

Ladder Capital Corp
Form 10-K
March 07, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

Or

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

For the transition period from to

Commission file number:
001-36299

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

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0925494
(IRS Employer
Identification No.)

345 Park Avenue, New York
(Address of principal executive offices)

10154
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
Class A common stock, \$0.001 par value
(Title of Each Class)

New York Stock Exchange
(Name of Each Exchange on Which Registered)

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

The aggregate market value of the Class A common stock held by non-affiliates of the registrant was \$538,367,464 as of June 30, 2015, based on the closing price of the registrant's Class A common stock reported on the New York Stock Exchange on such date of \$17.35 per share. The registrant has no non-voting common stock.

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

Class	Outstanding at February 29, 2016
Class A Common Stock, \$0.001 par value	63,466,181
Class B Common Stock, \$0.001 par value	46,445,729

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LADDER CAPITAL CORP

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

risks discussed under the heading “Risk Factors” in this Annual Report, as well as our combined consolidated financial statements, related notes, and the other financial information appearing elsewhere in this Annual Report and our other filings with the United States Securities and Exchange Commission (“SEC”);

- changes in general economic conditions, in our industry and in the commercial finance and the real estate markets;
- changes to our business and investment strategy;
- our ability to obtain and maintain financing arrangements;
- the financing and advance rates for our assets;
- our actual and expected leverage;
- the adequacy of collateral securing our loan portfolio and a decline in the fair value of our assets;
- interest rate mismatches between our assets and our borrowings used to fund such investments;
- changes in interest rates and the market value of our assets;
- changes in prepayment rates on our assets;
- the effects of hedging instruments and the degree to which our hedging strategies may or may not protect us from interest rate and credit risk volatility;
- the increased rate of default or decreased recovery rates on our assets;
- the adequacy of our policies, procedures and systems for managing risk effectively;
- a potential downgrade in the credit ratings assigned to our investments;
- the impact of and changes in governmental regulations, tax laws and rates, accounting guidance and similar matters;
- our ability to maintain our qualification as a real estate investment trust (“REIT”) for U.S. federal income tax purposes and our ability and the ability of our subsidiaries to operate in compliance with REIT requirements;
- our ability and the ability of our subsidiaries to maintain our and their exemptions from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”);
- potential liability relating to environmental matters that impact the value of properties we may acquire or the properties underlying our investments;
- the inability of insurance covering real estate underlying our loans and investments to cover all losses;
- the availability of investment opportunities in mortgage-related and real estate-related instruments and other securities;
- fraud by potential borrowers;
- the availability of qualified personnel;
- the degree and nature of our competition;

the market trends in our industry, interest rates, real estate values, the debt securities markets or the general economy;
and
the prepayment of the mortgages and other loans underlying our mortgage-backed and other asset-backed securities.

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

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REFERENCES TO LADDER CAPITAL CORP

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

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Part I

Item 1. Business

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 conduit lending, balance sheet lending, securities investments, and real estate investments, provide for a stable base of net interest and rental income. We have originated \$15.3 billion of commercial real estate loans from our inception through December 31, 2015. During this timeframe, we also acquired \$8.6 billion of investment grade-rated securities secured by first mortgage loans on commercial real estate and \$1.3 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 December 31, 2015, we originated \$11.8 billion of conduit loans, \$11.3 billion of which were sold into 37 CMBS securitizations, making us, by volume, the second largest non-bank contributor of loans to CMBS securitizations in the United States in such period. Our sales of loans into securitizations are generally accounted for as true sales, not financings, and we generally retain no ongoing interest in loans which we securitize. The securitization of conduit loans enables us to reinvest our equity capital into new loan originations or allocate it to other investments.

As of December 31, 2015, we had \$5.9 billion in total assets and \$1.5 billion of total equity. As of that date, our assets included \$2.3 billion of loans, \$2.4 billion of securities, and \$834.8 million of real estate.

We have a diversified and flexible financing strategy supporting our business operations, including significant committed term financing from leading financial institutions. As of December 31, 2015, we had \$4.3 billion of debt financing outstanding. This financing comprised \$1.9 billion of financing from the Federal Home Loan Bank (the “FHLB”), \$866.0 million committed secured term repurchase agreement financing, \$394.7 million of other securities financing, \$544.7 million of third-party, non-recourse mortgage debt, \$319.6 million in aggregate principal amount of 7.375% senior notes due October 1, 2017 (the “2017 Notes”) and \$300.0 million in aggregate principal amount of 5.875% senior notes due 2021 (the “2021 Notes,” and collectively with the 2017 Notes, the “Notes”). There were no borrowings outstanding under our Credit Agreement and our Revolving Credit Facility. In addition, as of December 31, 2015, we had \$1.4 billion of committed, undrawn funding capacity available, consisting of \$50.0 million of availability under our \$50.0 million Credit Facility, \$380.4 million of undrawn committed FHLB financing and \$919.0 million of other undrawn committed financings. As of December 31, 2015, our debt-to-equity ratio was 2.9:1.0, as we employ leverage prudently to maximize financial flexibility.

Ladder was founded in October 2008. As of December 31, 2015, we were capitalized by public investors, our management team and a group of leading global institutional investors, including affiliates of Alberta Investment Management Corp., GI Partners, Ontario Municipal Employees Retirement System and TowerBrook Capital Partners. We have built our business to include 73 full-time industry professionals, including by hiring experienced personnel known to us in the commercial mortgage industry. Doing so has allowed us to maintain consistency in our culture and operations and to focus on strong credit practices and disciplined growth.

We are led by a disciplined and highly aligned management team. As of December 31, 2015, our management team and directors held interests in our Company comprising 11.2% of our total equity. On average, our management team members have 27 years of experience in the industry. Our management team includes Brian Harris, Chief Executive Officer; Michael Mazzei, President; Pamela McCormack, Chief Strategy Officer and General Counsel; Marc Fox, Chief Financial Officer; Thomas Harney, Head of Merchant Banking & Capital Markets; and Robert Perelman, Head of Asset Management.

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.

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Recent Developments

FHLB Financing

On January 20, 2016, the Federal Housing Finance Agency (the “FHFA”), regulator of the FHLB, published a final rule in the Federal Register amending its regulation regarding the eligibility of captive insurance companies for FHLB membership. The final rule was effective February 19, 2016.

According to the final rule, Ladder’s captive insurance company subsidiary, Tuebor Captive Insurance Company LLC (“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 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 forty percent of Tuebor’s total assets.

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

FHLB advances amounted to 43.4% of the Company’s outstanding debt obligations as of December 31, 2015. 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and capital resources.”

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 may 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.

Stock Dividend and Distribution of Accumulated Earnings and Profits

On January 21, 2016, we paid an aggregate of \$15.5 million in cash to our Class A shareholders, accrued for dividends payable on unvested restricted stock of \$0.5 million and issued 5,607,762 shares of our Class A common stock, equivalent to \$64.1 million, in connection with the fourth quarter 2015 dividend of \$1.45 per share. The total number of shares of Class A common stock distributed pursuant to the fourth quarter 2015 dividend was determined based on shareholder elections and the volume weighted average price of \$11.43 per share of Class A common stock on the New York Stock Exchange for the three trading days after January 8, 2016, the date that election forms were due. In connection with the dividend, we also issued 4,468,031 shares of our Class B common stock and each of Series REIT and Series TRS of LCFH, issued 10,075,793 Series LP units corresponding to these Class A and Class B shares. We believe that the total value of our 2015 dividends was sufficient to fully distribute our 2015 taxable income and our accumulated earnings and profits.

Borrowings under Credit Agreement

On January 20, 2016, the Company executed an amendment and extension of its credit agreement with one of its multiple committed financing counterparties, extending the maximum term of the credit agreement to April 24, 2016.

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Senior Unsecured Notes

During the period from January 1, 2016 through March 4, 2016, the Company retired \$20.6 million of principal of the 2017 Notes for a repurchase price of \$20.2 million recognizing a \$0.2 million net gain on extinguishment of debt after recognizing \$(0.2) million of unamortized debt issuance costs associated with the retired debt. The remaining \$298.9 million in aggregate principal amount of the 2017 Notes is due October 2, 2017.

During the period from January 1, 2016 through March 4, 2016, the Company retired \$21.7 million of principal of the 2021 Notes for a repurchase price of \$17.9 million recognizing a \$3.5 million net gain on extinguishment of debt after recognizing \$(0.3) million of unamortized debt issuance costs associated with the retired debt. The remaining \$278.3 million in aggregate principal amount of the 2021 Notes is due August 1, 2021.

Revolving Credit Facility

On February 26, 2016, the Company executed an amendment of its revolving credit facility, providing for, among other things, increasing the maximum funding capacity of the facility to \$143.0 million.

Stock Repurchases

During the period from January 1, 2016 through March 4, 2016, the Company repurchased 151,588 shares of Class A common stock for an aggregate price of \$1.6 million or an average of \$10.57 per share. As of March 4, 2016, the Company has a remaining amount available for repurchase of \$47.4 million.

Our Businesses

We invest primarily in loans, securities and other interests in primarily 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 combined consolidated financial statements as of the dates indicated below (\$ in thousands):

	December 31, 2015			December 31, 2014		
Loans						
Conduit first mortgage loans	\$571,764	9.7	%	\$417,955	7.2	%
Balance sheet first mortgage loans	1,453,120	24.6	%	1,358,985	23.4	%
Other commercial real estate-related loans	285,525	4.8	%	162,068	2.8	%
Total loans	2,310,409	39.1	%	1,939,008	33.4	%
Securities						
CMBS investments	2,335,930	39.7	%	2,683,745	46.2	%
U.S. Agency Securities investments	71,287	1.2	%	131,821	2.3	%
Total securities	2,407,217	40.9	%	2,815,566	48.5	%
Real Estate						
Real estate and related lease intangibles, net	834,779	14.2	%	768,986	13.2	%
Total real estate	834,779	14.2	%	768,986	13.2	%
Other Investments						
Investments in unconsolidated joint ventures	33,797	0.6	%	6,041	0.1	%
FHLB stock	77,915	1.3	%	72,340	1.2	%
Total other investments	111,712	1.9	%	78,381	1.3	%
Total investments	5,664,117	96.1	%	5,601,941	96.4	%
	139,770	2.4	%	118,656	2.0	%

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Cash, cash equivalents and cash collateral held by
broker

Other assets	91,325	1.5	%	93,638	1.6	%
Total assets	\$5,895,212	100.0	%	\$5,814,235	100.0	%

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We invest in the following types of assets:

Loans

Conduit First Mortgage Loans. We 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. 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. 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 or otherwise sell them as whole loans to third-party institutional investors. From our inception in 2008 through December 31, 2015, we have originated and funded \$11.8 billion of conduit first mortgage loans and securitized \$11.3 billion of such mortgage loans in 37 separate transactions, including two securitizations in 2010, three securitizations in 2011, six securitizations in 2012, six securitizations in 2013, ten securitizations in 2014 and ten securitizations in 2015. 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, and we have also completed two single-asset securitizations. During the years ended December 31, 2015, 2014 and 2013, conduit first mortgage loans remained on our balance sheet for a weighted average of 60, 45 and 67 days prior to securitization, respectively. As of December 31, 2015, we held 35 first mortgage loans that were substantially available for contribution into a securitization with an aggregate book value of \$571.8 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 59.4% at December 31, 2015. The Company holds its conduit loans in its taxable REIT subsidiary ("TRS").

Balance Sheet First Mortgage Loans. We also 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 London Interbank Offered Rate ("LIBOR") based floating rates and terms (including extension options) ranging from one to five years. Balance sheet first mortgage loans are originated, underwritten, approved and funded using the same comprehensive legal and underwriting approach, process and personnel used to originate our conduit first mortgage loans. Balance sheet first mortgage loans in excess of \$20.0 million also require the approval of our board of directors' Risk and Underwriting Committee.

We generally seek to hold our balance sheet first mortgage loans for investment. 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 December 31, 2015, we held a portfolio of 67 balance sheet first mortgage loans with an aggregate book value of \$1.5 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 67.6% at December 31, 2015.

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 December 31, 2015, we held a portfolio of 40 other commercial real estate-related loans with an aggregate book value of \$285.5 million. Based on the loan balance and the "as-is" third-party FIRREA appraised values

at origination, the weighted average loan-to-value ratio of the portfolio was 68.7% at December 31, 2015.

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The following charts set forth our total outstanding conduit first mortgage loans, balance sheet first mortgage loans and other commercial real estate-related loans as of December 31, 2015 and a breakdown of our loan portfolio by loan size and geographic location and asset type of the underlying real estate.

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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 \$50.0 million and all other securities positions in excess of \$26.0 million require the approval of our board of directors' Risk and Underwriting Committee. As of December 31, 2015, the estimated fair value of our portfolio of CMBS investments totaled \$2.3 billion in 167 CUSIPs (\$14.0 million average investment per CUSIP). As of that date, 98.5% of our CMBS investments were rated investment grade by Standard & Poor's Ratings Group ("Standard & Poor's"), Moody's Investors Service, Inc. ("Moody's") or Fitch Ratings Inc. ("Fitch"), consisting of 87% AAA/Aaa-rated securities and 11.5% of other investment grade-rated securities, including 9% rated AA/Aa, 0.9% rated A/A and 1.6% rated BBB/Baa. In the future, we may invest in CMBS securities or other securities that are unrated. As of December 31, 2015, our CMBS investments had a weighted average duration of 3.2 years. The commercial real estate collateral underlying our CMBS investment portfolio is located throughout the United States. As of December 31, 2015, by property count and market value, respectively, 48.8% and 68.5% of the collateral underlying our CMBS investment portfolio was distributed throughout the top 25 metropolitan statistical areas ("MSAs") in the United States, with 3.5% and 29.6% of the collateral located in the New York-Newark-Edison MSA, and the concentrations in each of the remaining top 24 MSAs ranging from 0.3% to 7.8% by property count and 0.2% to 11.0% 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 ("Ginnie Mae"), or by a government-sponsored enterprise (a "GSE"), such as the Federal National Mortgage Association ("Fannie Mae") or Federal Home Loan Mortgage Corporation ("Freddie Mac"). In addition, these securities are secured by first mortgage loans on commercial real estate. As of December 31, 2015, the estimated fair value of our portfolio of U.S. Agency Securities was \$71.3 million in 33 CUSIPs (\$2.2 million average investment per CUSIP), with a weighted average duration of 6.9 years. The commercial real estate collateral underlying our U.S. Agency Securities portfolio is located throughout the United States. As of December 31, 2015, by market value 17.6% and 64.5% of the collateral underlying our U.S. Agency Securities, excluding the collateral underlying our Agency interest-only securities, was located in California and New York, respectively, with no other state having a concentration greater than 10.0%. By property count, New York represented 44.8% and California represented 32.8% of such collateral, with no other state's concentration greater than 10.0%. While the specific geographic concentration of our Agency interest-only securities portfolio as of December 31, 2015 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 December 31, 2015, we owned 98 single tenant net leased properties with an aggregate book value of \$545.4 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 December 31, 2015, our net leased properties comprised a total of 4.0 million square feet and had a 100% occupancy rate, an average age since construction of 8.4 years and a weighted average remaining lease term of 16.1 years.

In addition, as of December 31, 2015, we owned 29 other properties with an aggregate book value of \$218.4 million. Through separate joint ventures, we owned a portfolio of 13 office buildings in Richmond, VA with a book value of \$99.3 million, a portfolio of four office buildings in St. Paul, MN with a book value of \$57.3 million, a portfolio of

seven office buildings in Richmond, VA with a book value of \$18.4 million, a 13-story office building in Oakland County, MI with a book value of \$11.5 million, a two-story office building in Grand Rapids, MI with a book value of \$9.5 million and a warehouse in Grand Rapids, MI with a book value of \$6.1 million. We also own a two-story office building in Wayne, NJ with a book value of \$9.5 million and a shopping center in Carmel, NY with a book value of \$6.8 million.

For further details regarding our portfolio of commercial real estate properties, including state of operation, see “Properties.”

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Residential Real Estate. We sold 88 condominium units at Veer Towers in Las Vegas, NV, during the year ended December 31, 2015, generating aggregate gains on sale of \$16.5 million. We intend to sell the remaining units over time. As of December 31, 2015, we owned 132 residential condominium units at Veer Towers in Las Vegas, NV with a book value of \$33.8 million through a joint venture. As of December 31, 2015, seven condominium units were under contract for sale with a book value of \$1.9 million. As of December 31, 2015, the remaining condominium units we hold were 42.1% rented and occupied. During the year ended December 31, 2015, the Company recorded \$2.0 million of rental income from the condominium units.

We sold 99 condominium units at Terrazas River Park Village in Miami, FL, during the year ended December 31, 2015, generating aggregate gains on sale of \$7.0 million. We intend to sell the remaining units over time. As of December 31, 2015, we owned 153 residential condominium units at Terrazas River Park Village in Miami, FL with a book value of \$37.3 million. As of December 31, 2015, 14 condominium units were under contract for sale with a book value of \$3.2 million. As of December 31, 2015, the remaining condominium units we hold were 78.6% rented and occupied. During the year ended December 31, 2015, the Company recorded \$3.5 million of rental income from the condominium units.

The Company holds these residential condominium units in its TRS.

Other Investments

Institutional Bridge Loan Partnership. In 2011, we established an institutional partnership (“LCRIP I”) with a Canadian sovereign pension fund to invest in first mortgage bridge loans that meet predefined criteria. Our partner owns 90% of the limited partnership interest, and we own the remaining 10% on a pari passu basis and act as general partner. We retain discretion over which loans to present to LCRIP I and our partner retains the discretion to accept or reject individual loans. As the general partner, we have engaged our advisory entity to manage the assets of LCRIP I and earn management fees and incentive fees from LCRIP I. In addition, we are entitled to retain origination fees of up to 1% on loans that we sell to LCRIP I and on a case-by-case basis as approved by our partner, may retain certain exit fees. During the quarter ended June 30, 2015, the last loan held by LCRIP I was repaid. LCRIP I will continue in existence until the fifth anniversary of the date of its closing, April 15, 2016. As of December 31, 2015, the book value of our investment in LCRIP I was \$48,771.

Unconsolidated Joint Venture. In connection with the origination of a loan in April 2012, we received a 25% equity kicker with the right to convert upon a capital event. On March 22, 2013, we refinanced the loan, and we converted our equity kicker interest into a 25% limited liability company membership interest in Grace Lake JV, LLC (“Grace Lake LLC”). As of December 31, 2015, Grace Lake LLC owned an office building campus with a carrying value of \$65.2 million, which is net of accumulated depreciation of \$16.1 million, that is financed by \$73.6 million of long-term debt. Debt of Grace Lake LLC is nonrecourse to the limited liability company members, except for customary nonrecourse carve-outs for certain actions and environmental liability. As of December 31, 2015, the book value of our investment in Grace Lake LLC was \$2.9 million.

Unconsolidated Joint Venture. On August 7, 2015, the Company entered into a joint venture, 24 Second Avenue Holdings LLC (“24 Second Avenue”) with an operating partner to invest in a condominium development 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, ultimately, income is allocated and distributed 50% to the Company and 50% to the operating partner. As of December 31, 2015, the book value of our investment in 24 Second Avenue was \$30.9 million.

FHLB Stock. 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 (5) 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.

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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, 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 \$1.5 billion at December 31, 2015, a \$50.0 million Credit Agreement, a \$75.0 million Revolving Credit Facility and through our FHLB membership. As of December 31, 2015, there was \$704.1 million outstanding under the committed term facilities. We finance our securities portfolio, including CMBS and U.S. Agency Securities, through our FHLB membership, a \$300.0 million committed term master repurchase agreement from a leading domestic financial institution and uncommitted master repurchase agreements with numerous counterparties. As of December 31, 2015, we had total outstanding balances of \$556.6 million under all securities master repurchase agreements. We finance our real estate investments with nonrecourse first mortgage loans. As of December 31, 2015, we had outstanding balances of \$544.7 million on these nonrecourse mortgage loans.

In addition to the amounts outstanding on our other facilities, we had \$1.9 billion of borrowings from the FHLB outstanding at December 31, 2015. As of December 31, 2015, we also had a \$50.0 million Credit Agreement, with no borrowings outstanding, a \$75.0 million Revolving Credit Facility, with no borrowings outstanding, and \$619.6 million of Notes issued and outstanding. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources” and Note 7, Debt Obligations in our combined consolidated financial statements for the year ended December 31, 2015 included elsewhere in this Annual 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 seek to maintain a debt-to-equity ratio of 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 December 31, 2015, our debt-to-equity ratio was 2.9:1.0. 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.

Investment Process

Origination

Our team of originators is responsible for sourcing and directly originating new commercial first mortgage loans from the brokerage community and directly from real estate owners, operators, developers and investors. The extensive industry experience of our management team and origination team have enabled us to build a strong network of mortgage brokers and direct borrowers throughout the commercial real estate community in the United States.

