square footage	Carrying value of asset	Mortgage loan outstanding (2)	Asset net of mortgage loan outstanding	Annual rental income (3)	Ownersh Percenta (4)
Abingdon, VA	12/18/12	4,688	2006	6/30/31	15,371	4,245	3,058	1,187	300	100.0%
Wichita, KS	12/14/12	7,200	2012	12/31/32	73,322	5,786	4,766	1,020	536	100.0%
North Dartmouth, MA	09/21/12	29,965	1989	8/31/32	103,680	22,600	18,874	3,726	2,212	100.0%
Vineland, NJ	09/21/12	22,507	2003	8/31/32	115,368	17,356	13,863	3,493	1,662	100.0%
Saratoga Springs, NY	09/21/12	20,222	1994	8/31/32	116,620	15,406	12,456	2,950	1,493	100.0%
Waldorf, MD	09/21/12	18,803	1999	8/31/32	115,660	15,380	11,582	3,798	1,388	100.0%
Mooresville, NC	09/21/12	17,644	2000	8/31/32	108,528	13,302	10,867	2,435	1,303	100.0%
Sennett, NY	09/21/12	7,476	1996	8/31/32	68,160	5,559	4,709	850	628	100.0%
DeLeon Springs, FL	08/13/12	1,242	2011	1/31/27	9,100	940	815	125	98	100.0%
Orange City, FL	05/23/12	1,317	2011	4/30/27	9,026	999	798	201	103	100.0%
Satsuma, FL	04/19/12	1,092	2011	11/30/26	9,026	785	719	66	86	100.0%
Greenwood, AR	04/12/12	5,147	2009	6/30/34	13,650	4,310	3,398	912	332	100.0%
Snellville, GA	04/04/12	8,000	2011	4/30/32	67,375	6,308	5,308	1,000	626	100.0%
Columbia, SC	04/04/12	7,800	2001	4/30/32	71,744	6,371	5,163	1,208	610	100.0%
Millbrook, AL	03/28/12	6,941	2008	3/22/32	14,820	5,717	4,581	1,136	448	100.0%
Pittsfield, MA	02/17/12	14,700	2011	10/29/31	85,188	11,804	11,089	715	1,118	100.0%
Spartanburg, SC	01/14/11	3,870	2007	8/31/32	14,820	3,282	2,612	670	291	100.0%
Tupelo, MS	08/13/10	5,128	2007	1/31/33	14,691	4,100	3,090	1,010	400	100.0%
Lilburn, GA	08/12/10	5,791	2007	10/31/32	14,752	4,604	3,474	1,130	443	100.0%
Douglasville, GA	08/12/10	5,409	2008	10/31/33	13,434	4,472	3,264	1,208	417	100.0%
Elkton, MD	07/27/10	4,872	2008	10/31/33	13,706	3,880	2,925	955	380	100.0%
Lexington, SC	06/28/10	4,732	2009	9/30/33	14,820	3,886	2,901	985	362	100.0%
Total Net Leased		730,360			5,135,139	671,344	502,440	168,904	49,057	
Diversified										
Isla Vista, CA	05/01/18	83,442	2005	7/2/19(5)	117,324	82,932	68,656	14,276	6,240	75.0 %

Lithia Springs, GA	03/08/18	24,466	2005	(6)	617,969	24,453	17,040	7,413	—	70.6 %
Crum Lynne, PA	09/29/17	9,196	1999	9/30/32	56,320	10,281	6,032	4,249	675	100.0 %
Miami, FL	08/31/17	38,145	1987	9/30/18(8)	166,176	35,986	—	35,986	3,580	80.0 %
Peoria, IL	10/21/16	2,760	1926	7/31/30	252,940	3,318	—	3,318	1,633	100.0 %
Ewing, NJ	08/04/16	30,640	2009	7/31/30	110,765	28,512	21,789	6,723	1,999	100.0 %
Carmel, NY	10/14/15	6,706	1985	1/31/39	50,121	6,337	—	6,337	477	100.0 %
Wayne, NJ	06/24/15	9,700	1980	7/31/27	56,387	8,328	6,648	1,680	1,184	100.0 %
Grand Rapids, MI	06/18/15	9,731	1963	6/30/24	97,167	8,476	7,215	1,261	875	97.0 %
Grand Rapids, MI	06/18/15	6,300	1992	6/30/24	160,000	5,200	4,901	299	560	97.0 %
Richmond, VA	08/14/14	19,850	1986	4/30/21	195,881	15,773	15,791	(18)	1,914	77.5 %
Richmond, VA	06/07/13	118,405	1984	4/30/21	994,040	78,234	74,626	3,608	11,887	77.5 %
Oakland County, MI	02/01/13	18,000	1989	12/31/21	240,900	11,082	18,087	(7,005)	4,246	90.0 %
Total Diversified		377,341			3,115,990	318,912	240,785	78,127	35,270	
Condominium										
Miami, FL	11/21/13	80,000	2010		(9)	8,407	—	8,407	516	100.0 %
Las Vegas, NV	12/20/12	119,000	2006		(11)	1,347	—	1,347	—	98.8 %
Total Condominium		199,000			—	9,754	—	9,754	516	
Total		$1,306,701			8,251,129	$1,000,010	$743,225	$256,785	$84,843	

(1) Lease expirations reflect the earliest date the lease is cancellable without penalty, although actual terms may be longer.

(2) Non-recourse.

97

Table of Contents

(3) Annual rental income represents twelve months of contractual rental income, excluding concessions, due under leases outstanding for the year ended December 31, 2018. Operating lease income on the consolidated statements of income represents rental income earned and recorded on a straight line basis over the term of the lease.

(4) Properties were consolidated as of acquisition date.

(5) 40 property student housing portfolio with 73 leaseable units with short term rentals that are renewed regularly. Represents longest term lease expiration date.

(6) No lease in place.

(7) See Note 13 to our consolidated financial statements for further information regarding noncontrolling interests.

(8) This is an apartment complex with short term rentals that are renewed regularly. Represents longest term lease expiration date.

(9) 30 remaining condominium units. As of September 30, 2018, four condominium units were under contract for sale with a book value of $0.9 million.

(10) We own a portfolio of residential condominium units, some of which are subject to residential leases. We intend to sell these units. The residential leases are generally short term in nature and are not included in the table above given our intention to sell the units.

(11) Five remaining condominium units. There were two condominium units under contract for sale as of September 30, 2018.

(12) We own, through a majority-owned joint venture with an operating partner, a portfolio of residential condominium units, some of which are subject to residential leases. The joint venture intends to sell these units. The residential leases are generally short term in nature and are not included in the table above given the joint venture's intention to sell the units.

Other Investments

Unconsolidated Joint Venture. In connection with the origination of a loan in April 2012, we received a 25% equity interest with the right to convert upon a capital event. On March 22, 2013, we refinanced the loan, and we converted our equity interest into a 19% limited liability company membership interest in Grace Lake JV, LLC ("Grace Lake LLC"). As of September 30, 2018, Grace Lake LLC owned an office building campus with a carrying value of $58.6 million, which is net of accumulated depreciation of $25.6 million, that is financed by $67.3 million of long-term debt. Debt of Grace Lake LLC is non-recourse to the limited liability company members, except for customary non-recourse carve-outs for certain actions and environmental liability. As of September 30, 2018, the book value of our investment in Grace Lake LLC was $4.8 million. During the nine months ended September 30, 2018, we received a $1.3 million distribution from our investment in Grace Lake JV, LLC.

Unconsolidated Joint Venture. On August 7, 2015, the Company entered into a joint venture, 24 Second Avenue Holdings LLC ("24 Second Avenue"), with an operating partner to invest in a ground-up condominium construction and development project located at 24 Second Avenue, New York, NY. 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, income is allocated and distributed 50% to the Company and 50% to the operating partner. As of December 31, 2016, the previously existing building had been demolished and the site was cleared with all supportive excavation work completed, and we are anticipating completion of the new construction in 2018. 24 Second Avenue consists of 31 residential condominium units and one commercial condominium unit. As of September 30, 2018, 16 residential condominium units were under contract for sale for $39.3 million in sales proceeds. As of September 30, 2018, the Company is holding a 10.0% deposit on each sales contract. The Company expects to start closing on the existing sales contracts during the quarter ended December 31, 2018, pending New York City Building Department approvals. Our operating partner entered into a construction loan with The Bank of the Ozarks in the amount of $50.5 million to fund the completion of the project. As of September 30, 2018, draws of $46.4 million have been taken against the construction loan. The Company has no remaining capital commitment to our operating partner. As of September 30, 2018, the book value of our investment in 24 Second Avenue was $31.3 million.

FHLB Stock. Tuebor Captive Insurance Company LLC (“Tuebor”) is a member of the FHLB. Each member of the FHLB must purchase and hold FHLB stock as a condition of initial and continuing membership, in proportion to their borrowings from the FHLB and levels of certain assets. Members may need to purchase additional stock to comply with these capital requirements from time to time. FHLB stock is redeemable by Tuebor upon five years’ prior written notice, subject to certain restrictions and limitations. Under certain conditions, the FHLB may also, at its sole discretion, repurchase FHLB stock from its members. As of September 30, 2018, the book value of our investment in FHLB Stock was $57.9 million.

Table of Contents

Our Financing Strategies

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

We fund our investments in commercial real estate loans and securities through multiple sources, including the $611.6 million of gross cash proceeds we raised in our initial equity private placement beginning in October 2008, the $257.4 million of gross cash proceeds we raised in our follow-on equity private placement in the third quarter of 2011, proceeds from the issuance of $325.0 million of 2017 Notes in 2012, the $238.5 million of net proceeds from the issuance of Class A common stock in 2014, proceeds from the issuance of $300.0 million of 2021 Notes in 2014, proceeds from the issuance of $500.0 million of 2022 Notes and $400.0 million of 2025 Notes in 2017, current and future earnings and cash flow from operations, existing debt facilities, and other borrowing programs in which we participate.

We finance our portfolio of commercial real estate loans using committed term facilities provided by multiple financial institutions, with total commitments of $1.7 billion at September 30, 2018, a $266.4 million Revolving Credit Facility, CLO transactions and through our FHLB membership. As of September 30, 2018, there was $752.0 million outstanding under the committed term facilities. We finance our securities portfolio, including CMBS and U.S. Agency Securities, through our FHLB membership, a $400.0 million committed term master repurchase agreement from a leading domestic financial institution and uncommitted master repurchase agreements with numerous counterparties. As of September 30, 2018, we had total outstanding balances of $221.6 million under all securities master repurchase agreements. We finance our real estate investments with non-recourse first mortgage loans. As of September 30, 2018, we had outstanding balances of $743.2 million on these non-recourse mortgage loans.