We seek to align our interests and those of our originators by awarding our originators annual discretionary bonuses that are closely correlated with loan performance and realized profits, rather than loan volumes or other metrics. For the year ended December 31, 2015, we paid \$11.8 million in discretionary bonuses to originators.

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Credit and Underwriting

Our underwriting and credit process commences upon receipt of a potential borrower's executed loan application and non-refundable deposit.

Our underwriters conduct a thorough due diligence process for each prospective investment. The team coordinates in-house and third-party due diligence for each prospective loan as part of a checklist-based process that is designed to ensure that each loan receives a systematic evaluation. Elements of the underwriting process generally include:

Cash Flow Analysis. We create an estimated cash flow analysis and underwriting model for each prospective investment. Creation of the cash flow analysis generally draws on an assessment of current and historical data related to the property's rent roll, operating expenses, net operating income, leasing cost, and capital expenditures. Underwriting is expected to evaluate and factor in assumptions regarding current market rents, vacancy rates, operating expenses, tenant improvements, leasing commissions, replacement reserves, renewal probabilities and concession packages based on observable conditions in the subject property's sub-market at the time of underwriting. The cash flow analysis may also rely upon third-party environmental and engineering reports to estimate the cost to repair or remediate any identified environmental and/or property-level deficiencies. The final underwritten cash flow analysis is used to estimate the property's overall value and its ability to produce cash flow to service the proposed loan.

Borrower Analysis. Careful attention is also paid to the proposed borrower, including an analysis based on available information of its credit history, financial standing, existing portfolio and sponsor exposure to leverage and contingent liabilities, capacity and capability to manage and lease the collateral, depth of organization, knowledge of the local market, and understanding of the proposed product type. We also generally commission and review a third party background check of our prospective borrower and sponsor.

Site Inspection. A Ladder underwriter typically conducts a physical site inspection of each property. The site inspection gives the underwriter insights into the local market and the property's positioning within it, confirms that tenants are in-place, and generally helps to ensure that the property has the characteristics, qualities, and potential value represented by the borrower.

Legal Due Diligence. Our in-house transaction management team, comprised of experienced attorneys, manages, negotiates, structures and closes all transactions and completes legal due diligence on each property, borrower, and sponsor, including the evaluation of documents such as leases, title, title insurance, opinion letters, tenant estoppels, organizational documents, and other agreements and documents related to the property or the loan.

Third-party Appraisal. We generally commission an appraisal from a Member of the Appraisal Institute to provide an independent opinion of value as well as additional supporting property and market data. Appraisals generally include detailed data on recent property sales, local rents, vacancy rates, supply, absorption, demographics and employment, as well as a detailed projected cash flow and valuation analysis. We typically use the independent appraiser's valuation to calculate ratios such as loan-to-value and loan-to-stabilized-value ratio, as well as to serve as an independent source to which the in-house cash flow and valuation model can be compared.

Third-party Engineering Report. We generally engage an approved licensed engineer to complete property condition/engineering reports, and a seismic report for applicable properties. The engineering report is intended to identify any issues with respect to the safety and soundness of a property that may warrant further investigation, and provide estimates of ongoing replacement reserves, overall replacement cost, and the cost to bring a property into good repair.

Third-party Environmental Report. We also generally engage an approved environmental consulting firm to complete a Phase I Environmental Assessment to identify and evaluate potential environmental issues at the property, and may also order and review Phase II Environmental Assessments and/or Operations & Maintenance plans if applicable. Environmental reports and supporting documentation are typically reviewed in-house as well as by our dedicated outside environmental counsel who prepares a summary report on each property.

Third-party Insurance Review. A third-party insurance specialist reviews each prospective borrower's existing insurance program to analyze the specific risk exposure of each property and to ensure that coverage is in compliance with our standard insurance requirements. Our transaction management team oversees this third-party review and makes the conclusions of their analysis available to the underwriting team.

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A credit memorandum is prepared to summarize the results of the underwriting and due diligence process for the consideration of the Investment Committee. We thoroughly document the due diligence process up to and including the credit memorandum and maintain an organized digital archive of our work.

Transaction Management

The transaction management team is generally responsible for coordinating and managing outside counsel, working directly with originators, underwriters and borrowers to manage, structure, negotiate and close all transactions, including the securitization of our loans. The transaction management team plays an integral role in the legal underwriting of each property, consults with outside counsel on significant business, credit and/or legal issues, and facilitates the funding and closing of all investments and dispositions. The transaction management team also supports asset management and investment realization activities, including coordination of post-closing issues and assistance with loan sales, financings, refinancing and repayments.

Investment Committee Approval

All investments require approval from our Investment Committee, comprised of Brian Harris, CEO; Michael Mazzei, President; and Pamela McCormack, Chief Strategy Officer and General Counsel. The Investment Committee generally requires each investment to be fully described in a comprehensive Investment Committee memorandum that identifies the investment, the due diligence conducted and the findings, as well as all identified related risks and mitigants. The Investment Committee meets regularly to ensure that all investments are fully vetted prior to issuance of Investment Committee approval.

In addition to Investment Committee approval, the Risk and Underwriting Committee of our board of directors approves all investments above certain thresholds, which are currently set at \$50.0 million for fixed-rate loans and AAA-rated securities, and lower levels for all other types of investments.

Financing

Prior to securitization or other disposition, or in the case of balance sheet loans, maturity, we finance most of the loans we originate using our multiple committed term facilities from leading financial institutions and our membership in the FHLB. Our finance team endeavors to match the characteristics and expected holding periods of the assets being financed with the characteristics of the financing options available and our short and long term cash needs in determining the appropriate financing approaches to be applied. The approaches we apply to financing our assets are a key component of our asset/liability risk management strategy with respect to managing liquidity risk. These approaches, supplemented by the use of hedging primarily via the use of standard derivative instruments, facilitate the prudent management of our interest rate and credit spread exposures.

Asset Management

The asset management team, together with our third-party servicers, monitors the credit performance of our investment portfolio, working closely with borrowers and/or their partners to monitor performance of our collateral assets and overseeing our real estate portfolio. Asset management focuses on careful asset specific and market surveillance, active enforcement of loan and security rights, and regular review of potential disposition strategies. Loan modifications, asset recapitalizations and other necessary variations to a borrower's or partner's business plan or budget will generally be vetted through the asset management team with a recommended course of action presented to the Investment Committee for approval.

Specific responsibilities of the asset management team include:

- coordinating cash processing and cash management for collections and distributions through lock box accounts that are set up to trap all cash flow from a property;
- monitoring tax and insurance administration to ensure timely payments to appropriate authorities and maintenance or placement of applicable insurance coverages;
- assisting with escrow analysis to maintain appropriate balances in required accounts;
- monitoring UCC administration for continued compliance with lien laws in various jurisdictions;
- assisting with reserve and draw management from pre-funded accounts including monitoring draw requests for legitimacy and budget accuracy;
- coordinating and conducting site inspections and surveillance activities including periodic analysis of financial statements;
- reviewing rent rolls and operating statements;
- reviewing available information for any material variances; and

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completing and updating asset summary reviews and providing active portfolio management reporting to ensure that borrowers remain compliant with the terms of their loans and remain on target for established budgets and business plans.

Disposition and Distribution

Our securitization team works with our transaction management and underwriting teams to realize our disposition strategy of selling our conduit first mortgage loans into CMBS securitization trusts. We typically partner with other leading financial institutions to contribute loans to multi-asset securitizations. We have also led single asset securitizations on single loans we have originated.

From time to time, our registered broker-dealer subsidiary, Ladder Capital Securities LLC (“LCS”), may act as a co-manager for the underwriting syndicate of public and private CMBS securitizations where an affiliate of LCS is contributing collateral to the CMBS deal as a loan seller. In such instances, LCS, as a co-manager, will participate in the underwriting syndicate, on a best efforts basis, to structure and arrange the bond issuance and participate in the associated investor meetings and road shows. LCS generally does not receive any allocation of securities in these offerings for distribution to investor accounts and, as such, has not participated in the direct sale of any CMBS to institutional and/or retail investors. LCS did not participate in any securitizations during the year ended December 31, 2015.

In addition, Ladder has from time to time purchased predominantly AAA-rated CMBS from securitizations into which we have sold conduit first mortgage loans, generally as one of several loan contributors. In such instances, however, we have not participated as a co-manager in the underwriting syndicates. As of December 31, 2015, we owned \$31.5 million of such CMBS, representing less than 0.3% of the \$11.4 billion of CMBS issued by the related securitization trusts. As with our other CMBS investments, we purchased these securities in both primary and secondary market transactions over time.

In addition to contributing conduit loans into CMBS securitization trusts, we also maintain the flexibility to keep such loans on our balance sheet or sell them as whole loans to third-party institutional investors. Balance sheet loans that are refinanced by us into a new conduit first mortgage loan upon property stabilization and intended for securitization are re-underwritten and structured by our origination, underwriting and transaction management teams.

Our asset management team also manages sales of our real property and works with our trading and finance teams on sales of securities.

Competition

The commercial real estate finance markets are highly competitive. We face competition for lending and investment opportunities from a variety of institutional lenders and investors and many other market participants, including specialty finance companies, other REITs, commercial banks and thrift institutions, investment banks, insurance companies, hedge funds and other financial institutions. Many of these competitors enjoy competitive advantages over us, including greater name recognition, established lending relationships with customers, financial resources, and access to capital.

We compete on the basis of relationships, product offering, loan structure, terms, pricing and customer service. Our success depends on our ability to maintain and capitalize on relationships with borrowers and brokers, offer attractive loan products, remain competitive in pricing and terms, and provide superior service.

Taxation

We and certain of our subsidiaries intend to be subject to tax as REITs under Sections 856 through 860 of the Code, commencing with the taxable years ending December 31, 2015 and December 31, 2016, respectively. To qualify as REITs, we must make qualifying distributions to shareholders and satisfy, on a continuing basis, through actual investment and operating results, certain asset, income, organizational, distribution, stock ownership and other REIT requirements. If we fail to qualify as REITs, and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal, state and local income taxes and may be precluded from qualifying as REITs for the subsequent four taxable years following the year in which we lost our REIT qualification. The failure to qualify as REITs could have a material adverse impact on our results of operations and amounts available for distribution to shareholders.

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We utilize TRSs to reduce the impact of the prohibited transaction tax and to avoid penalty for the holding of assets not qualifying as real estate assets for purposes of the REIT asset tests. Any income associated with a TRS is fully taxable because a TRS is subject to federal and state income taxes as a domestic C corporation based upon its net income. See “Risk factors—Risks related to our taxation as a REIT.”

Regulation

Our operations are subject, in certain instances, to supervision and regulation by state and U.S. federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions. In addition, certain of our subsidiaries’ businesses may rely on exemptions from various requirements of the Securities Act, the Exchange Act, the Investment Company Act, and the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”). These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third-parties who we do not control.

Regulatory Reform

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which went into effect on July 21, 2010, is intended to make significant structural reforms to the financial services industry. For example, pursuant to the Dodd-Frank Act, various federal agencies have promulgated, or are in the process of promulgating, regulations and rules with respect to various issues that affect securitizations, including: (i) a recently-adopted rule requiring that sponsors in securitizations retain 5% of the credit risk associated with securities they issue; (ii) requirements for additional disclosure; (iii) requirements for additional review and reporting (including revisions to Regulation AB under the Securities Act (“Regulation AB”)); (iv) margin rules for swaps (including those used by securitizations) that will require the exchange of mark-to-market margin and possible initial margin and (v) certain restrictions designed to prohibit conflicts of interest. Other regulations have been and may ultimately be adopted. The risk retention rule that has been recently adopted (as it relates to CMBS) will take effect in December, 2016 and requires retention of at least 5% of the fair value of all securities issued in connection with a securitization for a certain period of time and, depending upon the party that will retain the risk, can be satisfied by (i) retention of a horizontal tranche (i.e., in one or more subordinate classes), (ii) retention of a vertical slice of the risk (interests in each class of securities issued in connection with the securitization) or (iii) a combination of vertical and horizontal strips. The risk (with respect to CMBS) must be retained by a sponsor (generally an issuer or certain mortgage loan originators) or, upon satisfaction of certain requirements, up to two third-party purchasers of interests in the securitization.

The risk retention rules and other rules and regulations that have been adopted or may be adopted under the Dodd-Frank Act will alter the structure of securitizations in the future and could pose additional risks to or reduce or eliminate the economic benefits of our participation in future securitizations. For example, the margin rules will likely require securitizations to maintain liquidity facilities or other access to liquid assets to meet margin requirements. In addition, such rules and regulations could reduce or eliminate the economic benefits of securitization in general or discourage traditional issuers, underwriters, b-piece buyers or other participants from participating in future securitizations and affect the availability of securitization platforms into which we can contribute mortgage loans, which may require that we take on additional roles and risks in connection with effectuating securitizations of mortgage loans.

Certain other recent and anticipated federal, state and municipal rules could also impact our business. These include (1) recent rules issued by the U.S. Commodities and Futures Trading Commission (“CFTC”) regarding commodity pool operator (“CPO”) and commodity trading advisor (“CTA”) registration and compliance obligations, (2) recent regulatory, reporting and compliance requirements applicable to swap dealers, security based swaps dealers and major swap participants under the Dodd-Frank Act, (3) recent Dodd-Frank Act regulations on derivative transactions, (4) changes to bank capital rules proposed by international regulators under the Fundamental Review of Trading Book (“FRTB”), which could require certain banks to maintain higher levels of capital when trading in securitization positions and (4)

requirements of certain states and municipalities, such as California and New York City, that require placement agents who solicit funds from the retirement and public pension systems to register as lobbyists. Because some of the rules are not yet final or are in the process of being implemented, the full effect of the rules may not be known for some time. In addition, the SEC and other agencies continue to generate new rules. See also “Risk factors-Risks related to regulatory and compliance matters” and “Risk Factors-Risks related to hedging.”

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Regulation of Commercial Real Estate Lending Activities

Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We also are required to comply with certain provisions of, among other statutes and regulations, certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans, the USA PATRIOT Act, regulations promulgated by the Office of Foreign Asset Control and U.S. federal and state securities laws and regulations.

Regulation as an Investment Adviser

We conduct investment advisory activities in the United States through our subsidiaries, Ladder Capital Adviser LLC and LCR Income I GP LLC. Both of these entities are regulated by the SEC as registered investment advisers under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). A registered investment adviser is subject to U.S. federal and state laws and regulations primarily intended to benefit its clients. These laws and regulations include requirements relating to, among other things, fiduciary duties to clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, record keeping and reporting requirements, disclosure requirements, custody arrangements, limitations on agency cross and principal transactions between an investment adviser and its advisory clients and general anti-fraud prohibitions. In addition, these laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict us from conducting our advisory activities in the event we fail to comply with those laws and regulations. Sanctions that may be imposed for a failure to comply with applicable legal requirements include the suspension of individual employees, limitations on our engaging in various advisory activities for specified periods of time, disgorgement, the revocation of registrations, and other censures and fines.

We may become subject to additional regulatory and compliance burdens as our investment adviser subsidiaries expand their product offerings and investment platform. For example, if one of our investment adviser subsidiaries were to advise a registered investment company under the Investment Company Act, such registered investment company and our subsidiary that serves as its investment adviser would be subject to the Investment Company Act and the rules thereunder, which, among other things, regulate the relationship between a registered investment company and its investment adviser and prohibit or severely restrict principal transactions and joint transactions. This additional regulation could increase our compliance costs and create the potential for additional liabilities and penalties.

In June 2010, the SEC approved Rule 206(4)-5 under the Advisers Act regarding “pay to play” practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients. The rule prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in a position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser’s employees and engagement of third-parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. In addition, there have been similar rules on a state-level regarding “pay to play” practices by investment advisers.

Regulation as a Broker-Dealer

We have a subsidiary, Ladder Capital Securities LLC, that is registered as a broker-dealer with the SEC and in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and is a member of the Financial Industry

Regulatory Authority (“FINRA”). This subsidiary, which from time to time co-manages the CMBS securitizations to which an affiliate contributes collateral as loan seller, is subject to regulations that cover all aspects of its business, including sales methods, trade practices, use and safekeeping of clients’ funds and securities, the capital structure of the subsidiary, recordkeeping, the financing of clients’ purchases and the conduct of directors, officers and employees. Violations of these regulations can result in the revocation of its broker-dealer license (which could result in our having to hire new licensed investment professionals before continuing certain operations), the imposition of censure or fines and the suspension or expulsion of the subsidiary, its officers or employees from FINRA. The subsidiary also may be required to maintain certain minimum net capital. Rule 15c3-1 of the Exchange Act specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer’s assets be kept in relatively liquid form. The SEC and FINRA impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC’s uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

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Regulation as a Captive Insurance Company

We maintain a captive insurance company, Tuebor Captive Insurance Company LLC (“Tuebor”) to provide coverage previously self insured by us, including nuclear, biological or chemical coverage, excess property coverage and excess errors and omissions coverage. It is regulated by the state of Michigan and is subject to regulations that cover all aspects of its business. Violations of these regulations can result in revocation of its authorization to do business as a captive insurer or result in censures or fines. The subsidiary is also subject to insurance laws of states other than Michigan (i.e., states where the insureds are located). See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources.”

Investment Company Act Exemption

We intend to conduct our operations so that neither we nor any of our subsidiaries (including any series thereof) are required to register as an investment company under the Investment Company Act.

If we or any of our subsidiaries (including any series thereof) fail to qualify for and maintain an exemption from registration under the Investment Company Act, or an exclusion from the definition of an investment company, we could, among other things, be required either to (a) substantially change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (c) register as an investment company under the Investment Company Act, any of which could have an adverse effect on us, our financial results, the sustainability of our business model or the value of our securities.

If we or any of our subsidiaries (including any series thereof) were required to register as an investment company under the Investment Company Act, the registered entity would become subject to substantial regulation with respect to capital structure (including the ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change its operation and we would not be able to conduct our business as described in this Annual Report. For example, because affiliate transactions are generally prohibited under the Investment Company Act, we would not be able to enter into certain transactions with any of our affiliates if we are required to register as an investment company, which could have a material adverse effect on our ability to operate our business.

If we were required to register us as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer which is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities, and owns or proposes to acquire investment securities having a value exceeding 40% of the value of such issuer’s total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. Excluded from the term “investment securities,” among other things, are U.S. government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company for certain privately-offered investment vehicles set forth in Section 3(c)(1) or 3(c)(7) of the Investment Company Act.

We are organized as a holding company and conduct our businesses primarily through our majority-owned subsidiaries (including any series thereof). We intend to conduct our operations so that we do not come within the definition of an investment company under Section 3(a)(1)(C) of the Investment Company Act because less than 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis will consist of “investment securities,” which excludes, among other things, U.S. government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. We will monitor our holdings to ensure continuing and ongoing compliance with this test. In addition, we believe that we will not be considered an investment company under Section 3(a)(1)(A) of the Investment Company Act because we will not engage primarily, hold ourselves out as being engaged primarily, or propose to engage primarily, in the business of investing, reinvesting or trading in securities. Rather, we will be engaged primarily in the business of holding securities of our majority-owned subsidiaries (including any series thereof).

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We expect that certain of our subsidiaries (including any series thereof) may rely on the exclusion from the definition of an “investment company” under the Investment Company Act pursuant to Section 3(c)(5)(C) of the Investment Company Act, which is available for entities “primarily engaged” in the business of “purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” This exclusion, as interpreted by the staff of the SEC, requires that an entity invest at least 55% of its assets in “qualifying real estate assets” and at least 80% of its assets in qualifying real estate assets and “real estate-related assets.”

Although we reserve the right to modify our business methods at any time, as of December 31, 2015, we expect each of our subsidiaries (including any series thereof) relying on Section 3(c)(5)(C) to primarily hold assets in one or more of the following categories, which are comprised primarily of “qualifying real estate assets”: commercial mortgage loans, investments in securities secured by first mortgage loans, and investments in selected net leased and other real estate assets. We expect each of our subsidiaries (including any series thereof) relying on Section 3(c)(5)(C) to rely on guidance published by the SEC or its staff or on our analyses of such guidance to determine which assets are qualifying real estate assets and real estate-related assets. To the extent that the SEC or its staff publishes new or different guidance with respect to these matters, we may be required to adjust our strategies accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in a subsidiary holding assets we might wish to sell or selling assets we might wish to hold.

Any of the Company or our subsidiaries (including any series thereof) may rely on the exemption provided by Section 3(c)(6) of the Investment Company Act to the extent that they primarily engage, directly or through majority-owned subsidiaries (including any series thereof), in the businesses described in Sections 3(c)(3), 3(c)(4) and 3(c)(5) of the Investment Company Act. The SEC staff has issued little interpretive guidance with respect to Section 3(c)(6) and any guidance published by the staff could require us to adjust our strategies accordingly.