In addition to the amounts outstanding on our other facilities, we had $1.2 billion of borrowings from the FHLB outstanding at September 30, 2018. As of September 30, 2018, we also had a $266.4 million Revolving Credit Facility, with no borrowings outstanding, and $1.2 billion of Notes issued and outstanding. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and Note 8, Debt Obligations, Net in our consolidated financial statements included elsewhere in this Quarterly Report for more information about our financing arrangements.

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

We generally seek to maintain a debt-to-equity ratio of approximately 3.0:1.0 or below. We expect this ratio to fluctuate during the course of a fiscal year due to the normal course of business in our conduit lending operations, in which we generally securitize our inventory of conduit loans at intervals, and also because of changes in our asset mix, due in part to such securitizations. As of September 30, 2018, our debt-to-equity ratio was 3.1:1.0. Our adjusted leverage, a non-GAAP financial measure, was 2.6:1.0 as of September 30, 2018. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of adjusted leverage and a reconciliation to debt obligations, net. We believe that our predominantly senior secured assets and our moderate leverage provide financial flexibility to be able to capitalize on attractive market opportunities as they arise.

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

Table of Contents

Business Outlook

We believe the commercial real estate finance market is currently characterized by solid demand for fixed and floating rate mortgage financing supported by stable property values in most parts of the U.S. The demand is driven by acquisitions and refinancings of existing properties, the need to fund expenditures to renovate or otherwise improve buildings, and new real estate development. After an extended period of low and stable interest rates in the U.S., recent interest rate increases and concerns regarding the potential for additional future interest rate increases has also contributed to demand for long term fixed rate mortgage financing. More than $1.9 trillion of commercial real estate debt is scheduled to mature over the next five years (according to Trepp), providing a substantial foundation of demand for mortgage financing services going forward. Somewhat offsetting these positive macro market factors is the yield curve's flattening trend which may reflect a market anticipating slower economic growth in the future. From our perspective as a commercial mortgage lender that finances its customers' real estate investments nationwide, the trends observed in the commercial mortgage backed securities market are often informative and somewhat predictive. In 2017, new U.S. CMBS issuance volume increased 27.1% to $87.8 billion in comparison to 2016, a year in which swings in credit spreads created uncertainty for lenders and borrowers thereby suppressing transaction activity. The return to positive annual growth in U.S. CMBS issuance volume in 2017 was, at least in part, due to more stable credit spread environment that was also favorable. The tightening of CMBS credit spreads that generally prevailed during 2017 is seen as reflective of the potential for the healthy and stable conditions to continue to prevail in the commercial real estate lending market in 2018. The U.S. CMBS new issuance market has been active in 2018, with issuance for the first nine months of 2018 totaling $58.2 billion, a slight decrease of 5.3% compared to the same period in 2017, but a marked increase of 28.9% compared to the same period in 2016. During the first three months of 2018, CMBS credit spreads tightened further, but then re-widened during the three month period ended June 30, 2018, before remaining relatively stable and range-bound during the three month period ended September 30, 2018.

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

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

Factors impacting operating results

There are a number of factors that influence our operating results in a meaningful way. The most significant factors include: (1) our competition; (2) market and economic conditions; (3) loan origination volume; (4) profitability of securitizations; (5) avoidance of credit losses; (6) availability of debt and equity funding and the costs of that funding; (7) the net interest margin on our investments; (8) effectiveness of our hedging and other risk management practices; (9) real estate transactions volumes; (10) occupancy rates; and (11) expense management.

100

Table of Contents

Results of Operations

Three months ended September 30, 2018 compared to the three months ended September 30, 2017

Investment overview

Investment activity in the three months ended September 30, 2018 focused on loan, security and real estate activities. We originated and funded $676.7 million in principal value of commercial mortgage loans in the three months ended September 30, 2018. We acquired $59.1 million of new securities, which was offset by $144.6 million of sales and $36.5 million of amortization in the portfolio, which partially contributed to a net decrease in our securities portfolio of $128.1 million during the three months ended September 30, 2018. We received proceeds from the sale of real estate of $113.4 million.

Investment activity in the three months ended September 30, 2017 focused on loan, security and real estate activities. We originated and funded $630.1 million in principal value of commercial mortgage loans in the three months ended September 30, 2017. We acquired $33.0 million of new securities, which was offset by $323.9 million of sales and $11.5 million of amortization in the portfolio, which partially contributed to a net decrease in our securities portfolio of $310.1 million during the three months ended September 30, 2017. We also invested $48.6 million in real estate and received proceeds from the sale of real estate of $8.1 million.

Operating overview

Net income (loss) attributable to Class A common shareholders totaled $66.6 million for the three months ended September 30, 2018, compared to $23.6 million for the three months ended September 30, 2017. The most significant drivers of the $43.0 million increase are as follows:

- an increase in total other income of $57.1 million, primarily as a result of a $60.5 million increase in realized gain on sale of real estate, net, a $7.4 million increase in net results from derivative transactions and an increase of $2.7 million in sale of loans, net, partially offset by a $9.3 million decrease in realized gain (loss) on securities;

- an increase in net interest income of $9.6 million, primarily as a result of higher average loan balances and higher interest expense primarily attributable to the increase in LIBOR rates throughout 2017 and 2018, partially offset by the decrease in the average yield on the securities portfolio year-over-year;

- an increase in provision for loan losses of $10.3 million, primarily as a result of a $10.0 million loan-specific loss provision recorded on one of the Company’s loans further discussed below;

- an increase in total costs and expenses of $0.9 million compared to the prior year, primarily as a result of a $2.5 million increase in salaries and employee benefits, a $0.7 million increase in operating expenses, a $0.1 million increase in fee expense, partially offset by a $2.2 million decrease in real estate operating expenses; and

- an increase in income tax expense (benefit) of $1.8 million compared to the prior year, primarily as a result of significant increases to income in our TRSs related to securitization profit (along with related derivative gains), partially offset by reduced condominium sales and a reduction in tax rate due to the Tax Cuts and Jobs Act.

Core earnings, a non-GAAP financial measure, totaled $63.4 million for the three months ended September 30, 2018, compared to $35.7 million for the three months ended September 30, 2017. The significant components of the $27.7 million increase in core earnings are an increase in realized gain on the sale of real estate, net of $38.8 million, an increase in net results from derivative transactions of $8.1 million and an increase in profits on sales of loans, net of

$3.0 million, partially offset by, a decrease of $9.2 million in gain (loss) on securities and a decrease in net interest income of $0.7 million. See "—Reconciliation of Non-GAAP Financial Measures" for our definition of core earnings and a reconciliation to income (loss) before taxes.

Table of Contents

Net interest income

Interest income totaled $90.4 million for the three months ended September 30, 2018, compared to $66.8 million for the three months ended September 30, 2017. For the three months ended September 30, 2018, securities investments averaged $1.1 billion and loan investments averaged $4.0 billion. For the three months ended September 30, 2017, securities investments averaged $1.4 billion and loan investments averaged $3.1 billion. There was a $913.8 million increase in loan investments, partially offset by a $278.5 million decrease in securities investments, resulting in higher interest income due to both higher combined investment balance and investment mix composition with higher yields on loans versus yields on securities investments as well as rising interest rates.

Interest expense totaled $51.5 million for the three months ended September 30, 2018, compared to $37.5 million for the three months ended September 30, 2017. The $14.0 million increase in interest expense was primarily attributable to an increase in average debt obligations, the increase in LIBOR rates throughout 2017 and 2018, a decreased reliance on FHLB financing and securities repurchase financing, and an increase in higher cost CLO debt and senior unsecured notes. Our interest expense also includes interest expense related to mortgage loan financing against our real estate investments. Our interest expense related to mortgage loan financing increased by $3.8 million from $5.9 million for the three months ended September 30, 2017 to $9.7 million for the three months ended September 30, 2018, primarily as a result of our increase in average outstanding mortgage loan financing of $772.7 million for the three months ended September 30, 2018 compared to $666.7 million for the three months ended September 30, 2017 and the increase in the average cost of financing.

Net interest income after provision for loan losses totaled $28.6 million for the three months ended September 30, 2018, compared to $29.3 million for the three months ended September 30, 2017. The $0.7 million decrease in net interest income after provision for loan losses was primarily attributable to the increase in net interest income discussed above, offset by the increase in interest expense discussed above and the increase in our provision for loan losses discussed below.

Cost of funds, a non-GAAP financial measure, totaled $52.8 million for the three months ended September 30, 2018, compared to $40.2 million for the three months ended September 30, 2017. The $12.6 million increase in cost of funds was primarily attributable to the increase in LIBOR rates throughout 2017 and 2018 and a shift away from borrowings from the FHLB and securities repurchase financing, a lower cost source of funding, to higher cost, loan repurchase financing and senior unsecured notes.

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

Interest spreads

As of September 30, 2018, the weighted average yield on our mortgage loan receivables was 7.5%, compared to 6.7% as of September 30, 2017 as the weighted average yield on new loans originated was higher than the weighted average yield on loans that were securitized or paid off. As of September 30, 2018, the weighted average interest rate on borrowings against our mortgage loan receivables was 3.8%, compared to 2.6% as of September 30, 2017. The increase in the rate on borrowings against our mortgage loan receivables from September 30, 2017 to September 30, 2018 was primarily due to higher prevailing market borrowing rates. As of September 30, 2018, we had outstanding borrowings secured by our mortgage loan receivables equal to 48.6% of the carrying value of our mortgage loan receivables, compared to 40.5% as of September 30, 2017.

As of September 30, 2018, the weighted average yield on our real estate securities was 3.1%, compared to 2.9% as of September 30, 2017. As of September 30, 2018, the weighted average interest rate on borrowings against our real estate securities was 2.5%, compared to 1.6% as of September 30, 2017. The increase in the rate on borrowings against our real estate securities from September 30, 2017 to September 30, 2018 was primarily due to higher prevailing market borrowing rates. As of September 30, 2018, we had outstanding borrowings secured by our real estate securities equal to 85.5% of the carrying value of our real estate securities, compared to 84.8% as of September 30, 2017.

Table of Contents

Our real estate is comprised of non-interest bearing assets; however, interest incurred on mortgage financing collateralized by such real estate is included in interest expense. As of September 30, 2018, the weighted average interest rate on mortgage borrowings against our real estate was 5.1%, compared to 4.9% as of September 30, 2017. As of September 30, 2018, we had outstanding borrowings secured by our real estate equal to 74.3% of the carrying value of our real estate, compared to 63.9% as of September 30, 2017.