In 2011, the SEC solicited public comment on a wide range of issues relating to Section 3(c)(5)(C) of the Investment Company Act, including the nature of the assets that qualify for purposes of the exemption and whether companies that are engaged in the business of acquiring mortgages and mortgage-related instruments should be regulated in a manner similar to investment companies. There can be no assurance that the laws and regulations governing the Investment Company Act status of such companies, including the SEC or its staff providing more specific or different guidance regarding Section 3(c)(5)(C), will not change in a manner that adversely affects our operations.

Qualification for exclusion from the definition of an investment company under the Investment Company Act may limit our ability to make certain investments. In addition, complying with the tests for such exclusion may restrict the time at which we can acquire and sell assets. To the extent that the SEC or its staff provides more specific guidance regarding any of the matters bearing upon such exclusions, we may be required to adjust our strategies accordingly. Any additional guidance from the SEC or its staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies we have chosen. See “Risk factors—Risks related to our Investment Company Act exemption—Maintenance of our exemption from registration under the Investment Company Act imposes significant limits on our operations.”

Employees

As of December 31, 2015, we employed 73 full-time persons. All employees are employed by our operating subsidiary, Ladder Capital Finance LLC. None of our employees are represented by a union or subject to a collective bargaining agreement and we have never experienced a work stoppage. We believe that our employee relations are good.

Our Corporate Information

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Our principal executive offices are located at 345 Park Avenue, 8th Floor, New York, New York 10154, and our telephone number is (212) 715-3170. We maintain a website on the Internet at <http://www.laddercapital.com>. The information contained in our website is not incorporated by reference into this Annual Report. We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the SEC in accordance with the Exchange Act. These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC.

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Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may adversely impact our business. If any of the following risks occur, our business, financial condition, operating results, cash flows and liquidity could be materially adversely affected. The market price of our Class A common stock could decline if one or more of these risks or uncertainties actually occur, causing you to lose all or part of your investment in our Class A common stock. Certain statements in “Risk Factors” are forward-looking statements. See “Information Regarding Forward-Looking Statements” included elsewhere in this Annual Report.

Risks Related to Our Operations

Our business model may not be successful. We may change our investment strategy and financing policy in the future without stockholder consent and any such changes may not be successful.

Our management team is authorized to follow broad investment guidelines that have been approved by our board of directors and has great latitude within those guidelines to determine which assets make proper investments for us. Those investment guidelines, as well as our financing strategy or hedging policies with respect to investments, originations, acquisitions, growth, operations, indebtedness, capitalization and distributions, may be changed at any time without the consent of our stockholders. There can be no assurance that any business model or business plan of ours will prove accurate, that our management team will be able to implement such business model or business plan successfully in the future or that we will achieve our performance objectives. Any business model of ours, including any underlying assumptions and predictions, merely reflect our assessment of the short- and long-term prospects of the business, finance and real estate markets in which we operate and should not be relied upon in determining whether to invest in our Class A common stock.

We are dependent on our management team, and the loss of any of these individuals could adversely affect our ability to operate profitably.

We heavily depend upon the skills and experience of our management team. The loss of the services of one or more of such individuals could have an adverse effect on our operations, and in such case we will be subject to the risk that no suitable replacement can be found. Furthermore, any termination of a member of the management team may be difficult and costly for us and create obligations for us to the departing individual. If we are unable to staff our management team fully with individuals who possess the skills and experience necessary to excel in their positions our business may be adversely affected. Furthermore, if one or more members of our management team is no longer employed by us, our ability to obtain future financing could be affected which could materially and adversely affect our business.

We may not be able to hire and retain qualified loan originators or grow and maintain our relationships with key loan brokers, and if we are unable to do so, our ability to implement our business and growth strategies could be limited.

We depend on our loan originators to generate borrower clients by, among other things, developing relationships with commercial property owners, real estate agents and brokers, developers and others, which we believe leads to repeat and referral business. Accordingly, we must be able to attract, motivate and retain skilled loan originators. The market for loan originators is highly competitive and may lead to increased costs to hire and retain them. We cannot guarantee that we will be able to attract or retain qualified loan originators. If we cannot attract, motivate or retain a sufficient number of skilled loan originators, at a reasonable cost or at all, our business could be materially and adversely affected. We also depend on our network of loan brokers, who generate a significant portion of our loan

originations. While we strive to cultivate long-standing relationships that generate repeat business for us, brokers are free to transact business with other lenders and have done so in the past and will do so in the future. Our competitors also have relationships with some of our brokers and actively compete with us in bidding on loans shopped by these brokers. We also cannot guarantee that we will be able to maintain or develop new relationships with additional brokers.

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The allocation of capital among our business lines may vary, which may adversely affect our financial performance.

In executing our business plan, we regularly consider the allocation of capital to our various commercial real estate business lines, including commercial mortgage lending, investments in securities secured by first mortgage loans, and investments in selected net leased and other real estate assets. The allocation of capital among such business lines may vary due to market conditions, the expected relative return on equity of each activity, the judgment of our management team, the demand in the marketplace for commercial real estate loans and securities and the availability of specific investment opportunities. We also consider the availability and cost of our likely sources of capital. If we fail to appropriately allocate capital and resources across our business lines or fail to optimize our investment and capital raising opportunities, our financial performance may be adversely affected.

Our access to the CMBS securitization market and the timing of our securitization activities and other factors may greatly affect our quarterly financial results.

We expect to distribute the conduit loans we originate through securitizations and, upon completion of a securitization, we will recognize certain non-interest revenues which are included in total other income on our combined consolidated statements of income and cease to earn net interest income on the securitized loans. Our quarterly revenue, operating results and profitability have varied substantially from quarter to quarter based on the frequency, pricing, volume and timing of our securitizations. Our securitization activities will be affected by a number of factors, including our loan origination volumes, changes in loan values, quality and performance during the period such loans are on our books and conditions in the securitization and credit markets generally and at the time we seek to launch and complete our securitizations. As a result of these quarterly variations, quarter-to-quarter comparisons of our operating results may not provide an accurate comparison of our current period results of operations. If securities analysts or investors focus on such comparative quarter-to-quarter performance, our stock price performance may be more volatile than if such persons compared a wider period of results of operations.

We may not be able to maintain our joint ventures and strategic business alliances.

We often rely on other third-party companies for assistance in origination, warehousing, distribution, securitization and other finance-related and loan-related activities. Some of our business may be conducted through non-wholly-owned subsidiaries, joint ventures in which we share control (in whole or in part) and strategic alliances formed by us with other strategic or business partners that we do not control. There can be no assurance that any of these strategic or business partners will continue their relationships with us in the future or that we will be able to pursue our stated strategies with respect to non-wholly-owned subsidiaries, joint ventures, strategic alliances and the markets in which we operate. Our ability to influence our partners in joint ventures or strategic alliances may be limited and non-alignment of interests on various strategic decisions in joint ventures or strategic alliances may adversely impact our business. Furthermore, joint venture or strategic alliance partners may: (i) have economic or business interests or goals that are inconsistent with ours; (ii) take actions contrary to our policies or objectives; (iii) undergo a change of control; (iv) experience financial and other difficulties; or (v) be unable or unwilling to fulfill their obligations under a joint venture or strategic alliance, which may affect our financial conditions or results of operations.

Future joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on joint venture partners' financial condition and liquidity and disputes between us and our joint venture partners.

We may in the future make investments through joint ventures. Such joint venture investments may involve risks not otherwise present when we originate or acquire investments without partners, including the following:

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we may not have exclusive control over the investment or the joint venture, which may prevent us from taking actions that are in our best interest;

joint venture agreements often restrict the transfer of a partner's interest or may otherwise restrict our ability to sell the interest when we desire and/or on advantageous terms;

any future joint venture agreements may contain buy-sell provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner's interest or selling its interest to that partner;

we may not be in a position to exercise sole decision-making authority regarding the investment or joint venture, which could create the potential risk of creating impasses on decisions, such as with respect to acquisitions or dispositions;

a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;

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a partner may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT and our exclusion from registration under the Investment Company Act;

a partner may fail to fund its share of required capital contributions or may become bankrupt, which may mean that we and any other remaining partners generally would remain liable for the joint venture's liabilities;

our relationships with our partners are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or investments underlying such relationship or may need to purchase such interests or investments at a premium to the market price to continue ownership;

disputes between us and a partner may result in litigation or arbitration that could increase our expenses and prevent our officers and directors from focusing their time and efforts on our business and could result in subjecting the investments owned by the joint venture to additional risk; or

we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our ability to continue to qualify as a REIT or maintain our exclusion from registration under the Investment Company Act, even though we do not control the joint venture.

Any of the above may subject us to liabilities in excess of those contemplated and adversely affect the value of our future joint venture investments.

We may face difficulties in obtaining required authorizations or licenses to do business.

In order to implement our business strategies, we may be required to obtain, maintain or renew certain licenses and authorizations (including "doing business" authorizations and licenses with respect to loan origination) from certain governmental entities. While we do not anticipate any delays or other complications relating to such licenses and authorizations, there is no assurance that any particular license or authorization will be obtained, maintained or renewed quickly or at all. Any failure of ours to obtain, maintain or renew such authorizations or licenses may adversely affect our business. Any material failure, alone or in aggregate, could lead to a default under certain of our financing arrangements and/or result in the unenforceability of our loan documents.

The accuracy of our financial statements may be materially affected if our estimates, including loan loss reserves, prove to be inaccurate.

Financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") require the use of estimates, judgments and assumptions that affect the reported amounts. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on the financial statements, and changes in these estimates, judgments and assumptions are likely to occur from period to period in the future. Significant areas of accounting requiring the application of management's judgment include, but are not limited to: (i) assessing the adequacy of the allowance for loan losses; (ii) determining the fair value of investment securities; (iii) assessing other than temporary impairments on securities; (iv) allocation of purchase price for acquired real estate; and (v) assessing impairments on real estate held for use or held for sale. These estimates, judgments and assumptions are inherently uncertain, especially in turbulent economic times, and, if they prove to be wrong, then we face the risk that charges to income will be required.

If we fail to maintain an effective system of integrated internal controls, we may not be able to accurately report our financial results.

We depend on our ability to produce accurate and timely financial statements in order to run our business. If we fail to do so, our business could be negatively affected and our independent registered public accounting firm may be unable to attest to the accuracy of our financial statements.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis by the Company's internal controls. A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a registrant's financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected, on a timely basis by the Company's internal controls.

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Although we continuously monitor the design, implementation and operating effectiveness of our internal controls over financial reporting, there can be no assurance that significant deficiencies or material weaknesses will not occur in the future. If we fail to maintain effective internal controls in the future, it could result in a material misstatement of our financial statements that may not be prevented or detected on a timely basis, which could cause stakeholders to lose confidence in our reported financial information.

We may be subject to “lender liability” litigation.

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

Litigation may adversely affect our business, financial condition and results of operations.

We are, from time to time, subject to legal and regulatory requirements applicable to our business and industry. We may be subject to various legal proceedings and these proceedings may range from actions involving a single plaintiff to class action lawsuits. Litigation can be lengthy, expensive and disruptive to our operations and results cannot be predicted with certainty. There may also be adverse publicity associated with litigation, regardless of whether the allegations are valid or whether we are ultimately found not liable. As a result, litigation may adversely affect our business, financial condition and results of operations.

There can be no assurance that our corporate insurance policies will mitigate all insurable losses, costs or damages to our business.

Based on our history and type of business, we believe that we maintain adequate insurance coverage to cover probable and reasonably estimable liabilities should they arise. However, there can be no assurance that these estimates will prove to be sufficient, nor can there be any assurance that the ultimate outcome of any claim or event will not have a material negative impact on our business prospects, financial position, results of operations or cash flows.

As an “emerging growth company” under the JOBS Act we are eligible to take advantage of certain exemptions from various reporting requirements.

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act (“JOBS Act”), and we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended (the “Sarbanes-Oxley Act”), reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. If we do take advantage of any of these exemptions, we do not know if some investors will find our securities less attractive as a result. The result may be a less active trading market for our securities and our security prices may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we chose to “opt out” of such

extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

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

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The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

The increased costs of compliance with public company reporting requirements and our potential failure to satisfy these requirements could have a material adverse effect on our financial condition. As a public company, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act and the New York Stock Exchange ("NYSE") rules. The requirements of these rules and regulations can be onerous and expensive and make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required, and management's attention may be diverted from other business concerns. These rules and regulations could also make it more difficult for us to attract and retain qualified independent members of our board of directors. Furthermore, because of our relative inexperience in operating as a public company, we might not be successful in implementing these requirements.

Cybersecurity threats or other security breaches could compromise sensitive information belonging to us or our employees, borrowers, clients and other counterparties and could harm our business and our reputation. We store sensitive data, including our proprietary business information and that of our borrowers, clients and other counterparties, and confidential employee information, in our data centers and on our networks. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions that could result in unauthorized disclosure or loss of sensitive information. Because the techniques used to obtain unauthorized access to networks, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Furthermore, in the operation of our business we also use third-party vendors that store certain sensitive data, including confidential information about our employees, and these third parties are subject to their own cybersecurity threats. Any security breach of our own or a third-party vendor's systems could cause us to be non-compliant with applicable laws or regulations, subject us to legal claims or proceedings, disrupt our operations, damage our reputation, and cause a loss of confidence in our products and services, any of which could adversely affect our business.

Market Risks Related to Real Estate Securities and Loans

We have a concentration of investments in the real estate sector and may have concentrations from time to time in certain property types, locations, tenants and borrowers, which may increase our exposure to the risks of certain economic downturns.

We operate in the commercial real estate sector. Such concentration in one economic sector may increase the volatility of our returns and may also expose us to the risk of economic downturns in this sector to a greater extent than if our portfolio also included other sectors of the economy. Declining real estate values may reduce the level of new mortgage and other real estate-related loan originations since borrowers often use appreciation in the value of their existing properties to support the purchase of or investment in additional properties. Borrowers may also be less able to pay principal and interest on our loans if the value of real estate weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans in the event of default because the value of our collateral may be insufficient to cover our cost on the loan. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as

well as our ability to originate/acquire/sell loans, which would materially and adversely affect our results of operations, financial condition, liquidity and business.

In addition, we are not required to observe specific diversification criteria relating to property types, locations, tenants or borrowers. A limited degree of diversification increases risk because the aggregate return of our business may be adversely affected by the unfavorable performance of a single property type, single tenant, single market or even a single investment. To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our assets within a short time period. Additionally, borrower concentration, in which a particular borrower is, or a group of related borrowers are, associated with multiple real properties securing mortgage loans or securities held by us, magnifies the risks presented by the possible poor performance of such borrower(s).

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We operate in a highly competitive market for lending and investment opportunities, which may limit our ability to originate or acquire desirable loans and investments in our target assets.

We operate in a highly competitive market for lending and investment opportunities. A number of entities compete with us to make the types of loans and investments that we seek to make. Our profitability depends, in large part, on our ability to originate or acquire target assets at attractive prices. In originating or acquiring target assets, we compete with a variety of institutional lenders and investors and many other market participants, including specialty finance companies, REITs, commercial banks and thrift institutions, investment banks, insurance companies, hedge funds and other financial institutions. Many competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us. Many of our competitors are not subject to the maintenance of an exemption from the Investment Company Act. Furthermore, competition for originations of, and investments in, our target assets may lead to the yield of such assets decreasing, which may further limit our ability to generate desired returns. Also, as a result of this competition, desirable loans and investments in specific types of target assets may be limited in the future and we may not be able to take advantage of attractive lending and investment opportunities from time to time. We can offer no assurance that we will be able to identify and originate loans or make any or all of the types of investments that are described in this Annual Report.

Our investment guidelines and underwriting guidelines may restrict our ability to compete with others for desirable commercial mortgage loan origination and acquisition opportunities.

We have investment guidelines and underwriting guidelines with respect to commercial mortgage loan origination and acquisition opportunities. Additionally, under our credit facilities, the lenders have the right to review the assets which we are seeking to finance and approve the purchase and financing of such assets in their sole discretion. These investment and underwriting guidelines and lender approvals may restrict us from being able to compete with others for commercial mortgage loan origination and acquisition opportunities and these guidelines may be stricter than the guidelines employed by our competitors. As a result, we may not be able to compete with others for desirable commercial mortgage loan origination and acquisition opportunities. In addition, these investment and underwriting guidelines and approvals impose conditions and limitations on our ability to originate certain of our target assets, including, in particular, restrictions on our ability to originate junior mortgage loans, mezzanine loans and preferred equity investments.

Our earnings may decrease because of changes in prevailing interest rates.

Our primary interest rate exposures relate to the yield on our assets and the financing cost of our debt, as well as the interest rate swaps that we utilize for hedging purposes. Interest rates are highly sensitive to many factors beyond our control, including but not limited to governmental monetary and tax policies, domestic and international economic and political considerations. Interest rate fluctuations present a variety of risks, including the risk of a mismatch between asset yields and borrowing rates, variances in the yield curve and fluctuating prepayment rates, and such fluctuations may adversely affect our income and may generate losses.

Prepayment rates on mortgage loans cannot be predicted with certainty and prepayments may result in losses to the value of our assets.

The frequency at which prepayments (including voluntary prepayments by the borrowers and liquidations due to defaults and foreclosures) occur on our investments can adversely impact our business, and prepayment rates cannot be predicted with certainty, making it impossible to completely insulate us from prepayment or other such risks. Any adverse effects of prepayments may impact our portfolio in that particular investments, which may experience outright losses in an environment of faster actual or anticipated prepayments or may underperform relative to hedges that the

management team may have constructed for such investments (resulting in a loss to our overall portfolio). Additionally, borrowers are more likely to prepay when the prevailing level of interest rates falls, thereby exposing us to the risk that the prepayment proceeds may be reinvested only at a lower interest rate than that borne by the prepaid obligation.

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Terrorist attacks and other acts of violence or war may affect the real estate industry generally and our business, financial condition and results of operations.

We cannot predict the severity of the effect that potential future terrorist attacks could have on us. Any future terrorist attacks, the anticipation of any such attacks, the consequences of any military or other response by the United States and its allies, and other armed conflicts could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our performance. A prolonged economic slowdown, a recession or declining real estate values could impair the performance of our assets and harm our financial condition and results of operations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. The economic impact of such events could also adversely affect the credit quality of some of our loans and investments and the property underlying our securities. Losses resulting from these types of events may not be fully insurable.

The events of September 11, 2001 created significant uncertainty regarding the ability of real estate owners of high profile assets to obtain insurance coverage protecting against terrorist attacks at commercially reasonable rates, if at all. With the enactment of the Terrorism Risk Insurance Act of 2002 (the "TRIA") and subsequent extensions, including the enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2015, which extends TRIA through December 31, 2020, insurers must make terrorism insurance available under their property and casualty insurance policies, but this legislation does not regulate the pricing of such insurance. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable opportunities available to us and the pace at which we are able to acquire assets. If the properties underlying our interests are unable to obtain affordable insurance coverage, the value of our interests could decline, and in the event of an uninsured loss, we could lose all or a portion of our assets.

Risks Related to Our Portfolio

The value of our investments may be adversely affected by many factors that are beyond our control.

Income from, and the value of, our investments may be adversely affected by many factors that are beyond our control, including:

- volatility and adverse changes in international, national and local economic and market conditions, including contractions in market liquidity for mortgage loans and mortgage-related assets;
- changes in interest rates and in the availability, costs and terms of financing;
- changes in generally accepted accounting principles;
- changes in governmental laws and regulations, fiscal policies and zoning and other ordinances and costs of compliance with laws and regulations;
- downturns in the markets for mortgage-backed securities and other asset-backed and structured products; and
- civil unrest, terrorism, acts of war, nuclear or radiological disasters and natural disasters, including earthquakes, hurricanes, tornadoes, tsunamis and floods, which may result in uninsured and underinsured losses.

In addition to other analytical tools, our management team utilizes financial models to evaluate loans and real estate assets, the accuracy and effectiveness of which cannot be guaranteed.

In all cases, financial models are only estimates of future results which are based upon assumptions made at the time that the projections are developed. There can be no assurance that management's projected results will be obtained and actual results may vary significantly from the projections. General economic and industry-specific conditions, which are not predictable, can have an adverse impact on the reliability of projections.

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The vast majority of the mortgage loans that we originate or purchase, and those underlying the CMBS in which we invest, are nonrecourse loans and the assets securing the loans may not be sufficient to protect us from a partial or complete loss if the borrower defaults on the loan.

Except for customary nonrecourse carve-outs for certain actions and environmental liability, most commercial mortgage loans, including those underlying the CMBS in which we invest, are effectively nonrecourse obligations of the sponsor and borrower, meaning that there is no recourse against the assets of the borrower or sponsor other than the underlying collateral. In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations. Even if a mortgage loan is recourse to the borrower (or if a nonrecourse carve-out to the borrower applies), in most cases, the borrower's assets are limited primarily to its interest in the related mortgaged property. Further, although a mortgage loan may provide for limited recourse to a principal or affiliate of the related borrower, there is no assurance of any recovery from such principal or affiliate will be made or that such principal's or affiliate's assets would be sufficient to pay any otherwise recoverable claim. In the event of the bankruptcy of a borrower, the loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

The commercial mortgages and other commercial real estate-related loans, and the commercial mortgage loans underlying the CMBS in which we may invest, are subject to the ability of the commercial property owner to generate net income from operating the property (and not the independent income or assets of the borrower). The volatility of real property could have a material adverse effect on our business, financial position and results of operations.

Commercial mortgage loans and the commercial mortgage loans underlying the securities in which we may invest are subject to the ability of the commercial property owner to generate net income from operating the property (and not the independent income or assets of the borrower). Any reductions in net operating income ("NOI") increase the risks of delinquency, foreclosure and default, which could result in losses to us. NOI of an income-producing property can be affected by many factors, including, but not limited to:

- the ongoing need for capital improvements, particularly in older structures;
- changes in operating expenses;
- changes in general or local market conditions;
- changes in tenant mix and performance, the occupancy or rental rates of the property or, for a property that requires new leasing activity, a failure to lease the property in accordance with the projected leasing schedule;
- competition from comparable property types or properties;
- unskilled or inexperienced property management;
- limited availability of mortgage funds or fluctuations in interest rates which may render the sale and refinancing of a property difficult;
- development projects that experience cost overruns or otherwise fail to perform as projected including, without limitation, failure to complete planned renovations, repairs, or construction;
- unanticipated increases in real estate taxes and other operating expenses;
- challenges to the borrower's claim of title to the real property;
- environmental considerations;
- zoning laws;
- other governmental rules and policies;
- unanticipated structural defects or costliness of maintaining the property;
- uninsured losses, such as possible acts of terrorism;
-

a decline in the operational performance of a facility on the real property (such facilities may include multifamily rental facilities, office properties, retail facilities, hospitality facilities, healthcare-related facilities, industrial facilities, warehouse facilities, restaurants, mobile home facilities, recreational or resort facilities, arenas or stadiums, religious facilities, parking lot facilities or other facilities); and
severe weather-related damage to the property and/or its operation.

Additional risks may be presented by the type and use of a particular commercial property, including specialized use as a nursing home or hospitality property.

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In instances where the borrower is acting as a landlord on the underlying property as we do for our selected net leased and other commercial real estate assets, the ability of such borrower to satisfy the debt obligation we hold will depend on the performance and financial health of the underlying tenants, which may be difficult for us to assess or predict. In addition, as the number of tenants with respect to a commercial property decreases or as tenant spaces on a property must be relet, the nonperformance risk of the loan related to such commercial property may increase. Any one or more of the preceding factors could materially impair our ability to recover principal in a foreclosure on the related loan as lender and repay the principal as borrower. A substantial portion of our portfolio may be committed to the origination or purchasing of commercial loans to small and medium-sized, privately owned businesses. Compared to larger, publicly owned firms, such companies generally have limited access to capital and higher funding costs, may be in a weaker financial position and may need more capital to expand or compete. The above financial challenges may make it difficult for such borrowers to make scheduled payments of interest or principal on their loans. Accordingly, advances made to such types of borrowers entail higher risks than advances made to companies who are able to access traditional credit sources.

A portion of our portfolio also may be committed to the origination or purchasing of commercial loans where the borrower is a business with a history of poor operating performance, based on our belief that we can realize value from a loan on the property despite such borrower's performance history. However, if such borrower were to continue to perform poorly after the origination or purchase of such loan, including due to the above financial challenges, we could be adversely affected.

Certain balance sheet loans may be more illiquid and involve a greater risk of loss than long-term mortgage loans.

We originate and acquire balance sheet loans that provide interim financing to borrowers seeking short-term capital for the acquisition or transition (for example, lease up and/or rehabilitation) of commercial real estate. Such a borrower under an interim loan often has identified a transitional asset that has been under-managed, is located in a recovering market and/or requires rehabilitation. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset or fails to execute its business plan, the borrower may not receive a sufficient return on the asset to satisfy the interim loan, and we bear the risk that we may not recover some or all of our initial expenditure. In addition, borrowers usually use the proceeds of a long-term mortgage loan to repay an interim loan. We may therefore be dependent on a borrower's ability to obtain permanent financing to repay our interim loan, which could depend on the borrower's ability to execute its business plan, market conditions and other factors.

Further, interim loans may be relatively less liquid than loans against stabilized properties due to their short life, their potential unsuitability for securitization, any unstabilized nature of the underlying real estate and the difficulty of recovery in the event of a borrower's default. This lack of liquidity may significantly impede our ability to respond to adverse changes in the performance of our interim loan portfolio and may adversely affect the value of the portfolio.

Such "liquidity risk" may be difficult or impossible to hedge against and may also make it difficult to effect a sale of such assets as we may need or desire. As a result, if we are required to liquidate all or a portion of our interim loan portfolio quickly, we may realize significantly less than the value at which such investments were previously recorded, which may fail to maximize the value of the investments or result in a loss.

We may finance first mortgages, which may present greater risks than if we had made first mortgages directly to owners of real estate collateral.

Our portfolio may include first mortgage loan financings which are loans made to holders of commercial real estate first mortgage loans that are secured by commercial real estate. While we have certain rights with respect to the real estate collateral underlying a first mortgage loan, the holder of the commercial real estate first mortgage loans may fail

to exercise its rights with respect to a default or other adverse action relating to the underlying real estate collateral or fail to promptly notify us of such an event which would adversely affect our ability to enforce our rights. In addition, in the event of the bankruptcy of the borrower under the first mortgage loan, we may not have full recourse to the assets of the holder of the commercial real estate loan, or the assets of the holder of the commercial real estate loan may not be sufficient to satisfy our first mortgage loan financing. Financings of first mortgage loans might not generate qualifying income for REIT purposes and may be held in a TRS, resulting in a lower after-tax return to Ladder than other financings. Accordingly, we may face greater risks from our first mortgage loan financings than if we had made first mortgage loans directly to owners of real estate collateral.

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We may originate or acquire construction loans, which may expose us to an increased risk of loss.

We may originate or acquire construction loans. If we fail to fund our entire commitment on a construction loan or if a borrower otherwise fails to complete the construction of a project, there could be adverse consequences associated with the loan, including: a loss of the value of the property securing the loan, especially if the borrower is unable to raise funds to complete construction from other sources; a borrower claim against us for failure to perform under the loan documents; increased costs to the borrower that the borrower is unable to pay; a bankruptcy filing by the borrower; and abandonment by the borrower of the collateral for the loan.

We are subject to additional risks associated with loan participations.

Some of our loans are participation interests or co-lender arrangements in which we share the rights, obligations and benefits of the loan with other lenders. We may need the consent of these parties to exercise our rights under such loans, including rights with respect to amendment of loan documentation, enforcement proceedings in the event of default and the institution of, and control over, foreclosure proceedings. Similarly, a majority of the participants may be able to take actions to which we object but to which we will be bound if our participation interest represents a minority interest. We may be adversely affected by this lack of full control.

Our investments in subordinate loans, subordinate participation interests in loans and subordinate CMBS rank junior to other senior debt and we may be unable to recover our investment in these interests.

We may originate or acquire subordinate loans (including mezzanine loans), subordinate participation interests in loans and subordinate rated and/or unrated CMBS (including, without limitation, certain “risk retention” interests required to be retained by certain participants in securitization transactions under new rules to take effect in December, 2016). In the event a borrower defaults on a loan and lacks sufficient assets to satisfy our loan, we may suffer a loss of principal or interest. In the event a borrower declares bankruptcy, we may not have full recourse to the assets of the borrower or a non-recourse carve-out guarantor, or the assets of the borrower or non-recourse carve-out guarantors may not be sufficient to satisfy the loan. In addition, certain of our loans may be subordinate to other debt of the borrower. If a borrower defaults on a loan to us or on debt senior to our loan, or in the event of a borrower bankruptcy, our loan will be satisfied only after the senior debt is paid in full. Where debt senior to our loan exists, the presence of intercreditor arrangements may limit our ability to amend loan documents, assign our loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers.

If a borrower defaults on our mezzanine loan, subordinate loan or debt senior to any loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt is paid in full. As a result, we may not recover some or all of our initial expenditure. In addition, mezzanine and subordinate loans may have higher loan-to-value ratios than first mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans or subordinate loans would result in operating losses for us.

In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the “first loss” subordinated security holder (generally, the “B-Piece” buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which we may invest, we may not be able to recover all of our investment in the securities we purchased. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related mortgage-backed securities, the securities in which we may invest may effectively become the “first loss” position behind the more senior

securities, which may result in significant losses to us. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments. A projection of an economic downturn, for example, could cause a decline in the price of lower credit quality securities because the ability of obligors of mortgage loans underlying the mortgage-backed securities to make principal and interest payments may be impaired. In such event, existing credit support in the securitization structure may be insufficient to protect us against loss of our principal in these securities.

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The market value of our investments in CMBS could fluctuate materially as a result of various risks that are out of our control and may result in significant losses.

We currently invest in and may continue to invest in CMBS, a specific type of structured finance security. CMBS are securities backed by obligations (including certificates of participation in obligations) that are principally secured by commercial mortgage loans or interests therein having a multi-family or commercial use, such as shopping malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. Accordingly, investments in CMBS are subject to the various risks described herein which relate to the pool of underlying assets in which the CMBS represents an interest. The exercise of remedies and successful realization of liquidation proceeds relating to commercial mortgage loans underlying CMBS may be highly dependent on the performance of the servicer or special servicer. There may be a limited number of special servicers available, particularly those which do not have conflicts of interest. We will bear the risk of loss on any CMBS we purchase. Further, the insurance coverage for various types of losses is limited in amount and we would bear losses in excess of the applicable limitations.

We may attempt to underwrite our investments on a “loss-adjusted” basis, which projects a certain level of performance. However, there can be no assurance that this underwriting will accurately predict the timing or magnitude of such losses. To the extent that this underwriting has incorrectly anticipated the timing or magnitude of losses, our business may be adversely affected. Some mortgage loans underlying CMBS may default. Under such circumstances, cash flows of CMBS investments held by us may be adversely affected as any reduction in the mortgage payments or principal losses on liquidation of any mortgage loan may be applied to the class of CMBS relating to such defaulted loans that we hold.

The market value of our CMBS investments could fluctuate materially over time as the result of changes in mortgage spreads, treasury bond interest rates, capital market supply and demand factors, and many other factors that affect high-yield fixed income products. These factors are out of our control, and could influence our ability to obtain short-term financing on the CMBS. The CMBS in which we may invest may have no, or only a limited, trading market. In addition, we may in the future invest in CMBS investments that are not rated by any credit rating agency, and such investments may be less liquid than CMBS that are rated. The financial markets in the past have experienced and could in the future experience a period of volatility and reduced liquidity which may reoccur or continue and reduce the market value of CMBS. Some or all of the CMBS that we hold may be subject to restrictions on transfer and may be considered illiquid.

We have acquired and, in the future, may acquire net leased real estate assets, or make loans to owners of net leased real estate assets (including ourselves), which carry particular risks of loss that may have a material impact on our financial condition, liquidity and results of operations.

A net lease requires the tenant to pay, in addition to the fixed rent, some or all of the property expenses that normally would be paid by the property owner. The value of our investments and the income from our investments in net leased properties, if any, will depend upon the ability of the applicable tenant to meet its obligations to maintain the property under the terms of the net lease. If a tenant fails or becomes unable to so maintain a property, the cash flow and/or the value of the property would be adversely affected. In addition, under many net leases the owner of the property retains certain obligations with respect to the property, including among other things, the responsibility for maintenance and repair of the property, to provide adequate parking, maintenance of common areas and compliance with other affirmative covenants in the lease. If we, as the owner, or the borrower, were to fail to meet these obligations, the applicable tenant could abate rent or terminate the applicable lease, which may result in a loss of capital invested in, and anticipated profits from, the property. In addition, we, as the owner, or the borrower may find it difficult to lease certain property to new tenants if that property had been suited to the particular needs of a former tenant.

The expense of operating and owning real property may impact our cash flow from operations.

We have in the past and may in the future make equity investments in real property. Costs associated with real estate investment, such as real estate taxes, insurance and maintenance costs, generally are not reduced even when a property is not fully occupied, rental rates decrease or other circumstances cause a reduction in income from the property. As a result, cash flow from the operations of our properties may be reduced if a tenant does not pay its rent or we are unable to rent out properties on favorable terms. Under those circumstances, we might not be able to enforce our rights as landlord without delays and may incur substantial legal costs. Additionally, new properties that we may acquire or redevelop may not produce significant revenue immediately, and the cash flow from existing operations may be insufficient to pay the operating expenses and principal and interest on debt associated with such properties until they are fully leased.

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Our investments in securities and mortgages issued by agencies or instrumentalities of the U.S. government face risks of prepayments or defaults on U.S. Agency Securities that we own at a premium and of “negative convexity.”

We currently invest in and may continue to invest in securities and mortgages issued by agencies or instrumentalities of the U.S. government, including Ginnie Mae, Fannie Mae, the Federal Housing Administration (“FHA”), Freddie Mac and other government agency mortgages secured by single multifamily properties or skilled nursing facilities. Additionally, we invest in real estate mortgage investment conduit (“REMIC”) securities collateralized by these mortgages. We invest in U.S. Agency Securities, the principal of which is guaranteed implicitly or explicitly by the U.S. government. Therefore, the most significant risks present in U.S. Agency Securities owned by us are first, in prepayments or defaults on U.S. Agency Securities that we own at a premium and second, “negative convexity,” as defined below.

We are exposed to the risk of increased prepayments or defaults by any mortgage or security that we own at a premium, such as any interest-only securities, most single mortgage securities and all construction and permanent loans. Any principal paydown diminishes the amount outstanding in these securities and reduces the yield to us. Before purchasing a loan or security, we judge the likelihood of prepayment based on certain prepayment and default parameters and our own experience in the government agency security market. Different estimates, judgments and assumptions reasonably could be used that would have a material effect on our judgment and, accordingly, result in losses to our business.

“Negative convexity” is the inverse relationship between interest rates and the average expected life of a pool of mortgage loans; when interest rates rise, a mortgage may extend and when interest rates fall, a mortgage may prepay or default. As in any mortgage security, negative convexity is a concern as the yield on mortgage-backed securities is based on the average expected life of the underlying pool of mortgage loans. The actual prepayment experience of such pools may cause the yield we realize to differ from that calculated by us in making the investment, resulting in losses or profits. To protect against prepayments in a falling interest rate environment, typically each newly originated multifamily loan owned by us has a combination of 10 years of call/prepayment protection. However, an unexpected default in a single large property may reduce yield. In each transaction, we attempt to understand the agencies’ underwriting processes in order to assess the risk of default associated with a particular U.S. Agency Security. We also endeavor to diversify our holdings and at periodic points in time, sell our older positions for newer product, which may have less likelihood of default. There is no guarantee that we will be successful in either of these activities. When interest rates are rising, the rate of prepayment tends to decrease, thereby lengthening the actual average life of such pools. We frequently update our extension risk analyses and, if necessary, our hedging to account for this risk. The same is true when interest rates fall and prepayments tend to increase.

Other risks associated with U.S. Agency Securities are illiquidity, re-investment and the risk that a construction loan may not roll into a permanent loan.

We may make equity and preferred equity investments which involve a greater risk of loss than traditional debt financing.

We may invest in equity and preferred equity interests in entities owning real estate. Such investments are subordinate to debt financing and are not secured. Should the issuer default on our investment, in most instances we would only be able to proceed against the entity that issued the equity in accordance with the terms of the security, and not any property owned by the entity. Furthermore, in the event of bankruptcy or foreclosure, we would only be able to recoup our capital after any creditors to the entity are paid. As a result, we may not recover some or all of our capital, which could result in losses.

Our participation in the market for mortgage loan securitizations may expose us to risks that could result in losses to us.

We have generally participated in the market for mortgage loan securitizations by contributing loans to securitizations led by various large financial institutions and by leading single-asset securitizations on single mortgage loans we originated. We may, in the future, take a larger role in leading single-asset and multi-asset securitizations of mortgage loans, including as an issuer. We also occasionally, and may in the future, act as a co-manager and/or co-underwriter in the securitizations in which we participate. To date, when we have primarily acted as a mortgage loan seller into, and occasionally as an issuer of securitizations, we have been obligated to assume certain customary liabilities. Specifically, in connection with any particular securitization, we: (i) make certain representations and warranties regarding ourselves and the characteristics of, and origination process for, the mortgage loans that we contribute to the securitization; (ii) undertake to cure, repurchase or replace any mortgage loan that we contribute to the securitization that is affected by a material breach of any such representation and warranty or a material loan document deficiency; and (iii) assume, either directly or through the indemnification of third-parties, potential securities law liabilities for disclosure to investors regarding ourselves and the mortgage loans that we contribute to the securitization. When we lead a single-asset or multi-asset securitization as an issuer and/or lead manager, we assume, either directly or through indemnification agreements, additional potential securities law liabilities and third-party liabilities beyond the liabilities we would assume when we act only as a mortgage loan seller into a securitization.

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As a result of the dislocation of the credit markets during the last recession, the securitization industry has become subject to additional and changing regulation. For example, pursuant to the Dodd-Frank Act, various federal agencies have promulgated, or are in the process of promulgating, regulations and rules with respect to various issues that affect securitizations, including: (a) a rule taking effect in December, 2016 (the “Risk Retention Rule”) requiring that a securitization’s sponsor or certain third-party purchasers (each, a “B Piece Buyer”) of subordinate tranches retain for at least five years securities in an amount equal to 5% of the credit risk associated with the issued securities; (b) requirements for additional disclosure; (c) requirements for additional review and reporting (including revisions to Regulation AB); (d) requirements that the chief executive officer (“CEO”) of an issuer file with the SEC an individual certificate attesting to certain matters, as described below; and (e) certain restrictions designed to prohibit conflicts of interest. Other regulations have been and may ultimately be adopted.

The Risk Retention Rule can be satisfied by: (i) retention by certain parties (including B Piece Buyers and certain securitization parties) of a horizontal tranche (i.e., in one or more subordinate classes); (ii) retention by certain securitization parties of a vertical security or interest in each class of securities issued in connection with the securitization; or (iii) a combination of (i) and (ii). The risk (with respect to CMBS) must be retained by the sponsor, certain mortgage loan originators or, upon satisfaction of certain requirements, a B Piece Buyer. Significant restrictions exist, and additional restrictions may be added in the future, regarding who may hold risk retention interests, the structure of the entities that hold risk retention interests and when and how such risk retention interests may be transferred. Therefore such risk retention interests will be generally illiquid. As a result of the Risk Retention Rule, we may be required to purchase and retain certain interests in a securitization into which we sell mortgage loans and/or when we act as issuer, may be required to sell certain interests in a securitization at prices below levels that such interests have historically yielded and/or may be required to enter into certain arrangements related to risk retention that we have not historically been required to enter into and, accordingly, the Risk Retention Rule, once implemented, may increase our potential liabilities and/or reduce our potential profits in connection with securitization of mortgage loans.

The requirement that the CEO of an issuer file an individual certificate with the SEC may introduce additional potential liabilities whether we serve as issuer in a securitization or solely as a loan seller or loan originator. The CEO certification includes statements as to the absence of any untrue or omitted material information relating to the mortgage loans and the ability of the mortgage loans to support the payments required to be made under the bonds issued in connection with the securitization in accordance with their terms. The full extent of liability that the CEO may have to the SEC and/or investors on account of the certified statements is difficult to determine at this time. If we serve as issuer in a securitization, we would likely be obligated to indemnify the CEO of our issuer entity against any liabilities that such individual may incur in connection with such certification. In addition, in securitization transactions in which we serve as only loan seller or an originator that sells loans to a loan seller (and not as an issuer), we would likely be obligated to provide a back-up officer’s certificate from a senior officer as to our mortgage loans as support for the issuer’s CEO certification, and similarly be obligated to indemnify that senior officer against any liabilities that individual may incur in connection with his/her back-up officer’s certification.

The Risk Retention Rule, CEO certification and other rules and regulations that have been adopted or may be adopted in the future may alter the structure of securitizations and could pose additional risks to or reduce or eliminate the economic benefits of our participation in the securitization market. In addition, such rules and regulations could reduce or eliminate the economic benefits of securitization or discourage traditional issuers, underwriters, B Piece Buyers or other participants from participating in future securitizations and affect the availability of securitization platforms into which we can contribute mortgage loans, which may require that we take on additional roles and risks in connection with effectuating securitizations of our mortgage loans.