Provision for loan losses

We had a $10.3 million provision for loan loss expense for the three months ended September 30, 2018 and no provision for loan loss expense for the three months ended September 30, 2017. We originate and invest primarily in loans with high credit quality, and we sell our conduit loans in the ordinary course of business. We estimate our loan loss provision based on our historical loss experience and our expectation of losses inherent in the investment portfolio but not yet realized. To ensure that the risk exposures are properly measured and the appropriate reserves are taken, the Company assesses a loan loss provision balance that will grow over time with its portfolio and the related risk as the assets approach maturity and ultimate refinancing where applicable. We determined that an increase in our provision expense for loan losses of $10.3 million was required for the three months ended September 30, 2018. This provision consisted of a portfolio-based, general reserve of $0.3 million to provide reserves for expected losses over the remaining portfolio of mortgage loan receivables held for investment and an asset-specific reserve of $10.0 million relating to one of the Company's loans. For additional information, refer to "Provision for Loan Losses and Non-Accrual Status" in Note 4. Mortgage Loan Receivables to the consolidated financial statements.

Operating lease income and tenant recoveries

Operating lease income totaled $22.7 million for the three months ended September 30, 2018, compared to $22.9 million for the three months ended September 30, 2017. The decrease of $0.2 million was primarily attributable to the timing of the real estate sales during each quarter.

Tenant recoveries totaled $2.3 million for the three months ended September 30, 2018, compared to $2.4 million for the three months ended September 30, 2017. The decrease of $0.1 million was primarily attributable to the timing the real estate sales during each quarter.

Sales of loans, net

We recorded $1.9 million income (loss) from sales of loans, net, which includes all loan sales, whether by securitization, whole loan sales or other means, for the three months ended September 30, 2018, compared to $(0.8) million for the three months ended September 30, 2017, an increase of $2.7 million. Income from sales of loans, net also includes realized losses on loans related to lower of cost or market adjustments. In the three months ended September 30, 2018, we participated in one securitization transaction, transferring 13 loans with an aggregate outstanding principal balance of $102.0 million. In the three months ended September 30, 2017, we participated in no securitization transactions. In addition, in the three months ended September 30, 2017, we recorded $0.8 million of realized losses on loans related to lower of cost or market adjustments. Income from sales of loans, net is subject to market conditions impacting timing, size and pricing and as such may vary significantly quarter to quarter. There was $2.3 million income (loss) from sales of securitized loans, net of hedging for the three months ended September 30, 2018, compared to no income from sales of securitized loans, net of hedging for the three months ended September 30, 2017, due to no securitization activity during that period.

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

Realized gain (loss) on securities

Realized gain (loss) on securities totaled $(2.6) million for the three months ended September 30, 2018, compared to $6.7 million for the three months ended September 30, 2017, a $9.3 million decrease. For the three months ended September 30, 2018, we sold $144.6 million of securities, comprised of $144.6 million of CMBS and no U.S. Agency Securities. For the three months ended September 30, 2017, we sold $323.9 million of securities, comprised of $318.9 million of CMBS and $5.0 million of U.S. Agency Securities. The decrease reflects lower margin on sale of securities in 2018 as compared to 2017 and due to the increase in interest rates throughout 2017 and 2018.

Table of Contents

Unrealized gain (loss) on Agency interest-only securities

Unrealized gain (loss) on Agency interest-only securities represented a gain of $0.1 million for the three months ended September 30, 2018, compared to a gain of $0.6 million for the three months ended September 30, 2017. The negative change of $0.5 million in unrealized gain (loss) on Agency interest-only securities was due to the increase in interest rates throughout 2017 and 2018, partially offset by sales and amortization of the portfolio. Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

Realized gain on sale of real estate, net

For the three months ended September 30, 2018, income from sales of real estate, net totaled $63.7 million compared to $3.2 million for the three months ended September 30, 2017. The increase of $60.5 million was a result of the commercial real estate and residential condominium sales discussed below.

During the three months ended September 30, 2018 and 2017, we sold no single-tenant net leased properties.

During the three months ended September 30, 2018 we sold a portfolio of four diversified commercial real estate properties, resulting in a net gain on sale of $62.9 million. During the three months ended September 30, 2017, we sold no diversified commercial real estate properties.

During the three months ended September 30, 2018, income from sales of residential condominiums totaled $0.8 million. We sold two residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of $0.5 million, and six residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of $0.3 million. During the three months ended September 30, 2017, income from sales of residential condominiums totaled $3.4 million. We sold 16 residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of $3.1 million, and five residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of $0.3 million.

Fee and other income

Fee and other income totaled $4.9 million for the three months ended September 30, 2018, compared to $4.3 million for the three months ended September 30, 2017. We generate fee and other income from origination fees, exit fees and other fees on the loans we originate and in which we invest, HOA fees, unrealized gains (losses) on our investment in mutual fund and dividend income on our investment in FHLB stock. The $0.6 million increase in fee and other income year-over-year was primarily due to an increase in exit fees, partially offset by a decrease in HOA fee income.

Net result from derivative transactions

Net result from derivative transactions represented a gain of $7.1 million for the three months ended September 30, 2018, which was comprised of an unrealized loss of $1.0 million and a realized gain of $8.1 million, compared to a loss of $0.3 million which was comprised of an unrealized loss of $2.2 million and a realized gain of $1.9 million, for the three months ended September 30, 2017, a positive change of $7.4 million. The derivative positions that generated these results were a combination of futures, interest rate swaps, and credit derivatives that we employed in an effort to hedge the interest rate risk on the financing of our fixed rate assets and the net interest income we earn against the impact of changes in interest rates. The gain in 2018 was primarily related to the movement in interest rates during the three months ended September 30, 2018. The total net result from derivative transactions is composed of hedging interest expense, realized gains/losses related to hedge terminations and unrealized gains/losses related to changes in the fair value of asset hedges. The hedge positions were related to fixed rate conduit loans and securities investments.

Earnings (loss) from investment in unconsolidated joint ventures

Total earnings (loss) from investment in unconsolidated joint ventures totaled $0.4 million for the three months ended September 30, 2018, compared to $0.1 million for the three months ended September 30, 2017. Earnings from our investment in Grace Lake JV totaled $0.6 million and $0.4 million for the three months ended September 30, 2018 and 2017, respectively. Earnings (loss) from our investment in 24 Second Avenue totaled $(0.2) million for the three months ended September 30, 2018 and 2017. The loss is due to a negative return related to upfront sales costs on the investment. As of September 30, 2018, 16 residential condominium units were under contract for sale for $39.3 million in sales proceeds. We expect to start closing on the existing sales contracts during the quarter ended December 31, 2018, pending New York City Building Department approvals.

Table of Contents

Gain (loss) on extinguishment/defeasance of debt

Gain (loss) on extinguishment/defeasance of debt totaled $(4.3) million for the three months ended September 30, 2018. There was no Gain (loss) on extinguishment/defeasance of debt for the three months ended September 30, 2017. During the three months ended September 30, 2018, the Company retired $47.0 million of principal of mortgage loan financing in connection with the sale of real estate, recognizing a $4.3 million net loss on extinguishment of debt after paying $4.3 million of defeasance costs associated with the retired debt.

Salaries and employee benefits

Salaries and employee benefits totaled $15.8 million for the three months ended September 30, 2018, compared to $13.3 million for the three months ended September 30, 2017. Salaries and employee benefits are comprised primarily of salaries, bonuses, equity based compensation and other employee benefits. The increase of $2.5 million in compensation expense was primarily attributable to an increase in bonus expense and an increase in equity based compensation expense.

Operating expenses

Operating expenses totaled $5.5 million for the three months ended September 30, 2018, compared to $4.8 million for the three months ended September 30, 2017. Operating expenses are primarily comprised of professional fees, lease expense and technology expenses. The increase of $0.7 million was primarily related to an increase in professional fees and other operating expenses.

Real estate operating expenses

Real estate operating expenses totaled $7.2 million for the three months ended September 30, 2018, compared to $9.4 million for the three months ended September 30, 2017. The decrease of $2.2 million in real estate operating expenses primarily relates to the smaller inventory of condominium properties.

Fee expense

Fee expense totaled $1.3 million for the three months ended September 30, 2018, compared to $1.2 million for the three months ended September 30, 2017. Fee expense is comprised primarily of custodian fees, financing costs and servicing fees related to loans. The increase of $0.1 million in fee expense was primarily attributable to an increase in servicing fees related to the increase in the balance of our mortgage loan receivables held for investment, net, at amortized cost, partially offset by a decrease in financing fees due to reduced cost of capital at September 30, 2018, as compared to September 30, 2017.

Depreciation and amortization

Depreciation and amortization totaled $10.4 million for the three months ended September 30, 2018, compared to $10.6 million for the three months ended September 30, 2017. The $0.2 million decrease in depreciation and amortization is was primarily attributable to the timing the real estate sales during each quarter.

Income tax (benefit) expense

Most of our consolidated income tax provision related to the business units held in our TRSs. Income tax expense (benefit) totaled $1.2 million for the three months ended September 30, 2018, compared to $(0.6) million for the three months ended September 30, 2017. The increase of $1.8 million is primarily attributable to significant increases to income in our TRSs related to securitization profit (along with related derivative gains), partially offset by reduced condominium sales and a reduction in tax rate due to the Tax Cuts and Jobs Act.

Table of Contents

Results of Operations

Nine months ended September 30, 2018 compared to the nine months ended September 30, 2017

Investment overview

Investment activity in the nine months ended September 30, 2018 focused on loan, security and real estate activities. We originated and funded $2.4 billion in principal value of commercial mortgage loans, which was offset by $926.4 million of sales and $788.5 million of principal repayments in the nine months ended September 30, 2018. We acquired $303.0 million of new securities, which was offset by $306.1 million of sales and $93.2 million of amortization in the portfolio, which partially contributed to a net decrease in our securities portfolio of $128.2 million during the nine months ended September 30, 2018. We also invested $113.9 million in real estate and received proceeds from the sale of real estate of $214.6 million.

Investment activity in the nine months ended September 30, 2017 focused on loan, security and real estate activities. We originated and funded $1.8 billion in principal value of commercial mortgage loans, which was offset by $563.9 million of sales and $247.0 million of principal repayments in the nine months ended September 30, 2017. We acquired $184.5 million of new securities, which was offset by $993.7 million of sales and $93.2 million of amortization in the portfolio, which partially contributed to a net decrease in our securities portfolio of $928.6 million during the nine months ended September 30, 2017. We also invested $230.7 million in real estate and received proceeds from the sale of real estate of $20.7 million.

Operating overview

Net income (loss) attributable to Class A common shareholders totaled $155.9 million for the nine months ended September 30, 2018, compared to $59.2 million for the nine months ended September 30, 2017. The most significant drivers of the $96.7 million increase are as follows:

- an increase in total other income (loss) of $109.9 million, primarily as a result of a $88.5 million increase in profits on sale of real estate, a $47.6 million increase in net results from derivative transactions and a $6.9 million increase in operating lease income, partially offset by a decrease of $24.1 million in realized gains on securities and a decrease of $11.2 million in sales of loans, net;

- an increase in net interest income of $23.5 million, primarily as a result of higher average loan balances and higher interest expense primarily attributable to the increase in LIBOR rates throughout 2017 and 2018, partially offset by the decrease in the average yield on the securities portfolio year-over-year;

- an increase in provision for loan losses of $13.6 million, primarily as a result of a $10.0 million and a $2.7 million loan-specific loss provision recorded on three of the Company’s loans further discussed below;

- an increase in total costs and expenses of $4.4 million compared to the prior year, primarily as a result of a $3.0 million increase in salaries and employee benefits, a $2.6 million increase in depreciation and amortization, partially offset by a $1.1 million decrease in real estate operating expenses; and

- an increase in income tax expense (benefit) of $1.0 million compared to the prior year, primarily as a result of significant increases to income in our TRSs from gains on derivative transactions, partially offset by reduced condominium sales and a reduction in tax rate due to the Tax Cuts and Jobs Act.

Core earnings, a non-GAAP financial measure, totaled $177.6 million for the nine months ended September 30, 2018, compared to $118.4 million for the nine months ended September 30, 2017. The significant components of the $59.2 million increase in core earnings are an increase in total other income (loss) of $73.0 million, primarily as a result of an increase of $64.4 million in sale of real estate, net, an increase of $37.7 million in net results from derivative transactions and an increase of $6.8 million in operating lease income, partially offset by a decrease of $24.1 million in gain (loss) on securities, a decrease of $14.7 million in sale of loans, net, and the changes in provision for loan losses and total costs and expenses discussed in the preceding paragraph. See "—Reconciliation of Non-GAAP Financial Measures" for our definition of core earnings and a reconciliation to income (loss) before taxes.

Table of Contents

Net interest income

Interest income totaled $253.8 million for the nine months ended September 30, 2018, compared to $190.3 million for the nine months ended September 30, 2017. For the nine months ended September 30, 2018, securities investments averaged $1.1 billion and loan investments averaged $3.9 billion. For the nine months ended September 30, 2017, securities investments averaged $1.6 billion and loan investments averaged $2.9 billion. There was a $1.0 billion increase in loan investments, offset by a $522.7 million decrease in securities investments, resulting in higher interest income due to both higher combined investment balance and investment mix composition with higher yields on loans verses yields on securities investments as well as rising interest rates.

Interest expense totaled $144.6 million for the nine months ended September 30, 2018, compared to $104.6 million for the nine months ended September 30, 2017. The $40.0 million increase in interest expense was primarily attributable to an increase in average debt obligations, the increase in LIBOR rates throughout 2017 and 2018, a decreased reliance on FHLB financing and securities repurchase financing, and an increase in higher cost CLO debt and senior unsecured notes. Our interest expense also includes interest expense related to mortgage loan financing against our real estate investments. Our investment in real estate and related lease intangibles, net has continued to increase during 2017 and 2018 and our mortgage loan financing secured by such investments has also similarly increased. Our interest expense related to mortgage loan financing increased by $12.4 million from $15.1 million for the nine months ended September 30, 2017 to $27.5 million for the nine months ended September 30, 2018, primarily as a result of our increase in average outstanding mortgage loan financing of $732.4 million for the nine months ended September 30, 2018 compared to $619.4 million for the nine months ended September 30, 2017.

Net interest income after provision for loan losses totaled $95.6 million for the nine months ended September 30, 2018, compared to $85.8 million for the nine months ended September 30, 2017. The $9.8 million increase in net interest income after provision for loan losses was primarily attributable to the increase in net interest income, increase in interest expense discussed above and increase in debt obligations.

Cost of funds, a non-GAAP financial measure, totaled $150.4 million for the nine months ended September 30, 2018, compared to $116.4 million for the nine months ended September 30, 2017. The $34.0 million increase in cost of funds was primarily attributable to the increase in LIBOR rates throughout 2016 and 2017 and a shift away from borrowings from the FHLB and securities repurchase financing, a lower cost source of funding, to higher cost loan repurchase financing and senior unsecured notes.

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

Interest spreads

As of September 30, 2018, the weighted average yield on our mortgage loan receivables was 7.5%, compared to 6.7% as of September 30, 2017 as the weighted average yield on new loans originated was higher than the weighted average yield on loans that were securitized or paid off. As of September 30, 2018, the weighted average interest rate on borrowings against our mortgage loan receivables was 3.8%, compared to 2.6% as of September 30, 2017. The increase in the rate on borrowings
against our mortgage loan receivables from September 30, 2017 to September 30, 2018 was primarily due to higher prevailing market borrowing rates as of September 30, 2018 compared to September 30, 2017. As of September 30,

2018, we had outstanding borrowings secured by our mortgage loan receivables equal to 48.6% of the carrying value of our mortgage loan receivables, compared to 40.5% as of September 30, 2017.

As of September 30, 2018, the weighted average yield on our real estate securities was 3.1%, compared to 2.9% as of September 30, 2017. As of September 30, 2018, the weighted average interest rate on borrowings against our real estate securities was 2.5%, compared to 1.6% as of September 30, 2017. The increase in the rate on borrowings against our real estate securities from September 30, 2017 to September 30, 2018 was primarily due to higher prevailing market borrowing rates as of September 30, 2018 versus September 30, 2017. As of September 30, 2018, we had outstanding borrowings secured by our real estate securities equal to 85.5% of the carrying value of our real estate securities, compared to 84.8% as of September 30, 2017.

Table of Contents

Our real estate is comprised of non-interest bearing assets; however, interest incurred on mortgage financing collateralized by such real estate is included in interest expense. As of September 30, 2018, the weighted average interest rate on mortgage borrowings against our real estate was 5.1%, compared to 4.9% as of September 30, 2017. As of September 30, 2018, we had outstanding borrowings secured by our real estate equal to 74.3% of the carrying value of our real estate, compared to 63.9% as of September 30, 2017.

Provision for loan losses

We had $13.6 million provision for loan loss expense for the nine months ended September 30, 2018 and no provision for loan losses for the nine months ended September 30, 2017. We originate and invest primarily in loans with high credit quality, and we sell our conduit loans in the ordinary course of business. We estimate our loan loss provision based on our historical loss experience and our expectation of losses inherent in the investment portfolio but not yet realized. To ensure that the risk exposures are properly measured and the appropriate reserves are taken, the Company assesses a loan loss provision balance that will grow over time with its portfolio and the related risk as the assets approach maturity and ultimate refinancing where applicable. The Company determined that an increase in its provision expense for loan losses of $13.6 million was required for the nine months ended September 30, 2018. This provision consisted of a portfolio-based, general reserve of $0.9 million to provide reserves for expected losses over the remaining portfolio of mortgage loan receivables held for investment, an asset-specific reserve of $2.7 million relating to two of the Company's loans and an asset-specific reserve of $10.0 million relating to one of the Company's loans. For additional information, refer to "Provision for Loan Losses and Non-Accrual Status" in Note 4. Mortgage Loan Receivables to the consolidated financial statements.

Operating lease income and tenant recoveries

Operating lease income totaled $71.6 million for the nine months ended September 30, 2018, compared to $64.7 million for the nine months ended September 30, 2017. The increase of $6.9 million was primarily attributable to income on properties acquired in 2018 and a full period of operations of properties acquired in 2017. In addition, there was a $41.9 million decrease in our real estate balance from September 30, 2017 to September 30, 2018 resulting from dispositions, which occurred late in the period, and have not yet impacted operating lease income.

Tenant recoveries totaled $7.8 million for the nine months ended September 30, 2018, compared to $5.1 million for the nine months ended September 30, 2017. The increase of $2.7 million primarily reflects additional recoveries on properties acquired in 2018 and a full period of recoveries on properties acquired in 2017, partially offset by the decrease in recoveries on an existing office property due to a lease expiration. In addition, there was a $41.9 million decrease in our real estate balance from September 30, 2017 to September 30, 2018 resulting from dispositions, which occurred late in the period, and have not yet impacted tenant recoveries.

Sale of loans, net

Income (loss) from sale of loans, net, which includes all loan sales, whether by securitization, whole loan sales or other means, totaled $12.9 million for the nine months ended September 30, 2018, compared to $24.1 million for the nine months ended September 30, 2017, a decrease of $11.2 million. Income from sales of loans, net also includes realized losses on loans related to lower of cost or market adjustments. During the nine months ended September 30, 2018, we participated in six separate securitization transactions, selling/transferring 80 loans with an aggregate outstanding principal balance of $939.3 million. In addition, during the nine months ended September 30, 2018, we recorded $0.5 million of realized losses on loans related to lower of cost or market adjustments. During the nine months ended September 30, 2017, we executed a Ladder-only multi-borrower securitization from Ladder's CMBS shelf, selling 57 loans with an aggregate outstanding principal balance of $625.7 million. In addition, in the nine months ended September 30, 2017, we recorded $1.8 million of realized losses on loans related to lower of cost or market adjustments. Income from sales of loans, net is subject to market conditions impacting timing, size and pricing and as such may vary significantly quarter to quarter. There was $22.7 million income (loss) from sales of securitized loans, net of hedging for the nine months ended September 30, 2018 compared to $17.0 million for the nine months ended September 30, 2017. The $5.7 million increase was due to an increase in the aggregate outstanding principal balance of loans sold, period over period, partially offset by increasing competition in the market and lower prevailing lending credit spreads for conduit loans.

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

Realized gain (loss) on securities

Realized gain (loss) on securities totaled $(4.9) million for the nine months ended September 30, 2018, compared to $19.2 million for the nine months ended September 30, 2017, a decrease of $24.1 million. Other than temporary impairment on U.S. Agency Securities, which is included in realized gain (loss) on securities totaled $(2.2) million for the nine months ended September 30, 2018, compared to $(1.2) million for the nine months ended September 30, 2017, an increase of $(1.0) million. For the nine months ended September 30, 2018, we sold $306.1 million of CMBS securities, comprised of $305.6 million of CMBS and $0.5 million of U.S. Agency Securities. For the nine months ended September 30, 2017, we sold $993.7 million of CMBS securities, comprised of $988.7 million of CMBS and $5.0 million U.S. Agency Securities. The decrease in sales of securities reflects lower transaction volume in 2018 as compared to 2017.

Unrealized gain (loss) on Agency interest-only securities

Unrealized gain (loss) on Agency interest-only securities represented a gain of $0.5 million for the nine months ended September 30, 2018, compared to a gain of $1.0 million for the nine months ended September 30, 2017. The negative change of $0.5 million in unrealized gain (loss) on Agency interest-only securities was due to the increase in interest rates throughout 2017 and 2018, partially offset by sales and amortization of the portfolio during the nine months ended September 30, 2018. Agency interest-only securities are recorded at fair value with changes in fair value recorded in current period earnings.

Realized gain on sale of real estate, net

For the nine months ended September 30, 2018, realized gain on sale of real estate, net totaled $96.3 million, compared to $7.8 million for the nine months ended September 30, 2017. The increase of $88.5 million was a result of the commercial real estate and residential condominium sales discussed below.