Historically, when we have served as issuer in connection with a securitization, the offering has been a private offering. If, in the future, we elect to serve as issuer of a securitization involving a public offering, we will be obligated to file and maintain a registration statement with the SEC. Maintaining a registration statement will expose us to the risk of liability under various securities laws and will impose ongoing reporting and other obligations, many of which are more extensive than the potential liabilities and obligations we incur when we act as issuer in a private offering or when we sell loans into another issuer's publicly offered securitization. In addition to the CEO certification referenced above, certain individuals associated with the issuer entity would be obligated to sign the registration statement and be exposed to liability under various securities laws. We would likely be obligated to indemnify such individuals.

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Prior to any securitization, we generally finance mortgage loans with relatively short-term facilities until a sufficient portfolio is accumulated. We are subject to the risk that we will not be able to originate or acquire sufficient eligible assets to maximize the efficiency of a securitization. We also bear the risk that we might not be able to obtain new short-term facilities or would not be able to renew any short-term facilities after they expire should we need more time to seek and acquire sufficient eligible assets for a securitization. Our inability to refinance any short-term facilities would also increase our risk because borrowings thereunder would likely be recourse to us or one of our subsidiaries. If we are unable to obtain and renew short-term facilities or to consummate securitizations to finance our assets on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

We may sponsor, or purchase the equity securities of collateralized loan obligations, or CLOs, and such instruments involve significant risks, including that CLO equity receives distributions from the CLO only if the CLO generates enough income to first pay all debt service obligations to the investors holding senior tranches and all CLO expenses.

In CLOs, investors purchase specific tranches, or slices, of debt or equity instruments that are secured or backed by a pool of loans. The CLO debt classes have a specific seniority structure and priority of payments. The equity interests in a CLO are the most subordinate interests and are usually entitled to all of the income generated by pool of loans only after the payment of debt service on all the more senior classes of debt and the payment of all expenses. Defaults on the pool of loans therefore immediately affect the equity tranche. The subordinate tranches of CLO debt may also experience a lower recovery and greater risk of loss, including risk of deferral or non-payment of interest than more senior tranches of the CLO debt because they bear the bulk of defaults from the loans held in the CLO and serve to protect the other, more senior tranches from default in all but the most severe circumstances. Despite the protection provided by the subordinate and equity tranches, CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults and aversion to CLO securities as a class. Further, the transaction documents relating to the issuance of CLO securities may impose eligibility criteria on the assets of the CLO, restrict the ability of the CLO's sponsor to trade investments and impose certain portfolio-wide asset quality requirements. These criteria, restrictions and requirements may limit the ability of the CLO's sponsor (or collateral manager) to maximize returns on the CLO securities.

In addition, CLOs are not actively traded and are relatively illiquid investments and volatility in CLO trading market may cause the value of these investments to decline. The market value of CLO Securities may be affected by, among other things, changes in the market value of the underlying loans held by the CLO, changes in the distributions on the underlying loans, defaults and recoveries on the underlying loans, capital gains and losses on the underlying losses (or foreclosure assets), prepayments on underlying loan and the availability, prices and interest rate of underlying loans. Furthermore, the leveraged nature of the equity tranche and each subordinated tranche may magnify the adverse impact on such class of changes in the value of the loans, changes in the distributions on the loans, defaults and recoveries on the loans, capital gains and losses on the loans (or foreclosure assets), prepayment on loans and availability, price and interest rates of the loans.

A CLO may include certain interest coverage tests, overcollateralization coverage tests or other tests that, if not met, may result in a change in the priority of distributions, which may result in the reduction or elimination of distributions to the subordinate debt and equity tranches until the tests have been met or certain senior classes of securities have been paid in full. Accordingly, if we hold subordinate debt or equity interests in a CLO that contains such tests and such tests are not satisfied, we may experience a significant reduction in our cash flow from those interests.

Furthermore, if any CLO that we sponsor or hold equity interests in fails to meet certain tests relevant to the most senior debt issued and outstanding by the CLO issuer, an event of default may occur under that CLO. If that occurs, (i) if we were serving as manager of the CLO, our ability to manage the CLO may be terminated and (ii) our ability to

attempt to cure any defaults in the CLO may be limited, which would increase the likelihood of a reduction or elimination of cash flow and returns to us in the CLOs for an indefinite time.

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Any credit ratings assigned to our investments could be downgraded, which could have a material impact on our financial condition, liquidity and results of operations.

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

The credit ratings currently assigned to our investments may not accurately reflect the risks associated with those investments.

Credit rating agencies rate investments based upon their assessment of the perceived safety of the receipt of principal and interest payments from the issuers of such debt securities. Credit ratings assigned by the credit rating agencies may not fully reflect the true risks of an investment in such securities. Also, credit rating agencies may fail to make timely adjustments to credit ratings based on recently available data or changes in economic outlook or may otherwise fail to make changes in credit ratings in response to subsequent events, so that our investments may in fact be better or worse than the ratings indicate. We try to reduce the impact of the risk that a credit rating may not accurately reflect the risks associated with a particular debt security by not relying solely on credit ratings as the indicator of the quality of an investment. We make our acquisition decisions after factoring in other information, such as the discounted value of a CMBS security's projected future cash flows, and the value of the real estate collateral underlying the mortgage loans owned by the issuing REMIC trust. However, our assessment of the quality of a CMBS investment may also prove to be inaccurate and we may incur credit losses in excess of our initial expectations.

We could incur losses from investments in non-conforming and non-investment grade-rated loans or securities, which could have a material impact on our financial condition, liquidity and results of operations.

Some of our investments may not conform to conventional loan standards applied by traditional lenders and either may not be rated or may be rated as non-investment grade by the credit rating agencies. The non-investment grade ratings for these assets typically result from the overall leverage of the underlying loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the properties' underlying cash flow or other factors. As a result, these investments will have a higher risk of default and loss than investment grade-rated assets. Any loss that we incur may be significant. There may be no limits on the percentage of unrated or non-investment grade rated assets that we may hold in our portfolio.

Some of our portfolio investments will be recorded at fair value and there is uncertainty as to the value of these investments. Furthermore, our determinations of fair value may have a material impact on our financial condition and results of operations.

The value of some of our investments may not be readily determinable or may be unreliable. We will value these investments quarterly at fair value, as determined in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification (Topic 820): Fair Value Measurement, or ASC 820. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these assets existed. Our determinations of fair value may have a material impact on our earnings, in the case of impaired loans and other assets, trading securities and available-for-sale securities that are subject to OTTI, or our accumulated other

comprehensive income/(loss) in our shareholders' equity, in the case of available-for-sale securities that are subject only to temporary impairments.

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We utilize an internal model as our primary pricing source to develop prices for our CMBS and U.S. Agency Securities. To confirm our own valuations, we request prices for each of our CMBS and U.S. Agency Securities investments from third-party dealers and pricing services. Third parties that provide pricing services develop estimates of fair value for CMBS and U.S. Agency Securities employ various techniques, including discussion with their internal trading desks and the use of proprietary models and matrix pricing. We do not have access to, and are therefore not able to review in detail, the inputs used by these third parties in developing their fair value estimates. Furthermore, in general, dealers and pricing services heavily disclaim their valuations. Dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability for any direct, incidental or consequential damages arising out of any inaccuracy or incompleteness in valuations, including any act of negligence or breach of any warranty. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. Additionally, our results of operations for a given period could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Our ability to collect upon the mortgage loans may be limited by the application of state laws.

Each of our mortgage loans permits us to accelerate the debt upon default by the borrower. The courts of all states will enforce acceleration clauses in the event of a material payment default, subject in some cases to a right of the court to revoke such acceleration and reinstate the mortgage loan if a payment default is cured. The equity courts of any state, however, may refuse to allow the foreclosure of a mortgage, deed of trust, or other security instrument or to permit the acceleration of the indebtedness if the exercise of those remedies would be inequitable or unjust or the circumstances would render the acceleration unconscionable. Thus, a court may refuse to permit foreclosure or acceleration if a default is deemed immaterial or the exercise of those remedies would be unjust or unconscionable or if a material default is cured.

Further, the ability to collect upon mortgage loans may be limited by the application of state and U.S. federal laws. Several states (including California) have laws that prohibit more than one “judicial action” to enforce a mortgage obligation. Some courts have construed the term “judicial action” broadly.

The borrowers under the loans underlying our investments may be unable to repay their remaining principal balances on their stated maturity dates, which could negatively impact our business results.

Our mortgage loans may be non-amortizing or partially amortizing balloon loans that provide for substantial payments of principal due at their stated maturities. Balloon loans involve a greater risk to the lender than amortizing loans because a borrower’s ability to repay a balloon mortgage loan on its stated maturity date typically will depend upon its ability either to refinance the mortgage loan (although some loans such as those on condominium projects, may be at least partially self-liquidating) or to sell the mortgaged property at a price sufficient to permit repayment. A borrower’s ability to effect a refinancing or sale will be affected by a number of factors. We are not obligated to refinance any of these mortgage loans.

Third-party diligence reports on mortgaged properties are made as of a point in time and are therefore limited in scope.

Appraisals and engineering and environmental reports, as well as a variety of other third party reports, are generally obtained with respect to each of the mortgaged properties underlying our investments at or about the time of origination. Appraisals are not guarantees of present or future value. One appraiser may reach a different conclusion than the conclusion that would be reached if a different appraiser were appraising that property. Moreover, the values of the mortgaged properties may have fluctuated significantly since the appraisals were performed. In addition, any

third party report, including any engineering report, environmental report, site inspection or appraisal represents only the analysis of the individual consultant, engineer or inspector preparing such report at the time of such report, and may not reveal all necessary or desirable repairs, maintenance, remediation and capital improvement items.

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The owners of, and borrowers on, the properties which secure our investments may seek the protection afforded by bankruptcy, insolvency and other debtor relief laws, which may create potential for risk of loss to us.

Although commercial mortgage lenders typically seek to reduce the risk of borrower bankruptcy through such items as nonrecourse carveouts for bankruptcy and special purpose entity/separateness covenants and/or non-consolidation opinions for borrowing entities, the owners of, and borrowers on, the properties which secure our investments may still seek the protection afforded by bankruptcy, insolvency and other debtor relief laws. One of the protections offered in such proceedings to borrowers or owners is a stay of legal proceedings against such borrowers or owners, and a stay of enforcement proceedings against collateral for such loans or underlying such securities (including the properties and cash collateral). A stay of foreclosure proceedings could adversely affect our ability to realize on its collateral, and could adversely affect the value of those assets. Other protections in such proceedings to borrowers and owners include forgiveness of debt, the ability to create super priority liens in favor of certain creditors of the debtor, the potential loss of cash collateral held by the lender if the lender is over-collateralized, and certain well defined claims procedures. Additionally, the numerous risks inherent in the bankruptcy process create a potential risk of loss of our entire investment in any particular investment.

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

Liability relating to environmental matters may decrease the value of the underlying properties of our investments and may adversely affect the ability of a person to sell such property or real estate instrument related to the property or borrow using such property as collateral and may adversely affect the security afforded by a property for a mortgage loan. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on, about, under or in its property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances. To the extent that an owner of an underlying property becomes liable for removal costs, testing, monitoring, remediation, bodily injury or property damage, the ability of the owner to make debt payments may be reduced, which in turn may adversely affect the value of the relevant mortgage asset related to such property. If we acquire any properties by foreclosure or otherwise, the presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs, thereby harming our financial condition. The discovery of material environmental liabilities attached to such properties could have a material adverse effect on our results of operations and financial condition. Moreover, some U.S. federal and state laws provide that, in certain situations, a secured lender, such as us, may be liable as an “owner” or “operator” of the real property, regardless of whether the borrower or previous owner caused the environmental damage. Therefore, the presence of hazardous materials on certain property could have an adverse effect on us in our capacity as the owner of such property, as the mortgage lender to the owner of such property, or as the holder of a real estate instrument related to such property.

Insurance on the real estate underlying our loans and investments may not cover all losses, and this shortfall could result in both loss of cash flow from and a decrease in the asset value of the affected property.

The borrower, or we as property owner and/or originating lender, as the case may be, might not purchase enough or the proper types of insurance coverage to cover all losses. Further, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors, including terrorism or acts of war, also might make the insurance proceeds insufficient to repair or replace a property if it is damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore our economic position with respect to the affected real property. Any uninsured loss could result in both loss of cash flow from and a decrease in the asset value of the affected property.

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Our entitlement to repayment on a loan may be impacted by the doctrine of equitable subordination, which would result in the subordination of our claim to the claims of other creditors of the borrower.

Courts have, in some cases, applied the doctrine of equitable subordination to subordinate the claim of a lending institution against a borrower to claims of other creditors of the borrower, when the lending institution is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lending institution or its affiliates are found to have exerted inappropriate control over a borrower, including control resulting from the ownership of equity interests in a borrower. In certain instances where we own equity in a property, we also may make one or more loans to the owner of such property. Payments on one or more of our loans, particularly a loan to a borrower in which we also hold equity interests, may be subject to claims of equitable subordination that would place our entitlement to repayment of the loan on an equal basis with holders of the borrower's common equity only after all of the borrower's obligations relating to its other debt and preferred securities has been satisfied.

If we purchase or originate loans secured by liens on facilities that are subject to a ground lease and such ground lease is terminated unexpectedly, our interests could be adversely affected.

A ground lease is a lease of land, usually on a long-term basis, that does not include buildings or other improvements on the land. Normally any real property improvements made by the lessee during the term of the lease will revert to the owner at the end of the lease term. We may purchase or originate loans secured by liens on facilities that are subject to a ground lease, and, if the ground lease were to terminate unexpectedly, due to the borrower's default on such ground lease, our business could be adversely affected.

For certain of our loans, we may rely on loan agents or other lenders and such agents or other lenders may not act in the manner that we expect.

With respect to some of our loans, we will be neither the agent of the lending group that receives payments under the loan nor the agent of the lending group that controls the collateral for purposes of administering the loan. When we are not the agent for a loan, we may not receive the same financial or operational information as we would receive for loans for which we are the agent and, in many instances, the information on which we must rely may be provided by the agent rather than directly by the borrower. As a result, it may be more difficult for us to track or rate such loans than it is for the loans for which we are the agent. Additionally, we may be prohibited or otherwise restricted from taking actions to enforce the loan or to foreclose upon the collateral securing the loan without the agreement of other lenders holding a specified minimum aggregate percentage, such as a majority or two-thirds of the outstanding principal balance. It is possible that an agent or other lenders for one of such loans may choose not to take the same actions to enforce the loan or to foreclose upon the collateral securing the loan that we would have taken had we been agent for the loan.

We may not be able to control the party who services the mortgage loans included in the CMBS in which we may invest if those loans are in default and, in such cases, our interests could be adversely affected.

With respect to each series of the CMBS in which we may invest, overall control over the special servicing of the related underlying mortgage loans will be held by a "directing certificate-holder" or a "controlling class representative," which is appointed by the holders of the most subordinate class of CMBS in such series. We may not have the right to appoint the directing certificate-holder or controlling class representative. In connection with the servicing of the specially serviced mortgage loans, the related special servicer may, at the direction of the directing certificate-holder or controlling class representative, take actions with respect to the specially serviced mortgage loans that could adversely affect our interests. However, the special servicer is not permitted to take actions that are prohibited by law or violate the applicable servicing standard or the terms of the mortgage loan documents.

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We may be required to make determinations of a borrower's creditworthiness based on incomplete information or information that we cannot verify, which may cause us to purchase or originate loans that we otherwise would not have purchased or originated and, as a result, may negatively impact our business or reputation.

The commercial real estate lending business depends on the creditworthiness of borrowers, which we must judge. In making such judgment, we will depend on information obtained from non-public sources and the borrowers in making many decisions related to our portfolio, and such information may be difficult to obtain or may be inaccurate. As a result, we may be required to make decisions based on incomplete information or information that is impossible or impracticable to verify. A determination as to the creditworthiness of a prospective borrower is based on a wide-range of information including, without limitation, information relating to the form of entity of the prospective borrower, which may indicate whether the borrower can limit the impact that its other activities have on its ability to pay obligations related to the mortgaged property. Even if we are provided with full and accurate disclosure of all material information concerning a borrower, members of the management team may misinterpret or incorrectly analyze this information, which may cause us to purchase or originate loans that we otherwise would not have purchased or originated and, as a result, may negatively impact our business or the borrower could still defraud us after origination leading to a loss and negative publicity.

Our reserves for loan losses may prove inadequate, which could have a material adverse effect on us.

We maintain and regularly evaluate financial reserves to protect against potential future losses. Our reserves reflect management's judgment of the probability and severity of losses. We cannot be certain that our judgment will prove to be correct and that reserves will be adequate over time to protect against potential future losses because of unanticipated adverse changes in the economy or events adversely affecting specific assets, borrowers, industries in which our borrowers operate or markets in which our borrowers or their properties are located. We must evaluate existing conditions on our debt investments to make determinations to record loan loss reserves on these specific investments. If our reserves for credit losses prove inadequate, we could suffer losses which would have a material adverse effect on our financial performance.

If the loans that we originate or purchase do not comply with applicable laws, we may be subject to penalties.

Loans that we originate or purchase may be directly or indirectly subject to U.S. laws. Real estate lenders and borrowers may be responsible for compliance with a wide range of law intended to protect the public interest, including, without limitation, the Truth in Lending, Equal Credit Opportunity, Fair Housing and Americans with Disabilities Acts and local zoning laws (including, but not limited, to zoning laws that allow permitted non-conforming uses). If we or any other person fail to comply with such laws in relation to a loan that we have purchased or originated, legal penalties may be imposed, and our business may be adversely affected as a result. Additionally, jurisdictions with "one action," "security first" and/or "antideficiency rules" may limit our ability or the ability of a special servicer of a CMBS issuance to foreclose on a real property or to realize on obligations secured by a real property. In the future, new laws may be enacted or imposed by U.S. federal, state or local governmental entities, and such laws may have an adverse effect on our business.

We are subject to various risks relating to non-U.S. securities and loans that may make them more risky than our investments in U.S.-based securities and loans.

Investments in securities or loans of non-U.S. issuers or borrowers or on non-U.S. properties and securities denominated or whose prices are quoted in non-U.S. currencies pose, to the extent not hedged, currency exchange risks (including blockage, devaluation and nonexchangeability), as well as a range of other potential risks which could include expropriation, confiscatory taxation, withholding or other taxes on interest, dividends, capital gain or other income, political or social instability, illiquidity, price volatility, market manipulation and the burdens of complying

with international licensing and regulatory requirements and prohibitions that differ between jurisdictions. In addition, less information may be available regarding non-U.S. properties or securities of non-U.S. issuers or borrowers and non-U.S. issuers or borrowers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. issuers. Transaction costs of investing in non-U.S. securities or loan markets are generally higher than in the United States, and there may be less government supervision and regulation of exchanges, brokers and issuers than there is in the United States. We might have greater difficulty taking appropriate legal action in non-U.S. courts and non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect our performance.

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Risks Related to Our Indebtedness

Our business is highly leveraged, which could lead to greater losses than if we were not as leveraged.

We do and, in the future, intend to use financial leverage in executing our business plan. Such borrowings may take the form of “financing facilities” such as bank credit facilities, credit facilities from government agencies (including the FHLB), repurchase agreements and warehouse lines of credit, which are secured revolving lines of credit that we utilize to warehouse portfolios or real estate instruments until we exit them through securitization. We do and, in the future, intend to enter into securitization and other long-term financing transactions to use the proceeds from such transactions to reduce the outstanding balances under these financing facilities. However, such agreements may include a recourse component. Further, any financing facilities that we currently have or may use in the future to finance our assets may require us to provide additional collateral or pay down debt if the market value of our assets pledged or sold to the provider of the credit facility or the repurchase agreement counterparty decline in value. In addition, our borrowings are generally based on floating interest rates, the fluctuation of which could adversely affect our business and results of operations. Our use of leverage in a market that moves adversely to our business interests could result in a substantial loss to us, which would be greater than if we were not leveraged.

There can be no assurance that we will be able to utilize financing arrangements in the future on favorable terms, or at all.

There is no assurance that we will be able to obtain, maintain or renew our financing facilities on terms favorable to us or at all. Furthermore, any financing facility that we enter into will be subject to conditions and restrictive covenants relating to our operations, which may inhibit our ability to grow our business and increase revenues. To the extent we breach a covenant or cannot satisfy a condition, such facility may not be available to us, or may be required to be repaid in full or in part, which could limit our ability to pursue our business strategies. Further, such borrowings may limit the length of time during which any given asset may be used as eligible collateral.

Additionally, if we are unable to securitize our loans to replenish a warehouse line of credit, we may be required to seek other forms of potentially less attractive financing or otherwise to liquidate our assets. Furthermore, some of our warehouse lines of credit contain cross-default provisions. If a default occurs under one of these warehouse lines of credit and the lenders terminate one or more of these agreements, we may need to enter into replacement agreements with different lenders. There can be no assurance that we will be successful in entering into such replacement agreements on the same terms as the terminated warehouse line of credit.