During the nine months ended September 30, 2018 and 2017, there were no sales of single-tenant net lease properties.

During the nine months ended September 30, 2018, we sold six diversified commercial real estate properties, resulting in a net gain on sale of $92.4 million. During the nine months ended September 30, 2017, we sold no diversified commercial real estate properties.

During the nine months ended September 30, 2018, income from sales of residential condominiums totaled $4.0 million. We sold eight residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of $3.1 million, and 18 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of $0.9 million. We expect to substantially complete the sale of the remaining Veer units in 2018 or early 2019 and the remaining Terrazas units in less than 18 to 24 months which would result in reduced profit on condominium sales in future periods. During the nine months ended September 30, 2017, income from sales of residential condominiums totaled $7.9 million. We sold 37 residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of $6.6 million, and 21 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of $1.3 million.

Fee and other income

Fee and other income totaled $17.6 million for the nine months ended September 30, 2018, compared to $13.4 million for the nine months ended September 30, 2017. We generated fee income from origination fees, exit fees and other fees on the loans we originate and in which we invest, HOA fees and dividend income on our investment in FHLB stock. The $4.2 million increase in fee and other income year-over-year was primarily due to an increase in exit fees, partially offset by a decrease in HOA fee income.

Table of Contents

Net result from derivative transactions

Net result from derivative transactions represented a gain of $29.2 million for the nine months ended September 30, 2018, which was comprised of an unrealized gain of $1.4 million and a realized gain of $27.8 million, compared to a loss of $18.4 million which was comprised of an unrealized loss of $3.5 million and a realized loss of $14.9 million, for the nine months ended September 30, 2017, a positive change of $47.6 million. The derivative positions that generated these results were a combination of interest rate swaps, and futures that we employed in an effort to hedge the interest rate risk on the financing of our fixed rate assets and the net interest income we earn against the impact of changes in interest rates. The gain in 2018 was primarily related to movement in interest rates during the nine months ended September 30, 2018. The total net result from derivative transactions is comprised of hedging interest expense, realized gains/losses related to hedge terminations and unrealized gains/losses related to changes in the fair value of asset hedges. The hedge positions were related to fixed rate conduit loans and securities investments.

Earnings (loss) from investment in unconsolidated joint ventures

Total earnings (loss) from investment in unconsolidated joint ventures totaled $0.5 million and $0.1 million for the nine months ended September 30, 2018 and 2017, respectively. Earnings from our investment in Grace Lake LLC totaled $1.1 million and $0.9 million for the nine months ended September 30, 2018 and 2017, respectively. Earnings (loss) from our investment in 24 Second Avenue totaled $(0.7) million and $(0.8) million for the nine months ended September 30, 2018 and 2017, respectively. We made our investment in 24 Second Avenue on August 7, 2015 and incurred $0.7 million and $0.8 million in construction costs and pre-completion sales and marketing costs during the construction period for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, 16 residential condominium units were under contract for sale for $39.3 million in sales proceeds. We expect to start closing on the existing sales contracts during the quarter ended December 31, 2018, pending New York City Building Department approvals.

Gain (loss) on extinguishment/defeasance of debt

Gain (loss) on extinguishment/defeasance of debt totaled $(4.4) million and $(0.1) million for the nine months ended September 30, 2018 and 2017, respectively. During the nine months ended September 30, 2018, the Company retired $5.9 million of principal of the CLO Debt, via the purchase of related CLO securities, for a repurchase price of $6.0 million, recognizing a $0.1 million net loss on extinguishment of debt after recognizing $69.3 thousand of unamortized debt issuance costs associated with the retired debt. During the nine months ended September 30, 2018, the Company also retired $47.0 million of principal of mortgage loan financing in connection with the sale of real estate, recognizing a $4.3 million net loss on extinguishment of debt after paying $4.3 million of defeasance costs associated with the retired debt. During the nine months ended September 30, 2017, the Company retired the remaining $297.7 million of principal of the 2017 Notes for a repurchase price of $297.7 million, recognizing a $0.1 million net loss on extinguishment of debt after recognizing $(22.8) thousand of unamortized debt issuance costs associated with the retired debt.

Salaries and employee benefits

Salaries and employee benefits totaled $46.8 million for the nine months ended September 30, 2018, compared to $43.8 million for the nine months ended September 30, 2017. Salaries and employee benefits are comprised primarily of salaries, bonuses, equity based compensation and other employee benefits. The increase of $3.0 million in compensation expense was attributable to the increase in bonus expense partially offset by a decrease in equity based compensation expense in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

Operating expenses

Operating expenses totaled $16.6 million for the nine months ended September 30, 2018, compared to $16.1 million for the nine months ended September 30, 2017. Operating expenses are primarily composed of professional fees, lease expense and technology expenses. The increase of $0.5 million was primarily related to an increase in occupancy costs, professional fees and other operating expenses.

Real estate operating expenses

Real estate operating expenses totaled $23.8 million for the nine months ended September 30, 2018, compared to $24.9 million for the nine months ended September 30, 2017. The decrease of $1.1 million in real estate operating expense was in part due to the decrease in real estate in 2018 and a decrease in operating expenses for the condominiums.

Table of Contents

Fee expense

Fee expense totaled $3.0 million for the nine months ended September 30, 2018, compared to $3.6 million for the nine months ended September 30, 2017. Fee expense is comprised primarily of custodian fees, financing costs and servicing fees related to loans. The decrease of $0.6 million in fee expense was primarily attributable to a decrease in financing fees due to reduced cost of capital, partially offset by an increase in servicing fees related to the increase in the balance of our mortgage loan receivables held for investment, net, at amortized cost at September 30, 2018, as compared to September 30, 2017.

Depreciation and amortization

Depreciation and amortization totaled $31.9 million for the nine months ended September 30, 2018, compared to $29.3 million for the nine months ended September 30, 2017. The $2.6 million increase in depreciation and amortization is primarily attributable to a full period of depreciation and amortization related to properties acquired in 2017, partially offset by an out-of-period adjustment recorded in the first quarter of 2017, reducing depreciation expense by $0.8 million, relating to prior periods and certain intangible assets approaching the end of their useful lives in 2017.

Income tax (benefit) expense

Most of our consolidated income tax provision relates to the business units held in our TRSs. Income tax (benefit) expense totaled $5.7 million for the nine months ended September 30, 2018, compared to $4.7 million for the nine months ended September 30, 2017. The increase of $1.0 million is primarily attributable to the significant increase to income in our TRSs from gains on derivative transactions, partially offset by reduced condominium sales and a reduction in tax rate due to the Tax Cuts and Jobs Act.

Table of Contents

Liquidity and Capital Resources

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

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

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

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

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

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

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

Table of Contents

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

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

As of September 30, 2018, we had unrestricted cash and cash equivalents of $49.6 million, unencumbered loans of $1.2 billion, unencumbered securities of $5.1 million, unencumbered real estate of $19.4 million and $389.7 million of other assets not secured by any portion of secured indebtedness, including the net equity in consolidated VIEs.

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

Our captive insurance company subsidiary, Tuebor, is subject to state regulations which require that dividends may only be made with regulatory approval. Largely as a result of this restriction, $1.7 billion of Tuebor's member's capital was restricted from transfer via dividend to Tuebor's parent without prior approval of state insurance regulators at September 30, 2018. To facilitate intercompany cash funding of operations and investments, Tuebor and its parent maintain regulator-approved intercompany borrowing/lending agreements.

The Company established a broker-dealer subsidiary, Ladder Capital Securities LLC ("LCS"), which was initially licensed and capitalized to do business in July 2010. LCS is required to be compliant with Financial Industry Regulatory Authority ("FINRA") and SEC regulations, which require that dividends may only be made with regulatory approval. Largely as a result of this restriction, $4.0 million of LCS's member's capital was restricted from transfer to LCS's parent without prior approval of regulators at September 30, 2018.

Cash, cash equivalents and restricted cash

We held unrestricted cash and cash equivalents of $49.6 million and $76.7 million at September 30, 2018 and December 31, 2017, respectively. We held restricted cash of $35.3 million and $106.0 million at September 30, 2018 and December 31, 2017, respectively. We elected to early adopt ASU 2016-18 effective January 1, 2017. ASU 2016-18 requires the inclusion of restricted cash with cash and cash equivalents when reconciling the beginning-of-the-period and end-of-period total amounts show on the statement of cash flows. We held cash, cash equivalents and restricted cash of $84.9 million and $182.7 million at September 30, 2018 and December 31, 2017, respectively.

Cash generated from (used in) operations

Our operating activities were a net provider (user) of cash of $(51.3) million and $(316.4) million during the nine months ended September 30, 2018 and 2017, respectively. Cash from operations includes the origination of loans held for sale, net of the proceeds from sale of loans and gains from sales of loans, which was the predominant driver of the $265.1 million increase in cash generated from operations for the nine months ended September 30, 2018, compared to the nine months ended September 30, 2017.

113

Table of Contents

Borrowings under various financing arrangements

Our financing strategies are critical to the success and growth of our business. We manage our leverage policies to complement our asset composition and to diversify our exposure across multiple counterparties. Our borrowings under various financing arrangements as of September 30, 2018 and December 31, 2017 are set forth in the table below ($ in thousands):

	September 30, 2018	December 31, 2017
Committed loan repurchase facilities	$ 751,971	$ 398,653
Committed securities repurchase facility	97,921	—
Uncommitted securities repurchase facilities	123,725	74,757
Total repurchase facilities	973,617	473,410
Revolving credit facility	—	—
Mortgage loan financing(1)	743,225	692,696
CLO debt(2)	672,001	688,479
Participation financing - mortgage loan receivable	2,516	3,107
Borrowings from the FHLB	1,212,000	1,370,000
Senior unsecured notes(3)	1,154,274	1,152,134
Total debt obligations	$ 4,757,633	$ 4,379,826

(1) Presented net of unamortized debt issuance costs of $1.0 million as of September 30, 2018.

(2) Presented net of unamortized debt issuance costs of $3.5 million and $6.0 million as of September 30, 2018 and December 31, 2017, respectively.

(3) Presented net of unamortized debt issuance costs of $11.9 million and $14.1 million at September 30, 2018 and December 31, 2017, respectively.

The Company’s repurchase facilities include covenants covering minimum net worth requirements (ranging from $300.0 million to $780.0 million), maximum reductions in net worth over stated time periods, minimum liquidity levels (typically $30.0 million of cash or a higher standard that often allows for the inclusion of different percentages of liquid securities in the determination of compliance with the requirement), maximum leverage ratios (calculated in various ways based on specified definitions of indebtedness and net worth) and a fixed charge coverage ratio of 1.25x, and, in the instance of one lender, an interest coverage ratio of 1.50x, in each case, if certain liquidity thresholds are not satisfied. We were in compliance with all covenants as of September 30, 2018 and December 31, 2017. Further, certain of our financing arrangements and loans on our real property are secured by the assets of the Company, including pledges of the equity of certain subsidiaries or the assets of certain subsidiaries. From time to time, certain of these financing arrangements and loans may prohibit certain of our subsidiaries from paying dividends to the Company, from making distributions on such subsidiary’s capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary’s property or other assets to the Company or other subsidiaries of the Company.

Committed loan facilities

We are parties to multiple committed loan repurchase agreement facilities, totaling $1.7 billion of credit capacity. As of September 30, 2018, the Company had $752.0 million of borrowings outstanding, with an additional $0.9 billion of committed financing available. As of December 31, 2017, the Company had $398.7 million of borrowings outstanding, with an additional $1.3 billion of committed financing available. Assets pledged as collateral under these facilities are generally limited to whole mortgage loans collateralized by first liens on commercial real estate. Our repurchase facilities include covenants covering net worth requirements, minimum liquidity levels, and maximum debt/equity ratios. We believe we were in compliance with all covenants as of September 30, 2018 and December 31, 2017.

Table of Contents

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

Committed securities facility

We are a party to a term master repurchase agreement with a major U.S. banking institution for CMBS, totaling $400.0 million of credit capacity. As we do in the case of borrowings under committed loan facilities, we often borrow at a lower percentage of the collateral asset's value than the maximum leaving us with excess borrowing capacity that can be drawn upon a later date and/or applied against future margin calls so that they can be satisfied on a cashless basis. As of September 30, 2018, the Company had $97.9 million borrowings outstanding, with an additional $302.1 million of committed financing available. As of December 31, 2017, the Company had no borrowings outstanding, with an additional $400.0 million of committed financing available.

Uncommitted securities facilities

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

Collateralized borrowings under repurchase agreement

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

	Total			Collateralized Borrowings Under Repurchase Agreements (1)			Other Collateralized Borrowings (2)		
Quarter Ended	Quarter-end balance	Average quarterly balance	Maximum balance of any month-end	Quarter-end balance	Average quarterly balance	Maximum balance of any month-end	Quarter-end balance	Average quarterly balance	Maximum balance of any month-end
September 30, 2015	1,241,326	1,420,356	1,653,179	1,191,326	1,347,523	1,556,429	50,000	72,833	96,750
December 31, 2015	1,260,755	1,296,608	1,344,330	1,260,755	1,283,008	1,323,930	—	13,600	20,400
March 31, 2016	1,104,339	1,162,008	1,240,778	1,104,339	1,162,008	1,240,778	—	—	—
June 30, 2016	1,139,615	1,108,263	1,139,615	1,139,615	1,108,263	1,139,615	—	—	—
September 30, 2016	1,458,327	1,393,122	1,468,013	1,458,327	1,393,122	1,468,013	—	—	—

December 31, 2016	1,107,185	1,397,061	1,555,941	1,107,185	1,397,061	1,555,941	—	—	—
March 31, 2017	1,039,356	1,073,893	1,119,863	1,039,356	1,073,893	1,119,863	—	—	—
June 30, 2017	1,149,605	1,264,948	1,373,953	1,149,605	1,264,948	1,373,953	—	—	—
September 30, 2017	913,137	1,126,201	1,301,334	913,137	1,126,201	1,301,334	—	—	—
December 31, 2017	473,410	739,721	892,081	473,410	739,721	892,081	—	—	—
March 31, 2018	754,377	721,139	773,383	754,377	721,139	773,383	—	—	—
June 30, 2018	819,963	787,568	819,962	819,963	787,568	819,962	—	—	—
September 30, 2018	973,616	934,554	973,616	973,617	934,554	973,617	—	—	—

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

(2) Other collateralized borrowings include borrowings under credit agreement and borrowings under credit and security agreement.

As of September 30, 2018, we had repurchase agreements with eight counterparties, with total debt obligations outstanding of $973.6 million. As of September 30, 2018, four counterparties, Deutsche Bank, JP Morgan, US Bank and Wells Fargo, held collateral that exceeded the amounts borrowed under the related repurchase agreements by more than $77.7 million, or 5% of our total equity. As of September 30, 2018, the weighted average haircut, or the percent of collateral value in excess of the loan amount, under our repurchase agreements was 34.0%. There have been no significant fluctuations in haircuts across asset classes on our repurchase facilities.

Revolving Credit Facility

The Company entered into a revolving credit facility (the "Revolving Credit Facility") on February 11, 2014, and subsequent amendments on February 26, 2016, March 1, 2017, March 23, 2017, September 29, 2017, October 27, 2017, September 14, 2018 and September 28, 2018, which provided for, among other things, (i) additional members in the lenders' syndicate and an increase in the aggregate maximum borrowings under the agreement to $266.4 million, (ii) additional 1-year extension options to extend the final maturity date to February 2023, and (iii) a reduction in the cost of funds by 0.25%.

The Revolving Credit Facility provides for an aggregate maximum borrowing amount of $266.4 million, including a $25.0 million sublimit for the issuance of letters of credit. The Revolving Credit Facility is available on a revolving basis to finance the Company's working capital needs and for general corporate purposes. The Revolving Credit Facility has a maturity date of February 11, 2019, which may be extended by four 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 3.25% per annum payable monthly in arrears.

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

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

Mortgage loan financing

We generally finance our real estate using long-term non-recourse mortgage financing. During the nine months ended September 30, 2018, we executed 11 term debt agreements to finance real estate. These non-recourse debt agreements are fixed rate financing at rates ranging from 4.25% to 6.75%, maturing between 2020 - 2028 and totaling $743.2 million and $692.7 million at September 30, 2018 and December 31, 2017, respectively. These long-term non-recourse mortgages include net unamortized premiums of $6.1 million and $6.6 million at September 30, 2018 and December 31, 2017, respectively, representing proceeds received upon financing greater than the contractual amounts due under the agreements. The premiums are being amortized over the remaining life of the respective debt instruments using the effective interest method. We recorded $0.8 million and $0.7 million of premium amortization, which decreased interest expense, for the nine months ended September 30, 2018 and 2017, respectively. The loans are collateralized by real estate and related lease intangibles, net, of $944.6 million and $911.0 million as of September 30, 2018 and December 31, 2017, respectively.

Table of Contents

CLO Debt

The Company completed its inaugural CLO issuances in the two transactions described below. The Company had a total of $672.0 million and $688.5 million of floating rate, non-recourse CLO debt included in debt obligations on its consolidated balance sheets as of September 30, 2018 and December 31, 2017, respectively. Unamortized debt issuance costs of $3.5 million and $6.0 million are included in CLO Debt as of September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018, the CLO debt has interest rates of 3.04% to 5.76% (with a weighted average of 4.06%). As of September 30, 2018, collateral for the CLO debt comprised $869.5 million of first mortgage commercial mortgage real estate loans.

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

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

Participation Financing - Mortgage Loan Receivable

During the three months ended March 2017, the Company sold a participating interest in a first mortgage loan receivable to a third party. The sales proceeds of $4.0 million are considered non-recourse secured borrowings and are recognized in debt obligations on the Company’s consolidated balance sheets with $2.5 million and $3.1 million outstanding as of September 30, 2018 and December 31, 2017, respectively. The Company recorded $0.1 million and $0.4 million of interest expense for the three and nine months ended September 30, 2018, respectively. The Company recorded $0.2 million and $0.4 million of interest expense for the three and nine months ended September 30, 2017, respectively.

Table of Contents

FHLB financing

On July 11, 2012, Tuebor became a member of the FHLB. As of September 30, 2018, Tuebor had $1.2 billion of borrowings outstanding (with an additional $721.5 million of committed term financing available from the FHLB), with terms of overnight to six years, interest rates of 1.02% to 2.74%, and advance rates of 58.0% to 95.2% of the collateral. As of September 30, 2018, collateral for the borrowings was comprised of $721.5 million of CMBS and U.S. Agency Securities and $916.0 million of first mortgage commercial real estate loans. The weighted-average borrowings outstanding were $1.3 billion for the three months ended September 30, 2018. On December 6, 2017, Tuebor's advance limit was updated by the FHLB to the lowest of a Set Dollar Limit (currently $2.0 billion), 40% of Tuebor's total assets or 150% of the Company's total equity. Beginning April 1, 2020 through December 31, 2020, the Set Dollar Limit will be $1.5 billion. Beginning January 1, 2021 through February 19, 2021, the Set Dollar Limit will be $750.0 million. Tuebor is well-positioned to meet its obligations and pay down its advances in accordance with the scheduled reduction in the Set Dollar Limit, which remains subject to revision by the FHLB or as a result of any future changes in applicable regulations.

As of December 31, 2017, Tuebor had $1.4 billion of borrowings outstanding (with an additional $630.0 million of committed term financing available from the FHLB), with terms of overnight to six years, interest rates of 0.87% to 2.74%, and advance rates of 49.6% to 100% of the collateral. As of December 31, 2017, collateral for the borrowings was comprised of $861.7 million of CMBS and U.S. Agency Securities and $915.9 million of first mortgage commercial real estate loans. The weighted-average borrowings outstanding were $1.4 billion for the three months ended December 31, 2017.

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

1. New advances (including any existing advances that are extended during the Transition Period) will have maturity dates on or before February 19, 2021; and
2. The FHLB will make new advances to Tuebor subject to a requirement that Tuebor's total outstanding advances do not exceed 40% of Tuebor's total assets. As of September 30, 2018, the Company is in compliance with this requirement.

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

FHLB advances amounted to 25.5% of the Company's outstanding debt obligations as of September 30, 2018. The Company does not anticipate that the FHFA's final regulation will materially impact its operations as it will continue to access FHLB advances during the five-year Transition Period and it has multiple, diverse funding sources for financing its portfolio in the future. In the latter stages of the five-year Transition Period, the Company expects to adjust its financing activities by gradually making greater use of alternative sources of funding of types currently used by the Company including secured and unsecured borrowings from banks and other counterparties, the issuance of corporate bonds and equity, and the securitization or sale of assets. Future moves to alternative funding sources could result in higher or lower advance rates from secured funding sources but also the incurrence of higher funding and operating costs than would have been incurred had FHLB funding continued to be available. In addition, the Company may find it more difficult to obtain committed secured funding for multiple year terms as it has been able to obtain from the FHLB.

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

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

Tuebor is subject to state regulations which require that dividends (including dividends to the Company as its parent) may only be made with regulatory approval. However, there can be no assurance that we would obtain such approval if sought. Largely as a result of this restriction, $1.7 billion of the member's capital was restricted from transfer via dividend to Tuebor's parent without prior approval of state insurance regulators at September 30, 2018. To facilitate intercompany cash funding of operations and investments, Tuebor and its parent maintain regulator-approved intercompany borrowing/lending agreements.