We may issue more unsecured corporate bonds in the future depending on the financing requirements of our business and market conditions. Our failure to maintain the credit ratings on our debt securities could negatively affect our ability to access capital and could increase our interest expense. The credit rating agencies periodically review our capital structure and the quality and stability of our earnings. Deterioration in our capital structure or the quality and stability of our earnings could result in a downgrade of the credit ratings on our Notes and other debt securities. Any negative ratings actions could constrain the capital available to us and could limit our access to funding for our operations. We are dependent upon our ability to access capital at rates and on terms we determine to be attractive. If our ability to access capital becomes constrained, our interest costs could increase, which could have material adverse effect on our results of operations, financial condition and cash flows.

Our use of leverage may create a mismatch between the duration of financing and the life of the investments made using the proceeds of such financing.

We generally intend to structure our leverage such that we minimize the differences between the term of our investments and the leverage we use to finance such an investment. However, under certain circumstances, we may

determine not to do so or we may be unable to do so. In the event that our leverage is for a shorter term than the financed investment, we may not be able to extend or find appropriate replacement leverage, which would have an adverse impact on our liquidity and our returns. In the event that our leverage is for a longer term than the financed investment, we may not be able to repay such leverage or replace the financed investment with an optimal substitute or at all, which would negatively impact our desired leveraged returns.

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

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

The utilization of any of our repurchase and warehouse facilities and other financing arrangements is subject to the pre-approval of the lender, which we may be unable to obtain.

In order to borrow funds under a repurchase or warehouse agreement or other financing arrangement, the lender has the right to review the potential assets for which we are seeking financing and approve such asset in its sole discretion. Accordingly, we may be unable to obtain the consent of a lender to finance an investment and alternate sources of financing for such asset may not exist.

Our use of repurchase agreements to finance our securities and/or loans may give our lenders greater rights in the event that either we or a lender files for bankruptcy, including the right to repudiate our repurchase agreements, which could limit or delay our claims.

In the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the U.S. Bankruptcy Code, the effect of which, among other things, would be to allow the lender under the applicable repurchase agreement to avoid the automatic stay provisions of the U.S. Bankruptcy Code and to foreclose on the collateral agreement without delay. In the event of the insolvency or bankruptcy of a lender during the term of a repurchase agreement, the lender may be permitted under applicable insolvency laws to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured claim. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages we actually incur. Therefore, our use of repurchase agreements to finance our portfolio assets exposes our pledged assets to risk in the event of a bankruptcy filing by either a lender or ourselves.

If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security and/or loans to us at the end of the transaction term, or if the value of the underlying security and/or loans has declined as of the end of that term, or if we default on our obligations under the repurchase agreement, we will lose money on our repurchase transactions.

When we engage in repurchase transactions, we generally sell securities and/or loans to lenders (i.e., repurchase agreement counterparties) in return for cash from the lenders. The lenders then are obligated to resell the same securities and/or loans to us at the end of the term of the transaction. In a repurchase agreement, the cash we receive from a lender when we initially sell the securities and/or loans to such lender is less than the value of the securities and/or loans sold. If the lender defaults on its obligation to resell the same securities and/or loans to us under the terms of a repurchase agreement, we will incur a loss on the transaction equal to the difference between the value of the securities and/or loans sold and the cash we received from the lender (assuming there was no change in the value of the securities and/or loans). We also would lose money on a repurchase transaction if the value of the underlying securities and/or loans has declined as of the end of the transaction term, as we would have to repurchase the securities and/or loans for their initial value but would receive securities and/or loans worth less than that amount. Further, if we default on one of our obligations under a repurchase transaction, the lender will be able to terminate the transaction and cease entering into any other repurchase transactions with us. Our repurchase agreements generally contain

cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other agreements also could declare a default. If a default occurs under any of our repurchase agreements and the lenders terminate one or more of their repurchase agreements, we may need to enter into replacement repurchase agreements with different lenders. There can be no assurance that we will be successful in entering into such replacement repurchase agreements on the same terms as the repurchase agreements that were terminated or at all. Any losses that we incur on our repurchase transactions could adversely affect our earnings.

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We may be subject to repurchases of loans or indemnification on loans and real estate that we have sold if certain representations or warranties in those sales are breached.

If loans that we sell or securitize do not comply with representations and warranties that we make about the loans, the borrowers, or the underlying properties, we may be required to repurchase such loans (including from a trust vehicle used to facilitate a structured financing of the assets through a securitization) or replace them with substitute loans. Additionally, in the case of loans and real estate that we have sold, we may be required to indemnify persons for losses or expenses incurred as a result of a breach of a representation or warranty. Repurchased loans typically will require a significant allocation of working capital to be carried on our books, and our ability to borrow against such assets may be limited. Any significant repurchases or indemnification payments could adversely affect our business.

Risks Related to Regulatory and Compliance Matters

One of our subsidiaries is registered as a broker-dealer and is subject to various broker-dealer regulations. Violations of these regulations could result in revocation of broker-dealer licenses, fines or other disciplinary action.

We have a subsidiary, LCS, which is registered as a broker-dealer with the SEC and in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands, and is a member of FINRA. This subsidiary, which from time to time co-manages the CMBS securitizations to which an affiliate contributes collateral as loan seller, is subject to regulations that cover all aspects of its business, including sales methods, trade practices, use and safekeeping of clients' funds and securities, the capital structure of the subsidiary, recordkeeping, the financing of clients' purchases and the conduct of directors, officers and employees. The SEC and FINRA have also imposed both conduct-based and disclosure-based requirements with respect to research reports. Violation of these regulations can result in the revocation of broker-dealer licenses (which could result in our having to hire new licensed investment professionals before continuing certain operations), the imposition of censure or fines and the suspension or expulsion of the subsidiary, its officers or employees from FINRA. In addition, LCS is subject to routine periodic examination by the staff of FINRA.

As a registered broker-dealer and member of a self-regulatory organization, LCS is subject to the SEC's uniform net capital rule. Rule 15c3-1 of the Exchange Act specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. The SEC and FINRA impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

The Dodd-Frank Act will result in additional regulation by the SEC, the CFTC and LCS' other regulators. The legislation calls for the imposition of expanded standards of care by market participants in dealing with clients and customers, including by providing the SEC with authority to adopt rules establishing fiduciary duties for broker-dealers and directing the SEC to examine and improve sales practices and disclosure by broker-dealers and investment advisers. LCS will also be affected by rules adopted by U.S. federal agencies pursuant to the Dodd-Frank Act that require any person who organizes or initiates an asset-backed security transaction to retain a portion (at least 5%) of any credit risk that the person conveys to a third party. Securitizations will also be affected by rules prohibiting securitization participants' engaging in any transaction that would involve or result in any material conflict of interest with an investor in a securitization transaction. The rules exempt bona fide market-making activities and risk-mitigating hedging activities in connection with securitization activities from the general prohibition.

If our subsidiaries that are regulated as registered investment advisers are unable to meet the requirements of the SEC or fail to comply with certain U.S. federal and state securities laws and regulations, they may face termination of their investment adviser registration, fines or other disciplinary action.

Two of our subsidiaries are regulated by the SEC as registered investment advisers. Registered investment advisers are subject to the requirements and regulations of the Advisers Act. Such requirements relate to, among other things, fiduciary duties to advisory clients, maintaining an effective compliance program, solicitation agreements, conflicts of interest, recordkeeping and reporting requirements, disclosure requirements, limitations on agency cross and principal transactions between an advisor and advisory clients and general anti-fraud prohibitions. Non-compliance with the Advisers Act or other U.S. federal and state securities laws and regulations could result in investigations, sanctions, disgorgement, fines and reputational damage.

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If our subsidiaries that are regulated as registered investment advisers are unable to successfully negotiate the terms of their management fees, our results of operations could be negatively impacted.

Our asset management business depends in large part on our ability to raise capital from third-party investors. If we are unable to raise capital from third-party investors, we would be unable to collect management fees or deploy their capital into investments and potentially receive additional fees and compensation, which would materially reduce our revenue and cash flow from our asset management business and adversely affect our financial condition.

In connection with creating new investment products, we negotiate terms with potential investors. The outcome of such negotiations could result in our agreement to terms that are materially less favorable to us than the terms of other accounts or vehicles one of our investment adviser subsidiaries has advised. Such terms could restrict our subsidiaries' ability to advise accounts or vehicles with investment objectives or strategies that compete with existing accounts or vehicles, reduce fee revenues we earn, reduce the percentage of profits on third-party capital that we share in or add expenses and obligations for us in managing the accounts or vehicles or increase our potential liabilities, all of which could ultimately reduce our profitability.

The historical returns attributable to the accounts and investment vehicles managed by our asset management business are not indicative of the future results of the accounts and investment vehicles managed by this business, our future results or the performance of our Class A common stock.

The historical and potential future returns of the accounts and investment vehicles managed by our asset management business are not directly linked to returns on our business. Therefore, any positive performance of the accounts and investment vehicles that we manage will not necessarily result in positive returns on an investment in our common equity. However, poor performance of the accounts and investment vehicles that we manage would cause a decline in our revenue from such accounts and investment vehicles, and would therefore have a negative effect on our performance.

We cannot be certain that consents required for assignments of our investment management agreements will be obtained if a change of control occurs at the Company, which may result in the termination of these agreements and a corresponding loss of revenue.

The Advisers Act requires that any investment management agreements be terminated upon an "assignment" without investor consent. Such "assignment" may be deemed to occur in the event such adviser was to experience a direct or indirect change of control (at the Company level). Termination of these agreements would cause us to lose the fees we earn from such account or fund.

If our subsidiary that operates as a captive insurance company fails to comply with insurance laws or is no longer a member of the FHLB, our sources of financing may be limited, which may have an adverse financial impact on the captive and us.

We maintain a captive insurance company to provide coverage previously self-insured by us, including nuclear, biological or chemical coverage, excess property coverage and excess errors and omissions coverage. The captive is regulated by the State of Michigan and is subject to regulations that cover all aspects of its business, including a requirement to maintain a certain minimum net capital. Violation of these regulations can result in revocation of its authorization to do business as a captive insurer or result in censures or fines. The captive could also be found to be in violation of the insurance laws of states other than Michigan (i.e., states where insureds are located), in which case, fines and penalties could apply from those states. Under certain circumstances, regulatory actions (such as new rulemakings) impacting the captive could result in limitations on the ability of the captive to borrow from the FHLB, or termination of its membership in the FHLB, and thereby impact the FHLB's availability as a source of financing for

our operations.

The captive is a member of the FHLB, and as such, is eligible to borrow funds, on a fully collateralized basis, in accordance with the terms and conditions of the FHLB's Advances, Pledge and Security Agreement and is subject to the lending policies of the FHLB as established from time to time. As a member, the captive is required to purchase shares of FHLB stock based on the amount of funds currently borrowed. The organization of the captive and its membership in the FHLB is viewed as a risk financing and investment vehicle of Ladder. Like any other investment, the captive's participation in the FHLB involves some risk of loss and/or access to assets of the captive, both with respect to the shares of FHLB stock and the assets provided by the captive as collateral for its borrowings. Furthermore, if the captive's membership in the FHLB is terminated, then it may have an adverse financial impact on the captive and us.

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The FHFA has revised its regulation on FHLB membership, which, without further modification, will ultimately result in the inability of our captive insurance company to borrow new advances from, or be a member of, the FHLB no later than February 19, 2021.

On January 20, 2016, the FHFA, regulator of the FHLB, published a final rule amending its regulation on FHLB membership. The final rule was effective February 19, 2016 and requires that Tuebor's FHLB membership be terminated by the FHLB no later than February 19, 2021. During this five-year transition period, the FHLB may continue to make new advances to Tuebor so long as they do not exceed forty percent of Tuebor's total assets, and they do not have a maturity of later than February 19, 2021. Tuebor's outstanding advances from the FHLB as of December 31, 2015 were less than forty percent of Tuebor's total assets at that date. Existing advances that mature after the termination of Tuebor's membership are permitted to remain in place until maturity of such advances.

FHLB advances amounted to 43.4% of the Company's outstanding debt obligations as of December 31, 2015. 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and capital resources."

The five-year 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 may 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.

Regulatory changes in the United States and regulatory compliance failures could adversely affect our reputation, business and operations.

Potential regulatory action poses a significant risk to our business. Certain of our subsidiaries' businesses are subject to extensive regulation in the United States and may rely on exemptions from various requirements of the Securities Act, the Exchange Act, the Investment Company Act and ERISA. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third parties who we do not control. If for any reason these exemptions were to be revoked or challenged or otherwise become unavailable to us, we could be subject to regulatory action or third-party claims, and our business could be materially and adversely affected.

Further, each of the regulatory bodies with jurisdiction over one or more of our subsidiaries has regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular activities, which may negatively affect our business.

In addition, we are subject to the Sarbanes-Oxley Act and other applicable securities rules and regulations. Compliance with these rules and regulations may increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and increase demand on our systems and resources. We may also be involved in trading activities which implicate a broad number of United States securities law regimes, including laws governing trading on inside information, market manipulation and a broad number of technical trading requirements that implicate fundamental market regulation policies. Violation of these laws could result in severe restrictions on our activities and damage to our reputation.

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In June 2010, the SEC approved Rule 206(4)-5 under the Advisers Act regarding “pay to play” practices by investment advisers involving campaign contributions and other payments to government clients and elected officials able to exert influence on such clients. The rule prohibits investment advisers from providing advisory services for compensation to a government client for two years, subject to very limited exceptions, after the investment adviser, its senior executives or its personnel involved in soliciting investments from government entities make contributions to certain candidates and officials in position to influence the hiring of an investment adviser by such government client. Advisers are required to implement compliance policies designed, among other matters, to track contributions by certain of the adviser’s employees and engagement of third-parties that solicit government entities and to keep certain records in order to enable the SEC to determine compliance with the rule. Any failure on our part to comply with the rule could expose us to significant penalties and reputational damage. In addition, there have been similar rules on a state-level regarding “pay to play” practices by investment advisers.

It is impossible to determine the extent of the impact on us of the Dodd-Frank Act or any other new laws, regulations or initiatives that may be proposed or whether any of the proposals will become law. Compliance with any new laws or regulations could make compliance more difficult and expensive, affect the manner in which we conduct our business and adversely affect our profitability.

Employee misconduct could harm us by impairing our ability to attract and retain clients and subjecting us to significant legal liability and reputational harm.

There is a risk that our employees could engage in misconduct that adversely affects our business. We are subject to a number of obligations and standards arising from our regulated businesses and our authority over the assets managed by our asset management business. The violation of these obligations and standards by any of our employees would adversely affect our clients and us. If our employees were improperly to use or disclose confidential information obtained during discussions regarding a potential investment, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct, and the extensive precautions we take to detect and prevent this activity may not be effective in all cases. If one of our employees were to engage in misconduct or were to be accused of such misconduct, our business and our reputation could be adversely affected.

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

Accounting rules for transfers of financial assets, securitization transactions, consolidation of variable interest entities, or VIEs, and other aspects of our anticipated operations are highly complex and involve significant judgment and assumptions. These complexities could lead to a delay in preparation of financial information and the delivery of this information to our shareholders. Changes in accounting interpretations or assumptions could impact our combined consolidated financial statements, result in a need to restate our financial results and affect our ability to timely prepare our combined consolidated financial statements. Our inability to timely prepare our combined consolidated financial statements in the future would likely adversely affect our security prices significantly.

Risks Related to Our Investment Company Act Exemption

Maintenance of our exemption from registration under the Investment Company Act imposes significant limits on our operations. The value of our securities, including our Class A common stock, may be adversely affected if we are required to register as an investment company under the Investment Company Act.

We intend to conduct our operations so that neither we nor any of our subsidiaries (including any series thereof) are required to register as an investment company under the Investment Company Act.

If we or any of our subsidiaries (including any series thereof) fail to qualify for and maintain an exemption from registration under the Investment Company Act, or an exclusion from the definition of an investment company, we could, among other things, be required either to: (i) substantially change the manner in which we conduct our operations to avoid being required to register as an investment company; (ii) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so; or (iii) register as an investment company under the Investment Company Act, any of which could have an adverse effect on us, our financial results, the sustainability of our business model, the value of our securities (including the Notes) or our ability to satisfy our obligations in respect of the Notes.

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If we or any of our subsidiaries (including any series thereof) were required to register as an investment company under the Investment Company Act, the registered entity would become subject to substantial regulation with respect to capital structure (including the ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, compliance with reporting, record keeping, voting, proxy disclosure and other rules and regulations that would significantly change its operations and we would not be able to conduct our business as described herein. For example, because affiliate transactions are generally prohibited under the Investment Company Act, we would not be able to enter into certain transactions with any of our affiliates if we are required to register as an investment company, which could have a material adverse effect on our ability to operate our business.

If we were required to register ourselves as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

We believe we are not an investment company under Section 3(a)(1)(A) of the Investment Company Act because we do not engage primarily, or hold ourselves out as being engaged primarily, and do not propose to engage primarily, in the business of investing, reinvesting or trading in securities. However, under Section 3(a)(1)(C) of the Investment Company Act, because we are a holding company that will conduct its businesses primarily through majority-owned subsidiaries (including any series thereof), the securities issued by these subsidiaries (including any series thereof) that are excepted from the definition of “investment company” under Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we may own, may not have a combined value in excess of 40% of the value of our adjusted total assets (exclusive of government securities and cash items) on an unconsolidated basis (the “40% test”). This requirement limits the types of businesses in which we may engage through our subsidiaries (including any series thereof). In addition, the assets we and our subsidiaries (including any series thereof) may originate or acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated thereunder, which may adversely affect our business.

We expect that certain of our subsidiaries (including any series thereof) may rely on the exclusion from the definition of “investment company” under the Investment Company Act pursuant to Section 3(c)(5)(C) of the Investment Company Act, which is available for entities “primarily engaged” in the business of “purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” This exclusion, as interpreted by the staff of the SEC, requires that an entity invest at least 55% of its assets in qualifying real estate assets and at least 80% of its assets in qualifying real estate assets and real estate-related assets. We expect each of our subsidiaries (including any series thereof) relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or on our analyses of such guidance to determine which assets are qualifying real estate assets and real estate-related assets. However, the SEC’s guidance was issued in accordance with factual situations that may be substantially different from the factual situations we may face. We have not received, nor have we sought, a no-action letter from the SEC regarding how our investment strategy fits within the exclusions from the definition of an “investment company” under the Investment Company Act that we and our subsidiaries (including any series thereof) are relying on. The SEC staff may, in the future, issue further guidance that may require us to re-classify our assets for purposes of qualifying for an exclusion from the definition of an “investment company” under the Investment Company Act. If we are required to re-classify our assets, certain of our subsidiaries (including any series thereof) may no longer be in compliance with the exclusion from the definition of an “investment company” provided by Section 3(c)(5)(C) of the Investment Company Act. To the extent that the SEC staff publishes new or different guidance with respect to these matters, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in a subsidiary holding assets we might wish to sell or selling assets we might wish to hold.

Any of the Company or our subsidiaries (including any series thereof) may rely on the exemption provided by Section 3(c)(6) of the Investment Company Act to the extent that they primarily engage, directly or through majority-owned subsidiaries (including any series thereof), in the businesses described in Sections 3(c)(3), 3(c)(4) and 3(c)(5) of the Investment Company Act. The SEC staff has issued little interpretive guidance with respect to Section 3(c)(6) and any guidance published by the staff could require us to adjust our strategy accordingly.

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We determine whether an entity (including any series thereof) is one of our majority-owned subsidiaries. The Investment Company Act defines a majority-owned subsidiary of a person as a company 50% or more of the outstanding voting securities of which are owned by such person, or by another company which is a majority-owned subsidiary of such person. The Investment Company Act further defines voting securities as any security presently entitling the owner or holder thereof to vote for the election of directors of a company. We treat companies in which we own at least a majority of the outstanding voting securities as majority-owned subsidiaries for purposes of the 40% test. We have not requested the SEC to approve our treatment of any company as a majority-owned subsidiary and the SEC has not done so. If the SEC were to disagree with our treatment of one or more companies as majority-owned subsidiaries, we would need to adjust our strategy and our assets in order to continue to pass the 40% test. Any such adjustment in our strategy could have a material adverse effect on us.

In 2011, the SEC solicited public comment on a wide range of issues relating to Section 3(c)(5)(C) of the Investment Company Act, including the nature of the assets that qualify for purposes of the exclusion and whether companies that are engaged in the business of acquiring mortgages and mortgage-related instruments should be regulated in a manner similar to investment companies. There can be no assurance that the laws and regulations governing the Investment Company Act status of such companies, including the SEC or its staff providing more specific or different guidance regarding Section 3(c)(5)(C), will not change in a manner that adversely affects our operations. If we or our subsidiaries (including any series thereof) fail to maintain an exemption from registration under the Investment Company Act, we could, among other things, be required either to: (i) change the manner in which we conduct our operations to avoid being required to register as an investment company; (ii) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so; or (iii) register as an investment company, any of which could negatively affect our financial results, the sustainability of our business model, or the value of our securities.