Senior Unsecured Notes
LCFH issued the 2025 Notes, the 2022 Notes, the 2021 Notes and the 2017 Notes (each as defined below, and collectively, the “Notes”) with Ladder Capital Finance Corporation (“LCFC”), as co-issuers on a joint and several basis. LCFC is a 100% owned finance subsidiary of Series TRS of LCFH with no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the Notes. The Company and certain subsidiaries of LCFH currently guarantee the obligations under the Notes and the indenture. The Company is the general partner of LCFH and, through LCFH and its subsidiaries, operates the Ladder Capital business. As of September 30, 2018, the Company has a 88.2% economic and voting interest in LCFH and controls the management of LCFH as a result of its ability to appoint board members. Accordingly, the Company consolidates the financial results of LCFH and records noncontrolling interest for the economic interest in LCFH held by the Continuing LCFH Limited Partners. In addition, the Company, through certain subsidiaries which are treated as TRSs, is indirectly subject to U.S. federal, state and local income taxes. Other than the noncontrolling interest in the Operating Partnership and federal, state and local income taxes, there are no material differences between the Company’s consolidated financial statements and LCFH’s consolidated financial statements. Unamortized debt issuance costs of $11.9 million and $14.1 million are included in senior unsecured notes as of September 30, 2018 and December 31, 2017, respectively.

2017 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 were unsecured and subject to incurrence-based covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type. At any time on or after April 1, 2017, the 2017 Notes were redeemable at the option of the Company, in whole or in part, upon not less than 30 nor more than 60 days’ notice, without penalty. On 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 year ended December 31, 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.

On March 1, 2017, the Company delivered a notice of conditional full redemption to holders of the 2017 Notes, pursuant to which the Company redeemed all outstanding 2017 Notes at 100% of the principal amount thereof (plus any accrued and unpaid interest to the redemption date) as of April 1, 2017. The redemption was conditioned on the completion by the Company of a senior notes offering with gross proceeds of not less than $500 million. The Company’s offering of the 2022 Notes, described below, satisfied this condition. On April 3, 2017, the Company retired the remaining $297.7 million of principal of the 2017 Notes for a repurchase price of $297.7 million, recognizing a $53.5 thousand net loss on extinguishment of debt after recognizing $(22.8) thousand of unamortized debt issuance costs associated with the retired debt.

2021 Notes

On August 1, 2014, LCFH issued $300.0 million in aggregate principal amount of 5.875% senior notes due August 1, 2021 (the “2021 Notes”). The 2021 Notes require interest payments semi-annually in cash in arrears on February 1 and August 1 of each year, beginning on February 1, 2015. The 2021 Notes will mature on August 1, 2021. The 2021

Notes are unsecured and are subject to incurrence-based covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type. At any time on or after August 1, 2020, the 2021 Notes are redeemable at the option of the Company, in whole or in part, upon not less than 30 nor more than 60 days' notice, without penalty. On February 24, 2016, the board of directors authorized the Company to make up to $100.0 million in repurchases of the 2021 Notes from time to time without further approval. On May 2, 2018, the board of the directors authorized the Company to repurchase any or all of the 2021 Notes from time to time without further approval.

During the year ended December 31, 2016, the Company retired $33.8 million of principal of the 2021 Notes for a repurchase price of $28.2 million, recognizing a $5.1 million net gain on extinguishment of debt after recognizing $(0.4) million of unamortized debt issuance costs associated with the retired debt. As of September 30, 2018, the remaining $266.2 million in aggregate principal amount of the 2021 Notes is due August 1, 2021.

Table of Contents

2022 Notes

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

2025 Notes

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

Stock Repurchases

On October 30, 2014, the board of directors authorized the Company to make up to $50.0 million in repurchases of the Company’s Class A common stock from time to time without further approval. Stock repurchases by the Company are generally made for cash in open market transactions at prevailing market prices but may also be made in privately negotiated transactions or otherwise. The timing and amount of purchases are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. As of September 30, 2018, the Company has a remaining amount available for repurchase of $41.8 million, which represents 2.5% in the aggregate of its outstanding Class A common stock, based on the closing price of $16.94 per share on such date.

The following table is a summary of the Company’s repurchase activity of its Class A common stock during the nine months ended September 30, 2018 and 2017 ($ in thousands):

	Shares	Amount(1)
Authorizations remaining as of December 31, 2017		$ 41,769
Additional authorizations		—
Repurchases paid	—	—
Repurchases unsettled		—
Authorizations remaining as of September 30, 2018		$ 41,769

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

Table of Contents

	Shares	Amount(1)
Authorizations remaining as of December 31, 2016		$ 44,353
Additional authorizations		—
Repurchases paid	—	—
Repurchases unsettled		—
Authorizations remaining as of September 30, 2017		$ 44,353

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

Dividends

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

Consistent with IRS guidance we may, subject to a cash/stock election by our shareholders, pay a portion of our dividends in stock, to provide for meaningful capital retention; however, the REIT distribution requirements limit our ability to retain earnings and thereby replenish or increase capital for operations. The timing and amount of future distributions is based on a number of factors, including, among other things, our future operations and earnings, capital requirements and surplus, general financial condition and contractual restrictions. All dividend declarations are subject to the approval of our board of directors. Generally, we expect the distributions to be taxable as ordinary dividends to our shareholders, whether paid in cash or a combination of cash and common stock, and not as a tax-free return of capital. The tax treatment of the 2018 dividends will be disclosed by the end of January 2019. We believe that our significant capital resources and access to financing will provide the financial flexibility at levels sufficient to meet current and anticipated capital requirements, including funding new investment opportunities, paying distributions to our shareholders and servicing our debt obligations.

The following table presents dividends declared (on a per share basis) of Class A common stock for the years ended December 31, 2018 and 2017:

Declaration Date	Dividend per Share	
February 27, 2018	$ 0.315	
May 30, 2018	0.325	
September 5, 2018	0.325	
November 1, 2018	0.570	(1)
Total	$ 1.535	
March 1, 2017	$ 0.300	
June 1, 2017	0.300	
September 1, 2017	0.300	
November 7, 2017	0.315	
Total	$ 1.215	

(1) On November 1, 2018, our board of directors approved the fourth quarter 2018 dividend of $0.570 per share of the Company's Class A common stock in order to meet our annual REIT taxable income distribution requirement. The dividend will be paid as a combination of cash and Class A common stock, subject to shareholder elections.

Table of Contents

Principal repayments on investments

We receive principal amortization on our loans and securities as part of the normal course of our business. Repayment of mortgage loan receivables provided net cash of $756.7 million for the nine months ended September 30, 2018 and $267.3 million for the nine months ended September 30, 2017. Repayment of real estate securities provided net cash of $93.2 million for the nine months ended September 30, 2018 and $93.2 million for the nine months ended September 30, 2017.

Proceeds from securitizations and sales of loans

We sell our conduit mortgage loans to securitization trusts and to other third parties as part of our normal course of business. There were $926.9 million of proceeds from sales of mortgage loans for the nine months ended September 30, 2018 and $512.1 million sales of mortgage loans for the nine months ended September 30, 2017.

Proceeds from the sale of securities

We invest in CMBS and U.S. Agency Securities. Proceeds from sales of securities provided net cash of $306.1 million for the nine months ended September 30, 2018 and $995.9 million for the nine months ended September 30, 2017.

Proceeds from the sale of real estate

We own a portfolio of commercial real estate properties as well as residential condominium units. Proceeds from sales of real estate provided net cash of $214.4 million for the nine months ended September 30, 2018 and $20.5 million for the nine months ended September 30, 2017.

Proceeds from the issuance of equity

For the nine months ended September 30, 2018 and 2017, there were no proceeds realized in connection with the issuance of equity. We may issue additional equity in the future.

Other potential sources of financing

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

Table of Contents

Contractual obligations

Contractual obligations as of September 30, 2018 were as follows ($ in thousands):

	Contractual Obligations				
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Secured financings	$1,349,073(1)	$1,147,675	$422,061	$682,954	$3,601,763
Senior unsecured notes	—	266,201	500,000	400,000	1,166,201
Interest payable(2)	132,485	204,566	57,695	52,800	447,546
Other funding obligations(3)	385,972	—	—	—	385,972
Payments pursuant to tax receivable agreement	105	209	209	1,047	1,570
Operating lease obligations	295	2,360	1,279	—	3,934
Total	$1,867,930	$1,621,011	$981,244	$1,136,801	$5,606,986

(1) As more fully disclosed in Note 8, Debt Obligations, Net, these obligations are subject to existing Company controlled extension options for one or more additional one-year periods or could be refinanced by other existing facilities.
(2) Composed of interest on secured financings and on senior unsecured notes. For borrowings with variable interest rates, we used the rates in effect as of September 30, 2018 to determine the future interest payment obligations.
(3) Comprised of our off-balance sheet unfunded commitment to provide additional first mortgage loan financing as of September 30, 2018.

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

Off-Balance Sheet Arrangements

We have made investments in various unconsolidated joint ventures. See Note 7, Investment in Unconsolidated Joint Ventures for further details of our unconsolidated investments. Our maximum exposure to loss from these investments is limited to the carrying value of our investments.

Unfunded Loan Commitments

We may be a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financial needs of our borrowers. As of September 30, 2018, our off-balance sheet arrangements consisted of $386.0 million of unfunded commitments of mortgage loan receivables held for investment, all of which was to provide additional first mortgage loan financing. As of December 31, 2017, our off-balance sheet arrangements consisted of $157.0 million of unfunded commitments of mortgage loan receivables held for investment, all of which was to provide additional first mortgage loan financing. Such commitments are subject to our borrowers' satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets and are not reflected on our consolidated balance sheets.

Critical Accounting Policies

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates" within the Annual Report for a full discussion of our critical accounting policies. Other than disclosed in

Note 2, Significant Accounting Policies, our critical accounting policies have not materially changed since December 31, 2017.

Recently Adopted Accounting Pronouncements and Recent Accounting Pronouncements Pending Adoption

Our recently adopted accounting pronouncements and recent accounting pronouncements pending adoption are described in Item 1—"Financial Statements—Note 2."

Table of Contents

Reconciliation of Non-GAAP Financial Measures

Core Earnings

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

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

We define core earnings as income before taxes adjusted for: (i) real estate depreciation and amortization; (ii) the impact of derivative gains and losses related to the hedging of assets on our balance sheet as of the end of the specified accounting period; (iii) unrealized gains/(losses) related to our investments in Agency interest-only securities and passive interest in unconsolidated joint ventures; (iv) economic gains on securitization transactions not recognized under GAAP accounting for which risk has substantially transferred during the period and the exclusion of resultant GAAP recognition of the related economics during the subsequent periods; (v) non-cash stock-based compensation; and (vi) certain one-time transactional items. As more fully described in Notes 2 and 4, in the fourth quarter of 2017, the Company changed its method of accounting for transfers of financial assets subject to certain transfer restrictions on the Third Party Purchasers of risk retention securities in securitizations imposed by the Dodd-Frank Act. Because such transactions are now treated as sales for purposes of net income, the Company no longer makes an adjustment to net income for purposes of core earnings. The Company reflected this change in accounting principle retrospectively to prior interim periods within 2017.

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

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

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income (loss) before taxes	$84,668	$29,245	$200,508	$85,163
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures and operating partnership (GAAP) (1)	(7,851)	257	(16,155)	(157)
Our share of real estate depreciation, amortization and gain adjustments (2)	(12,435)	9,221	2,398	26,519
Adjustments for unrecognized derivative results (3)	(3,614)	(4,298)	(16,320)	(6,489)
Unrealized (gain) loss on Agency	(142)	(577)	(456)	(1,034)

IO securities				
Adjustment for economic gain on securitization transactions not recognized under GAAP for which risk has been substantially transferred, net of reversal/amortization	7	(324)	(530)	2,968
Non-cash stock-based compensation	2,763	2,127	8,186	11,422
Core earnings	$63,396	$35,651	$177,631	$118,392

(1) Includes $8 thousand and $8 thousand of net income attributable to noncontrolling interest in consolidated joint ventures which are included in net (income) loss attributable to noncontrolling interest in operating partnership on the consolidated statements of income for the three months ended September 30, 2018 and 2017, respectively. Includes $23 thousand and $24 thousand of net income attributable to noncontrolling interest in consolidated joint ventures which are included in net (income) loss attributable to noncontrolling interest in operating partnership on the consolidated statements of income for the nine months ended September 30, 2018 and 2017, respectively.

Table of Contents

(2) The following is a reconciliation of GAAP depreciation and amortization to our share of real estate depreciation, amortization and gain adjustments presented in the computation of core earnings in the preceding table ($ in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Total GAAP depreciation and amortization	$10,417	$10,606	$31,896	$29,323
Less: Depreciation and amortization related to non-rental property fixed assets	(18)	(23)	(56)	(70)
Less: Non-controlling interest in consolidated joint ventures' share of accumulated depreciation and amortization and unrecognized passive interest in unconsolidated joint ventures	(1,076)	(328)	(2,447)	(824)
Our share of real estate depreciation and amortization	9,323	10,255	29,393	28,429
Realized gain from accumulated depreciation and amortization on real estate sold (see below)	(22,066)	(577)	(27,553)	(1,459)
Less: Non-controlling interest in consolidated joint ventures' share of accumulated depreciation and amortization on real estate sold	653	5	1,844	12
Our share of accumulated depreciation and amortization on real estate sold	(21,413)	(572)	(25,709)	(1,447)
Less: Operating lease income on above/below market lease intangible amortization	(345)	(462)	(1,286)	(463)
Our share of real estate depreciation, amortization and gain adjustments	$(12,435)	$9,221	$2,398	$26,519

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
GAAP realized gain on sale of real estate, net	$63,704	$3,228	$96,341	$7,790
Adjusted gain/loss on sale of real estate for purposes of core earnings	(42,291)	$(2,656)	(70,632)	(6,343)
Our share of accumulated depreciation and amortization on real estate sold	$21,413	$572	$25,709	$1,447

(3) The following is a reconciliation of GAAP net results from derivative transactions to our unrecognized derivative result presented in the computation of core earnings in the preceding table ($ in thousands):

	Three Months Ended September	Nine Months Ended September 30,

	30, 2018	2017	2018	2017
Net results from derivative transactions	$7,115	$(348)	$29,156	$(18,352)
Hedging interest expense	1,365	3,449	5,789	12,573
Hedging realized result	(4,866)	1,197	(18,625)	12,268
Adjustments for unrecognized derivative results	$3,614	$4,298	$16,320	$6,489

126

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

- Core earnings does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations and is not necessarily indicative of cash necessary to fund cash needs; and

- other companies in our industry may calculate core earnings differently than we do, limiting its usefulness as a comparative measure.

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

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

Income from sales of securitized loans, net of hedging

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

Set forth below is an unaudited reconciliation of income from sale of securitized loans, net to income (loss) from sale of loans, net as reported in our consolidated financial statements included herein and an unaudited reconciliation of hedge gain/(loss) relating to loans securitized to net results from derivative transactions as reported in our consolidated financial statements included herein ($ in thousands except for number of loans and securitizations):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018(1)	2017	2018	2017
Number of loans	13	—	80	57
Face amount of loans	$ 101,978	$ —	$ 939,314	$ 625,653

sold into securitizations				
Number ofl securitizations		—	6	1
Income from sales of securitized loans, net (1)	$1,861	$ —	$13,356	$26,063
Hedge gain/(loss) related to loans securitized (2)	453	—	9,329	(9,068)
Income from sales of securitized loans, net of hedging	2,314	—	22,685	16,995
Adjustment for economic gain on securitization transactions not recognized under GAAP for which risk has been substantially transferred	265	—	232	3,746
Core gain	$2,579	$ —	$22,917	$20,741

on
sale
of
securitized
loans

127

Table of Contents

(1) The following is a reconciliation of income (loss) from sale of loans, net, which is the closest GAAP measure, as reported in our consolidated financial statements included herein to the non-GAAP financial measure of income from sales of securitized loans, net ($ in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Income from sales of loans, net	$1,861	$(775)	$12,893	$24,129
Realized losses on loans related to lower of cost or market adjustments	—	411	463	1,779
(Income) loss from sale of loans (non-securitized), net	—	364	—	155
Income from sales of securitized loans, net	$1,861	$—	$13,356	$26,063

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net results from derivative transactions	$7,115	$(348)	$29,156	$(18,352)
Hedge gain/(loss) related to lending and securities positions	(6,662)	661	(19,827)	10,746
Hedge gain/(loss) related to loans (non-securitized)	—	(313)	—	(1,462)
Hedge gain/(loss) related to loans securitized	$453	$—	$9,329	$(9,068)

Adjusted leverage

We present adjusted leverage, which is a non-GAAP financial measure, as a supplemental measure of our performance. We define adjusted leverage as the ratio of (i) debt obligations, net of deferred financing costs, adjusted for non-recourse indebtedness related to securitizations that is consolidated on our GAAP balance sheet to (ii) GAAP total equity. We believe adjusted leverage assists investors in comparing our leverage across reporting periods on a consistent basis by excluding non-recourse debt related to securitized loans.

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

	September 30, 2018	December 31, 2017
Debt obligations, net	$ 4,757,633	$ 4,379,826
Less: CLO Debt(1)	(672,001)	(688,479)
Adjusted debt obligations	4,085,632	3,691,347
Total equity	1,553,643	1,488,146
Adjusted leverage	2.6	2.5

(1) As more fully discussed in Note 8 to our consolidated financial statements, we contributed over $888.4 million of balance sheet loans into two CLO securitizations that remain on our balance sheet for accounting purposes but should be excluded from debt obligations for adjusted leverage calculation purposes.

Table of Contents

Cost of funds

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest expense	$(51,476)	$(37,485)	$(144,606)	$(104,561)
Interest expense related to liability for loan transferred but not considered sales	—	764	—	780
Net interest expense component of hedging activities (1)	(1,365)	(3,449)	(5,789)	(12,573)
Cost of funds	$(52,841)	$(40,170)	$(150,395)	$(116,354)
Interest income	$90,386	$66,833	$253,822	$190,315
Cost of funds	(52,841)	(40,170)	(150,395)	(116,354)
Interest income,	$37,545	$26,663	$103,427	$73,961

net
of
cost
of
funds

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(1) Net result from derivative transactions	$7,115	$(348)	$29,156	$(18,352)
Hedging realized result	(4,866)	1,197	(18,625)	12,268
Hedging unrecognized result	(3,614)	(4,298)	(16,320)	(6,489)
Net interest expense component of hedging activities	$(1,365)	$(3,449)	$(5,789)	$(12,573)

129

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

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

The following table summarizes the change in net income for a 12-month period commencing September 30, 2018 and the change in fair value of our investments and indebtedness assuming an increase or decrease of 100 basis points in the LIBOR interest rate on September 30, 2018, both adjusted for the effects of our interest rate hedging activities ($ in thousands):

	Projected change in net income(1)	Projected change in portfolio value
Change in interest rate:		
Decrease by 1.00%	$ (15,395)	$ 16,252
Increase by 1.00%	17,754	(16,057)

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

Market Value Risk

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

Table of Contents

Liquidity Risk

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

Credit Risk

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

Credit Spread Risk

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

Risks Related to Real Estate

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

Covenant Risk

In the normal course of business, the Company enters into loan and securities repurchase agreements and credit facilities with certain lenders to finance its real estate investment transactions. These agreements contain, among other conditions, events of default and various covenants and representations. If such events are not cured by the Company or waived by the lenders, the lenders may decide to curtail or limit extension of credit, and the Company may be forced to repay its advances or loans. In addition, the Company's Notes are subject to covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type. The Company's failure to comply with these covenants could result in an event of default, which could result in the Company being required to repay these borrowings before their due date. As of September 30, 2018, the Company believes it was in compliance with all covenants.

Table of Contents

Diversification Risk

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

Concentrations of Market Risk

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

Regulatory Risk

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

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as required by Rules 13a-15 and 15d-15 under the Exchange Act as of September 30, 2018. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective, as of September 30, 2018, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Changes in Internal Control Over Financial Reporting

There were no material impacts as a result of the accounting pronouncements adopted during the quarter ended September 30, 2018, and as such, there were no changes in controls required. There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended

September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II - Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes during the three months ended September 30, 2018 to the risk factors in Item 1A in our Annual Report.

Item 2. Unregistered Sale of Securities and Use of Proceeds

None.

Stock Repurchases

On October 30, 2014, the board of directors authorized the Company to repurchase up to $50.0 million of the Company's Class A common stock from time to time without further approval. Stock repurchases by the Company are generally made for cash in open market transactions at prevailing market prices but may also be made in privately negotiated transactions or otherwise. The timing and amount of purchases are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. During the nine months ended September 30, 2018, there were no repurchases of Class A common stock by the Company.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents

Item 6. Exhibits

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
31.1	Certification of Brian Harris pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Marc Fox pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Brian Harris pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Marc Fox pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017; (ii) the Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017; (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017; (iv) the Consolidated Statement of Changes in Equity for the nine months ended September 30, 2018 and the year ended December 31, 2017; (v) the Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2018 and 2017; and (vi) the Notes to the Consolidated Financial Statements.

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

Table of Contents

SIGNATURES

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

	LADDER CAPITAL CORP (Registrant)
Date: November 1, 2018	By: /s/ BRIAN HARRIS Brian Harris Chief Executive Officer
Date: November 1, 2018	By: /s/ MARC FOX Marc Fox Chief Financial Officer