Risks Related to Conflicts of Interest

Our officers and directors may be involved in other businesses related to the commercial real estate industry and potential conflicts of interests may arise if we invest in commercial real estate instruments or properties affiliated with such businesses.

Our officers or directors may be involved in other businesses related to the commercial real estate industry, and we may wish to invest in commercial real estate instruments or properties affiliated with such persons. Potential conflicts of interest may exist in such situations, and as a result, the benefits to our business of such investments may be limited. Although we do have a policy governing approval of certain related party transactions by the board of directors, we do not expressly prohibit our directors, officers, security holders or affiliates from having a direct or indirect pecuniary interest in any transaction in which we have an interest or engaging for their own account in business activities of the types that we conduct.

We may compete with our investors and our affiliated entities for certain investment opportunities.

TowerBrook and GI Partners, or one or more of their affiliates, may compete against us for investment opportunities in the future. The investment in the Company by the funds managed by TowerBrook and GI Partners did not result in any limitations on the types of investments and activities that may be made or pursued by any of the funds managed by TowerBrook and GI Partners and our amended and restated certificate of incorporation provides that we shall not have any right or expectation in any corporate opportunities known to TowerBrook or GI Partners. In the future, TowerBrook or GI Partners (or one of any of their affiliates) or one or more of the funds managed by TowerBrook or GI Partners may invest in and/or control one or more other entities or businesses with investment and operating focuses that overlap with our investment and operating focus. Certain potential conflicts of interest may also arise with respect to the allocation of prospective investments between us and one or more of the funds managed by TowerBrook and GI Partners or other investment entities controlled or managed by TowerBrook and GI Partners and

their affiliates. Where such allocations are appropriate, TowerBrook and GI Partners generally will act or choose not to act in a fashion that they deem reasonable and fair to each investment entity that is a party to the transaction. As a result, we may decide not to invest in otherwise desirable and beneficial investment opportunities.

Meridian Capital Group, LLC (“Meridian”), a strategic investor in us, expects, in its capacity as a commercial real estate mortgage loan broker, to present us with a geographically diverse volume of loan opportunities for our review. Meridian, however, will also provide our competitors with many, if not all, of the same loan opportunities and there can be no assurance that we will accept any of these opportunities for origination.

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Certain of our entities have in the past and may in the future make loans to other of our entities. Such loans may be made on other-than-arms'-length terms, and as a result, we could be deemed to be subject to an inherent conflict of interest in the event that the interest rates and related fees of such loans differ from those rates and fees then available in the marketplace. We expect that such loans will not give rise to a conflict of interest because such loans generally will be made at rates, and subject to fees, lower than those available in the marketplace; however, we will attempt to resolve any conflicts of interest that arise in a fair and equitable manner.

We hold CMBS and the master servicer, special servicer or sub-servicer or their affiliates may have relationships with borrowers under related mortgage loans and such relationships may impact the value of such CMBS.

In instances where we hold CMBS, the master servicer, special servicer or sub-servicer or any of their respective affiliates may have interests in, or other financial relationships with, borrowers under related mortgage loans. Such relationships may create conflicts of interest that negatively impact the value of such CMBS.

Risks Related to Hedging

Complying with REIT requirements may limit our ability to hedge effectively.

The REIT provisions of the Code may limit our ability to hedge our assets and operations. Under these provisions, any income that we generate from transactions intended to hedge our interest rate risk will be excluded from gross income for purposes of the REIT 75% and 95% gross income tests if the instrument hedges interest rate risk on liabilities used to carry or acquire real estate assets, and such instrument is properly identified under applicable Treasury Regulations. Income from hedging transactions that do not meet these requirements will generally constitute nonqualifying income for purposes of both the REIT 75% and 95% gross income tests. As a result of these rules, we may have to limit our use of hedging techniques that might otherwise be advantageous or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRSs would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRSs will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRSs.

We may enter into hedging transactions that could expose us to contingent liabilities in the future and adversely impact our financial condition.

Part of our strategy will involve entering into hedging transactions that could require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). These potential payments will be contingent liabilities and therefore may not appear in our financial statements. The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

Hedging against interest rate exposure may adversely affect our earnings.

We intend to pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held, compliance with REIT rules, and other changing market conditions. Interest rate hedging may fail to protect or could adversely affect our business because, among other things:

• interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;

- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- due to a credit loss or other factors, the duration of the hedge may not match the duration of the related liability;
- applicable law may require mandatory clearing of certain interest rate hedges we may wish to use, which may raise costs;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign its side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

In addition, we may fail to recalculate, readjust and execute hedges in an efficient manner.

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

A liquid secondary market may not exist for certain hedging instruments and they therefore may involve risks and costs that could result in material losses.

The enforceability of agreements underlying certain hedging transactions may depend on compliance with applicable statutory and regulatory requirements under U.S. law and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction will most likely result in its default, resulting in the loss of unrealized profits and forcing us to cover our commitments, if any, at the then current market price. A liquid secondary market may not exist for these hedging instruments, and we may be required to maintain a position until exercise or expiration, which could result in material losses.

We may enter into hedging transactions that subject us to mandatory clearing and/or margin requirements.

Part of our strategy will involve entering into hedging transactions that may be subject to mandatory clearing under the Dodd-Frank Act and therefore subject to associated margin requirements imposed by the applicable clearinghouse. The margin we may be required to post may be subject to the rules of the relevant clearinghouse, which may provide the clearinghouse with discretion to increase those requirements. In addition, clearing intermediaries who clear our trades with a clearinghouse may have contractual rights to increase the margin requirements we are required to provide above clearinghouse minimums.

Regulations that have been adopted in the U.S. (under the Dodd-Frank Act) and that are scheduled to begin to go into effect later this year will impose mandatory margin requirements on uncleared swaps that could be needed to execute our hedging strategy. Similar rules have been proposed in Europe and have either been proposed or adopted in other jurisdictions where our dealer counterparties may be located. These rules, when effective, will directly or indirectly impose obligations on many derivatives market participants to collect and post "variation margin" in connection with such derivatives and will impose obligations on a smaller group of market participants to also collect and post "initial margin." The potential impact on us will depend on whether one or both of these requirements will apply to our derivatives counterparties when transacting with us. The rules and proposals are intended to provide that the margin requirements for parties subject to "initial margin" requirements would be higher than the margin requirements for similar cleared derivatives.

Our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition. In addition, the failure to satisfy a margin call may result in the liquidation of all or a portion of the relevant hedge transactions. The adoption of margin rules for uncleared over the counter derivatives could also increase the cost to us of using these products. Increased regulatory oversight of derivatives could adversely affect our hedging activities.

The Dodd-Frank Act regulates derivative transactions with a material U.S. nexus, which covers certain hedging instruments we may use in our risk management activities. Similarly, governments and regulators in other G-20 countries have committed to increased regulation of derivative transactions and are in various stages of implementing regulations similar to those that have either been adopted or proposed in the U.S. Depending on where our derivatives providers are located, these other regulations may apply instead of, or in addition to, regulations under the

Dodd-Frank Act. The regulations that have been adopted to date include significant new provisions regarding conduct, documentation, risk management and reporting when transacting in derivatives (including mandatory clearing and margin requirements), although the full impact of those provisions will not be known definitively until they have been fully implemented.

Additional U.S. and non-U.S. regulations governing derivative transactions and market participants are also expected. The legislation and new regulations could increase the operational and transactional cost of derivatives contracts and also affect the number and/or creditworthiness of available hedge counterparties.

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Risks Related to Our Organization and Structure

Our only material asset is our interest in each Series of LCFH and we are accordingly dependent upon distributions from such Series of LCFH to pay dividends, taxes and other expenses.

We are a holding company and have no material assets other than our direct and indirect ownership of Series REIT limited partnership units (“Series REIT LP Units”) and Series TRS limited partnership units (“Series TRS LP Units”) and, collectively with Series REIT LP Units, “Series Units”) of LCFH. Series TRS LP Units are exchangeable for the same number of limited liability company interests of LC TRS I LLC (“LC TRS I Shares”), which is a limited liability company that is a TRS as well as the general partner of Series TRS. We have no independent means of generating revenue. We expect each Series of LCFH to make distributions to its unitholders in an amount sufficient to cover all applicable taxes payable by them determined according to assumed rates, payments owing under the tax receivable agreement with the Continuing LCFH Limited Partners (the “Tax Receivable Agreement”), and to cover dividends declared by us. To the extent that we need funds, and LCFH is restricted from making such distributions under applicable law or regulation, or is otherwise unable to provide such funds, it could materially adversely affect our liquidity and financial condition. Please see Note 1 to our combined consolidated financial statements for the year ended December 31, 2015 included elsewhere in this Annual Report for a description of our capital structure.

We are controlled by the pre-IPO investors in LCFH, whose interests may differ from those of our public shareholders and holders of the Notes.

Certain existing owners of LCFH, who own Series Units and received shares of our Class B common stock as of the completion of our IPO (such owners, the “Continuing LCFH Limited Partners”), and certain of LCFH’s pre-IPO investors, who received shares of our Class A common stock in lieu of any or all Series Units and shares of our Class B common stock that would otherwise have been issued to such existing investors in the Reorganization Transactions as described elsewhere in this Annual Report (such investors, the “Exchanging Existing Owners” and, together with the Continuing LCFH Limited Partners, the “Pre-IPO LCFH Investors”), control 76.6% of the combined voting power of our Class A and Class B common stock.

Accordingly, the Pre-IPO LCFH Investors thereby control our management and affairs. In addition, they will be able to determine the outcome of all matters requiring shareholder approval and will be able to cause or prevent a change of control of our company or a change in the composition of our board of directors, and could preclude any unsolicited acquisition of our company.

In addition, the Continuing LCFH Limited Partners own 44.4% of the Series Units. Because they hold their economic ownership interest in our business through LCFH, rather than through the public company, they may have conflicting interests with holders of our Class A common stock. For example, the Continuing LCFH Limited Partners may have different tax positions from us which could influence their decisions regarding whether and when to dispose of assets, and whether and when to incur new or refinance existing indebtedness, especially in light of the existence of the Tax Receivable Agreement. In addition, the structuring of future transactions may take into consideration these existing unitholders’ tax considerations even where no similar benefit would accrue to us. See “Certain Relationships and Related Transactions and Director Independence—Tax Receivable Agreement” set forth in the Company’s definitive proxy statement for its annual meeting of shareholders expected to be held on June 7, 2016, and is incorporated herein by reference.

We will be required to pay certain existing unitholders of LCFH Series TRS for certain tax benefits we may claim arising in connection with future exchanges of Series TRS LP Units under the Third Amended and Restated Limited Liability Limited Partnership Agreement of LCFH, as amended (the “LLLP Agreement”), which payments could be substantial.

The Continuing LCFH Limited Partners may from time to time exchange an equal number of Series REIT LP Units, LC TRS I Shares (or Series TRS LP Units in lieu of such LC TRS I Shares) and shares of our Class B common stock for shares of our Class A common stock on a one-for-one basis (as described in more detail in “Certain Relationships and Related Transactions and Director Independence—Amended and Restated Limited Liability Limited Partnership Agreement.” As a result of these additional exchanges we will become entitled to certain tax basis adjustments reflecting the difference between the price we pay to acquire Series Units and the proportionate share of LCFH Series TRS’s tax basis allocable to such units at the time of the exchange. As a result, the amount of tax that we would otherwise be required to pay in the future may be reduced by the increase (for tax purposes) in depreciation and amortization deductions attributable to our interests in LCFH Series TRS, although the U.S. IRS may challenge all or part of that tax basis adjustment, and a court could sustain such a challenge.

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The Tax Receivable Agreement provides for the payment by us to certain of the Continuing LCFH Limited Partners of 85% of the amount of cash savings, if any, in U.S. federal, state and local tax that we realize as a result of: (i) the tax basis adjustments referred to above; (ii) any incremental tax basis adjustments attributable to payments made pursuant to the Tax Receivable Agreement; and (iii) any deemed interest deductions arising from payments made by us pursuant to the Tax Receivable Agreement. While the actual amount of the adjusted tax basis, as well as the amount and timing of any payments under this agreement will vary depending upon a number of factors, including the basis of our proportionate share of LCFH Series TRS's assets on the dates of exchanges, the timing of exchanges, the price of shares of our Class A common stock at the time of each exchange, the extent to which such exchanges are taxable, the deductions and other adjustments to taxable income to which LCFH Series TRS is entitled, and the amount and timing of our income, we expect that during the anticipated term of the Tax Receivable Agreement, the payments that we may make to the Continuing LCFH Limited Partners could be substantial. Payments under the Tax Receivable Agreement will give rise to additional tax benefits and therefore to additional potential payments under the Tax Receivable Agreement. In addition, the Tax Receivable Agreement provides for interest accrued from the due date (without extensions) of the corresponding tax return for the taxable year with respect to which the payment obligation arises to the date of payment under the agreement. LC TRS I LLC will have the right to terminate the Tax Receivable Agreement by making payments to the Continuing LCFH Limited Partners calculated by reference to the present value of all future payments that of the Continuing LCFH Limited Partners would have been entitled to receive under the Tax Receivable Agreement using certain valuation assumptions, including assumptions that any Series TRS LP Units and shares of our Class B common stock that have not been exchanged are deemed exchanged for the market value of our Class A common stock at the time of termination and that LC TRS I LLC will have sufficient taxable income in each future taxable year to fully realize all potential tax savings.

There may be a material negative effect on our liquidity if, as a result of timing discrepancies or otherwise, (i) the payments under the Tax Receivable Agreement exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement, and/or (ii) distributions to LC TRS I LLC by LCFH Series TRS are not sufficient to permit us to make payments under the Tax Receivable Agreement after it has paid its taxes and other obligations. For example, were the IRS to challenge a tax basis adjustment, or other deductions or adjustments to taxable income of LCFH Series TRS, the existing unitholders of LCFH Series TRS will not reimburse us for any payments that may previously have been made under the Tax Receivable Agreement, except that excess payments made to an existing unitholder will be netted against payments otherwise to be made, if any, after our determination of such excess. As a result, in certain circumstances we could make payments to the existing unitholders of LCFH Series TRS under the Tax Receivable Agreement in excess of our ultimate cash tax savings. In addition, the payments under the Tax Receivable Agreement are not conditioned upon any recipient's continued ownership of interests in us or LCFH Series TRS. A Continuing LCFH Limited Partner that exchanges its Series REIT LP Units, LC TRS I Shares (or Series TRS LP Units in lieu of such LC TRS I Shares) and shares of our Class B common stock for our Class A common stock will receive payments under the Tax Receivable Agreement until such time that it validly assigns or otherwise transfers its right to receive such payments.

In certain cases, payments under the Tax Receivable Agreement may be accelerated and/or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the Tax Receivable Agreement.

The Tax Receivable Agreement provides that upon certain changes of control, or if, at any time, we elect an early termination of the Tax Receivable Agreement, the amount of our (or our successor's) payment obligations with respect to exchanged or acquired Series TRS LP Units (whether exchanged or acquired before or after such transaction) will be determined based on certain assumptions. These assumptions include the assumption that we (or our successor) will have sufficient taxable income to fully utilize the deductions arising from the increased tax deductions and tax basis and other benefits related to entering into the Tax Receivable Agreement. Moreover, in the event we elect an early termination of the Tax Receivable Agreement, we would be required to make an immediate payment equal to the present value (at a discount rate equal to LIBOR plus basis points) of the anticipated future tax benefits (based on the

foregoing assumptions). Accordingly, if we so elect, payments under the Tax Receivable Agreement may be made years in advance of the actual realization, if any, of the anticipated future tax benefits and may be significantly greater than the actual benefits we realize in respect of the tax attributes subject to the Tax Receivable Agreement. In these situations, our obligations under the Tax Receivable Agreement could have a substantial negative impact on our liquidity. We may not be able to finance our obligations under the Tax Receivable Agreement and our existing indebtedness may limit our subsidiaries' ability to make distributions to us to pay these obligations.

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Anti-takeover provisions in our charter documents and Delaware law could delay or prevent a change in control.

Our amended and restated certificate of incorporation and amended and restated by-laws may delay or prevent a merger or acquisition that a shareholder may consider favorable by permitting our board of directors to issue one or more series of preferred stock, requiring advance notice for shareholder proposals and nominations, and placing limitations on convening shareholder meetings. In addition, we are subject to provisions of the Delaware General Corporate Law (the “DGCL”) that restrict certain business combinations with interested shareholders. These provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price. Our charter contains REIT-related restrictions on the ownership of, and ability to transfer our Class A common stock.

Among other things, our charter provides that, subject to the exceptions and the constructive ownership rules described herein, no person may own, or be deemed to own, in excess of (i) 9.8% in value of the outstanding shares of all classes or series of Ladder capital stock or (ii) 9.8% in value or number (whichever is more restrictive) of the outstanding shares of any class of Ladder common stock.

In addition, the charter prohibits (i) any person from transferring shares of Ladder capital stock if such transfer would result in shares of Ladder capital stock being beneficially owned by fewer than 100 persons, and (ii) any person from beneficially or constructively owning shares of Ladder capital stock if such ownership would result in Ladder failing to qualify as a REIT.

These ownership limitations and transfer restrictions could have the effect of delaying, deferring or preventing a takeover or other transaction in which shareholders might receive a premium for their shares of Ladder capital stock over the then prevailing market price or which shareholders might believe to be otherwise in their best interest.

Certain existing shareholders that currently hold in excess of 9.8% of the value of the outstanding shares of any class or series of Ladder capital stock are exempt from the ownership limitations in our charter.

The amendment and restatement of our certificate of incorporation effective as of February 27, 2015 (the “Charter Amendment”), among other things, eliminated the previous transfer restrictions on our Class B common stock, effectively “decoupling” the voting rights of the Class B common stock from the economic rights of the Series Units.

The Charter Amendment eliminated the transfer restrictions on the shares of Class B common stock that were imposed by our amended and restated certificate of incorporation in order to facilitate compliance with the REIT requirements. As a result, holders of Class B common stock are no longer be required to hold their Class B common stock together with their Series Units. The Charter Amendment effectively “decoupled” the voting rights of the Class B common stock from the economic rights of the Series Units and as a result, shareholders are able to purchase or retain shares of Class B common stock and the corresponding voting rights without having any economic stake in the Company or the matters to be voted on. The interests of any such shareholders may not coincide with our interests or those of our other shareholders. The holders of Series Units may from time to time cause us to exchange an equal number of Series REIT LP Units, LC TRS I Shares (or Series TRS LP Units in lieu of such LC TRS I Shares) and shares of our Class B common stock for shares of our Class A common stock on a one-for-one basis. Holders of Series Units who sell all or any portion of their Class B common stock would no longer be able to exchange their Series REIT LP Units and LC TRS I Shares (or Series TRS LP Units in lieu of such LC TRS I Shares) for a corresponding number of shares of our Class A common stock.

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Risks Related to Our Class A Common Stock

The market price and trading volume of our Class A common stock may be volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our Class A common stock may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume in our Class A common stock may fluctuate and cause significant price variations to occur. If the market price of our Class A common stock declines significantly, you may be unable to sell your Class A common stock at or above your purchase price, if at all. We cannot assure you that the market price of our Class A common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our Class A common stock or result in fluctuations in the price or trading volume of our Class A common stock include: variations in our quarterly operating results; failure to meet our earnings estimates; publication of research reports about us or the investment management industry or the failure of securities analysts to cover our Class A common stock after the offering; additions or departures of our executive officers and other key management personnel; adverse market reaction to any indebtedness we may incur or securities we may issue in the future; actions by shareholders; changes in market valuations of similar companies; speculation in the press or investment community; changes or proposed changes in laws or regulations or differing interpretations thereof affecting our business or enforcement of these laws and regulations, or announcements relating to these matters; adverse publicity about the financial advisory industry generally or individual scandals, specifically; and general market and economic conditions. In addition, our Board Authorization Policy, adopted by the board of directors on October 30, 2014, authorizes the Company to make up to \$50.0 million in repurchases of our Class A common stock from time to time without further approval. The existence of this authorization and any repurchases pursuant thereto could affect our stock price and increase stock price volatility and could potentially reduce the market liquidity for our Class A common stock. Additionally, we are permitted to and could discontinue Class A common stock repurchases at any time and any such discontinuation could cause the market price of our Class A common stock to decline.

Our Class A common stock price may decline due to the large number of shares eligible for future sale and for exchange into Class A common stock.

The market price of our Class A common stock could decline as a result of sales of a large number of shares of our Class A common stock or an exchange of a large number of Series REIT LP Units, LC TRS I Shares (or Series TRS LP Units in lieu of such LC TRS I Shares) and shares of our Class B common stock into Class A common stock, or the perception that such sales or exchanges could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate. Our amended and restated certificate of incorporation authorizes us to issue additional shares of Class A common stock and options, rights, warrants and appreciation rights relating to Class A common stock for the consideration and on the terms and conditions established by our board of directors in its sole discretion. In accordance with the DGCL and the provisions of our certificate of incorporation, we may also issue preferred stock that has designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to shares of Class A common stock. Similarly, the LLLP Agreement permits Series REIT and Series TRS to issue an unlimited number of additional Series Units with designations, preferences, rights, powers and duties that are different from, and may be senior to, those applicable to the Series Units, and which may be exchangeable for shares of our Class A common stock.

You may be diluted by the future issuance of additional Class A common stock in connection with our incentive plans, acquisitions or otherwise.

Our amended and restated certificate of incorporation authorizes us to issue shares of Class A common stock and options, rights, warrants and appreciation rights relating to Class A common stock for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with acquisitions or otherwise. Any Class A common stock that we issue, including under our 2014 Omnibus Incentive Plan or other equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by the investors who purchase Class A common stock in the offering.

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Risks Related to Our Taxation as a REIT

We have limited experience operating a REIT and we cannot assure you that our past experience will be sufficient to successfully manage our business as a REIT.

We have limited experience operating a REIT. The REIT provisions of the Code are complex, and any failure to comply with those provisions in a timely manner could prevent us or certain of our subsidiaries from qualifying as REITs or could force us to pay unexpected taxes and penalties. As a result, we cannot assure you that we will be able to successfully manage our business as a REIT, which would substantially reduce our earnings. In the event of a failure to qualify as a REIT, our net income could be reduced.

If we fail to qualify as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our shareholders.

We operate and intend to continue operating in a manner that will allow us to qualify as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2015. Although we have not requested and we do not intend to request a ruling from the IRS as to our REIT qualification, we have received an opinion of Skadden, Arps, Slate, Meagher & Flom LLP with respect to our qualification as a REIT. Investors should be aware, however, that opinions of counsel are not binding on the IRS or any court. The opinion of Skadden, Arps, Slate, Meagher & Flom LLP represents only the view of our counsel based on our counsel's review and analysis of existing law and on certain representations as to factual matters and covenants made by us, including representations relating to the values of our assets and the sources of our income. The opinion was expressed as of the date issued and does not cover subsequent periods. Skadden, Arps, Slate, Meagher & Flom LLP has no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, and our qualification as a REIT depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis, the results of which are not monitored by Skadden, Arps, Slate, Meagher & Flom LLP. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the annual REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for U.S. federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements as described below. Accordingly, there can be no assurance that the IRS will not contend that our interests in subsidiaries or in securities of other issuers will not cause a violation of the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, and we do not qualify for certain statutory relief provisions, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our shareholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which in turn could have an adverse impact on the value of our common stock. Unless we were entitled to relief under certain provisions of the Code, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Certain of our subsidiaries have also elected to be taxed as a REIT under the Code and are, therefore, subject to the same risks in the event that they fail to qualify as a REIT in any taxable year. If any of these subsidiaries were to fail to qualify as a REIT, then we might also fail to qualify as a REIT.

Our ownership of and relationship with TRSs is limited, and a failure to comply with the limits would jeopardize our REIT qualification, and our transactions with our TRSs may result in the application of a 100% excise tax if such transactions are not conducted on arm's-length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may earn income that would not be REIT-qualifying income if earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. Overall, (i) through December 31, 2017, no more than 25% of the value of a REIT's assets may consist of stock and securities of one or more TRSs, and (ii) on or after January 1, 2018, no more than 20% of the value of a REIT's assets may consist of stock and securities of one or more TRSs. A domestic TRS will pay U.S. federal, state and local income tax at regular corporate rates on any income that it earns. In addition, the TRS rules impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

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We elected for certain of our subsidiaries to be treated as TRSs. Our TRSs will pay U.S. federal, state and local income tax on their consolidated taxable income, and their after-tax income will be available for distribution to us but will not be required to be distributed to us. We have structured the formation transactions such that the aggregate value of the TRS stock and securities owned by us will be less than (i) through December 31, 2017, 25% of the value of our total assets (including the TRS stock and securities), and (ii) on or after January 1, 2018, 20% of the value of our total assets (including the TRS stock and securities). Furthermore, we will monitor the value of our investments in our TRSs to ensure compliance with the rule that (i) through December 31, 2017, no more than 25% of the value of our assets may consist of TRS stock and securities (which is applied at the end of each calendar quarter), and (ii) on or after January 1, 2018, no more than 20% of the value of our assets may consist of TRS stock and securities (which is applied at the end of each calendar quarter). In addition, we will scrutinize all of our transactions with TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS limitations or to avoid application of the 100% excise tax discussed above.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a non-deductible 4% excise tax if the actual amount distributed to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to make distributions to our shareholders to comply with the REIT qualification requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, if we purchase agency securities at a discount, we are generally required to include the discount in taxable income prior to receiving the cash proceeds of the accrued discount at maturity. Additionally, if we incur capital losses in excess of capital gains, such net capital losses are not allowed to reduce our taxable income for purposes of determining our distribution requirement. Such net capital losses may be carried forward for a period of up to five years and applied against future capital gains subject to the limitation of our ability to generate sufficient capital gains, which cannot be assured. If we do not have other funds available in these situations we could be required to borrow funds on unfavorable terms, sell investments at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to maintain our qualification as a REIT, or avoid corporate income tax and the non-deductible 4% excise tax in a particular year. These alternatives could increase our costs or reduce our shareholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

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

To maintain our qualification as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular quarterly cash distributions to our shareholders out of legally available funds therefor. Our intended dividend policy as a REIT will be to pay quarterly distributions which, on an annual basis, will equal all or substantially all of our net taxable income. We have not, however, established a minimum distribution payment level and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors described in this Annual Report. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, any debt covenants, maintenance of our REIT qualification, restrictions on making distributions under Delaware law and other factors as our board of directors may deem relevant

from time to time. We may not be able to make distributions in the future and our board of directors may change our distribution policy in the future. We believe that a change in any one of the following factors, among others, could adversely affect our results of operations and impair our ability to pay distributions to our shareholders:

- the profitability of the assets we hold or acquire;
- the allocation of assets between our REIT-qualified and non-REIT-qualified subsidiaries.
- our ability to make profitable investments and to realize profit therefrom;
- margin calls or other expenses that may reduce our cash flow; and
- defaults in our asset portfolio or decreases in the value of our portfolio.

We cannot assure you that we will achieve results that will allow us to make a specified level of cash distributions or any increase in the level of such distributions in the future.

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If we were to make a taxable distribution of shares of our stock, shareholders may be required to sell such shares or sell other assets owned by them in order to pay any tax imposed on such distribution.

We may distribute taxable dividends that are payable in shares of our common stock. If we were to make such a taxable distribution of shares of our stock, shareholders would be required to include the full amount of such distribution as income. As a result, a shareholder may be required to pay tax with respect to such dividends in excess of cash received. Accordingly, shareholders receiving a distribution of our shares may be required to sell shares received in such distribution or may be required to sell other stock or assets owned by them, at a time that may be disadvantageous, in order to satisfy any tax imposed on such distribution. If a shareholder sells the shares it receives as a dividend in order to pay such tax, the sale proceeds may be less than the amount included in income with respect to the dividend. Moreover, in the case of a taxable distribution of shares of our stock with respect to which any withholding tax is imposed on a non-U.S. shareholder, we may have to withhold or dispose of part of the shares in such distribution and use such withheld shares or the proceeds of such disposition to satisfy the withholding tax imposed. In addition, if a significant number of our shareholders determine to sell shares of our Class A common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our Class A common stock.

There are uncertainties relating to the estimate of our E&P Distribution paid on January 21, 2016.

To qualify for taxation as a REIT effective for the year ended December 31, 2015, we are required to distribute to our shareholders our undistributed accumulated earnings and profits attributable to taxable periods ending prior to January 1, 2015. To satisfy this requirement, on November 30, 2015, our board of directors approved the fourth quarter 2015 dividend of \$1.45 per share of our Class A common stock. The portion of our 2015 dividends that is attributable to the E&P Distribution should be treated as “qualified dividend income” for U.S. federal income tax purposes.

We believe that the total value of the E&P Distribution was sufficient to fully distribute our accumulated earnings and profits. However, the amount of our undistributed accumulated earnings and profits is a complex factual and legal determination. We may have had less than complete information at the time we estimated our earnings and profits or may have interpreted the applicable law differently from the IRS. Substantial uncertainties exist relating to the computation of our undistributed accumulated earnings and profits, including the possibility that the IRS could, in auditing tax years through 2015, successfully assert that our taxable income should be increased, which could increase our pre-REIT accumulated earnings and profits. Thus, we may fail to satisfy the requirement that we distribute all of our pre-REIT accumulated earnings and profits by the close of our first taxable year as a REIT. Moreover, although there are procedures available to cure a failure to distribute all of our pre-REIT accumulated earnings and profits, we cannot now determine whether we will be able to take advantage of them or the economic impact to us of doing so.

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

The maximum tax rate applicable to income from “qualified dividends” payable to domestic shareholders that are individuals, trusts and estates is currently 20%. Distributions of ordinary income payable by REITs, however, generally are not eligible for these reduced rates. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay qualified dividends, which could adversely affect the value of the stock of REITs, including our common stock.

Even if we qualify as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, taxes on income from some activities conducted as a result of a foreclosure, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. In addition, in order to meet the REIT qualification requirements, prevent the recognition of certain types of non-cash income, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we intend to hold some of our assets through our TRSs or other subsidiary corporations that will be subject to corporate level income tax at regular corporate rates. In addition, if we lend money to a TRS, the TRS may be unable to deduct all or a portion of the interest paid to us, which could result in an even higher corporate level tax liability. Furthermore, the Code imposes a 100% excise tax on certain transactions between a TRS and a REIT that are not conducted on an arm's length basis. We intend to structure any transaction with a TRS on terms that we believe are arm's length to avoid incurring this 100% excise tax. There can be no assurances, however, that we will be able to avoid application of the 100% excise tax. The payment of any of these taxes would decrease cash available for distribution to our shareholders.

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Moreover, the Company owns appreciated assets at the REIT level that it held before the effective date of its REIT election. If the Company disposes of any such appreciated assets during the five-year period following the Company's qualification as a REIT, the Company will be subject to tax at the highest corporate tax rates on any gain from such assets to the extent of the excess of the fair market value of the assets at the time that the Company became a REIT over the adjusted tax basis of such assets on such date, which are referred to as built-in gains. The Company would be subject to this tax liability even if it qualifies and maintains its status as a REIT. Any recognized built-in gain will retain its character as ordinary income or capital gain and will be taken into account in determining REIT taxable income and the Company's distribution requirement. Any tax on the recognized built-in gain will reduce REIT taxable income. The Company may choose not to sell in a taxable transaction appreciated assets it might otherwise sell during the five-year period in which the built-in gain tax applies in order to avoid the built-in gain tax. However, if the Company sells such assets in a taxable transaction, the amount of corporate tax that the Company will pay will vary depending on the actual amount of net built-in gain or loss present in those assets as of the time the Company became a REIT. The amount of tax could be significant.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities or liquidate otherwise attractive investments.

To qualify as REITs for U.S. federal income tax purposes, we and certain of our subsidiaries must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our shareholders and the ownership of our stock. We may be required to make distributions to shareholders at disadvantageous times or when we do not have funds readily available for distribution and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make and, in certain cases, to maintain ownership of, certain attractive investments.

Further, to qualify as REITs, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investments in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% (on or prior to December 31, 2017) or 20% (on or after January 1, 2018) of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments from our investment portfolio. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

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

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

of the REIT asset and income tests and, if such a challenge were sustained, it could impact our ability to qualify as a REIT.

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

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

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our Class A common stock nor gain from the sale of Class A common stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

part of the income and gain recognized by certain qualified employee pension trusts with respect to our common stock may be treated as unrelated business taxable income if shares of our Class A common stock are predominantly held by qualified employee pension trusts, and we are required to rely on a special look-through rule for purposes of meeting one of the REIT ownership tests, and we are not operated in a manner to avoid treatment of such income or gain as unrelated business taxable income;

part of the income and gain recognized by a tax-exempt investor with respect to our Class A common stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the common stock;

part or all of the income or gain recognized with respect to our Class A common stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from U.S. federal income taxation under the Code may be treated as unrelated business taxable income; and

to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a “taxable mortgage pool,” or if we hold residual interests in a REMIC, a portion of the distributions paid to a tax-exempt shareholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.

To qualify as a REIT, we must comply with requirements regarding the composition of our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire mortgage-backed securities in the secondary market for less than their face amount. In addition, pursuant to our ownership of certain mortgage-backed securities, we may be treated as holding certain debt instruments acquired in the secondary market for less than their face amount. The discount at which such securities or debt instruments are acquired may reflect doubts about their ultimate collectability rather than current market interest rates. The amount of such discount will nevertheless generally be treated as “market discount” for U.S. federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, any payment of principal of

the mortgage-backed security or debt instrument is made. If we collect less on the mortgage-backed security or debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions. In addition, pursuant to our ownership of certain mortgage-backed securities, we may be treated as holding distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are “significant modifications” under applicable Treasury regulations, the modified debt may be considered to have been reissued to us at a gain in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed.

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Moreover, some of the mortgage-backed securities that we acquire may have been issued with original issue discount. We are required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such mortgage-backed securities will be made. If such mortgage-backed securities turn out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectibility is provable.

Finally, in the event that mortgage-backed securities or any debt instruments we are treated as holding pursuant to our investments in mortgage-backed securities are delinquent as to mandatory principal and interest payments, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to subordinate mortgage-backed securities at the stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

Certain apportionment rules may affect our ability to comply with the REIT asset and gross income tests.

The Code provides that a regular or a residual interest in a REMIC is generally treated as a real estate asset for the purpose of the REIT asset tests, and any amount includible in our gross income with respect to such an interest is generally treated as interest on an obligation secured by a mortgage on real property for the purpose of the REIT gross income tests. If, however, less than 95% of the assets of a REMIC in which we hold an interest consist of real estate assets (determined as if we held such assets), we will be treated as holding our proportionate share of the assets of the REMIC for the purpose of the REIT asset tests and receiving directly our proportionate share of the income of the REMIC for the purpose of determining the amount of income from the REMIC that is treated as interest on an obligation secured by a mortgage on real property. In connection with the expanded FHFA RMBS-backed Home Affordable Refinance Program loan program in which we may invest, the IRS issued guidance providing that, among other things, if a REIT holds a regular interest in an “eligible REMIC,” or a residual interest in an “eligible REMIC” that informs the REIT that at least 80% of the REMIC’s assets constitute real estate assets, then the REIT may treat 80% of the interest in the REMIC as a real estate asset for the purpose of the REIT income and asset tests. Although the portion of the income from such a REMIC interest that does not qualify for purposes of the REIT 75% gross income test would likely be qualifying income for the purpose of the 95% REIT gross income test, the remaining 20% of the REMIC interest generally would not qualify as a real estate asset, which could adversely affect our ability to satisfy the REIT asset tests. Accordingly, owning such a REMIC interest could adversely affect our ability to qualify as a REIT.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of structuring collateral mortgage obligations (“CMOs”), which would be treated as prohibited transactions for U.S. federal income tax purposes.

Net income that we derive from a prohibited transaction is subject to a 100% tax. The term “prohibited transaction” generally includes a sale or other disposition of property (including agency securities, but other than foreclosure property) that is held primarily for sale to customers in the ordinary course of a trade or business by us or by a borrower that has issued a shared appreciation mortgage or similar debt instrument to us. We could be subject to this tax if we were to dispose of or structure CMOs in a manner that was treated as a prohibited transaction for U.S. federal income tax purposes. The 100% tax does not apply to gains from the sale of foreclosure property or property that is held through a TRS or other taxable corporation, as is the case with our securitization business, although such income will be subject to tax in the hands of the corporation at regular corporate rates.

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We intend to conduct our operations at the REIT level so that no asset that we own (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. As a result, we may choose not to engage in certain transactions at the REIT level, and may limit the structures we utilize for our CMO transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held “primarily for sale to customers in the ordinary course of a trade or business” depends on the particular facts and circumstances. We intend to structure our activities to avoid prohibited transaction characterization but no assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment.

Our taxable income is calculated differently than net income based on U.S. GAAP.

Our taxable income may substantially differ from our net income based on U.S. GAAP. For example, interest income on our mortgage related securities does not necessarily accrue under an identical schedule for U.S. federal income tax purposes as for accounting purposes. Please see Note 15 to our combined consolidated financial statements for the year ended December 31, 2015 included elsewhere in this Annual Report.

Rapid changes in the values of our target assets may make it more difficult for us to maintain our qualification as a REIT.

If the fair market value or income potential of our assets declines as a result of increased interest rates, prepayment rates, general market conditions, government actions or other factors, we may need to increase our real estate assets and income or liquidate our non-REIT-qualifying assets to maintain our REIT qualification. If the decline in real estate asset values or income occurs quickly, this may be especially difficult to accomplish. We may have to make decisions that we otherwise would not make absent the REIT election.

The Company’s qualification as a REIT and exemption from U.S. federal income tax with respect to certain assets may be dependent on the accuracy of legal opinions or advice rendered or given or statements by the issuers of assets that the Company acquires, and the inaccuracy of any such opinions, advice or statements may adversely affect the Company’s REIT qualification and result in significant corporate-level tax.

When purchasing securities, the Company may rely on opinions or advice of counsel for the issuer of such securities, or statements made in related offering documents, for purposes of determining whether such securities represent debt or equity securities for U.S. federal income tax purposes, and also to what extent those securities constitute real estate assets for purposes of the REIT asset tests and produce income which qualifies for purposes of the REIT income tests. In addition, when purchasing the equity tranche of a securitization, the Company may rely on opinions or advice of counsel regarding the qualification of the securitization for exemption from U.S. corporate income tax and the qualification of interests in such securitization as debt for U.S. federal income tax purposes. The inaccuracy of any such opinions, advice or statements may adversely affect the Company’s REIT qualification and result in significant corporate-level tax.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT.

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in us. The U.S. federal income tax rules dealing with REITs constantly are under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. Revisions in U.S. federal tax laws and interpretations

thereof could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We lease our corporate headquarters office at 345 Park Avenue, 8th Floor, New York, New York, 10154. We also rent regional offices at 10250 Constellation Boulevard, Suite 260, Los Angeles, California, 90067, 433 Plaza Real, Suite 275, Boca Raton, Florida, 33432 and One Market Street, Spear Tower, Suite 3611, San Francisco, California 94105.

We own a portfolio of commercial real estate properties which are included in our real estate business segment. As of December 31, 2015, we owned 98 single tenant net leased properties with an aggregate book value of \$545.4 million. These properties are fully leased on a net basis where the single tenant is generally responsible for payment of real estate taxes, property, building and general liability insurance and property and building maintenance expenses. As of December 31, 2015, our net leased properties comprised a total of 4.0 million square feet and had a 100% occupancy rate, an average age since construction of 8.4 years and a weighted average remaining lease term of 16.1 years. Given the long term nature and single tenant occupancy of the net leased properties, there are no rent concessions or abatements on these properties. We generally originate senior secured mortgage loans on our net leased properties, and many of these mortgage loans have subsequently been securitized and are included as non-recourse mortgage loan financing in debt obligations on our combined consolidated balance sheets at December 31, 2015.

In addition, as of December 31, 2015, we owned 29 other properties with an aggregate book value of \$218.4 million. Through separate joint ventures, we owned a portfolio of 13 office buildings in Richmond, VA with a book value of \$99.3 million, a portfolio of four office buildings in St. Paul, MN with a book value of \$57.3 million, a portfolio of seven office buildings in Richmond, VA with a book value of \$18.4 million, a 13-story office building in Oakland County, MI with a book value of \$11.5 million, a two-story office building in Grand Rapids, MI with a book value of \$9.5 million and a warehouse in Grand Rapids, MI with a book value of \$6.1 million. We also own a two-story office building in Wayne, NJ with a book value of \$9.5 million and a shopping center in Carmel, NY with a book value of \$6.8 million.

In addition, as of December 31, 2015, we owned 132 residential condominium units at Veer Towers in Las Vegas, NV with a book value of \$33.8 million through a consolidated joint venture with an operating partner and 153 residential condominium units at Terrazas River Park Village in Miami, FL with a book value of \$37.3 million. The remaining Veer units we hold were 42.1% leased and occupied as of December 31, 2015 and the remaining Terrazas units we hold were 78.6% leased and occupied as of December 31, 2015. As of December 31, 2015, seven condominium units were under contract for sale at Veer Towers with a book value of \$1.9 million and 14 condominium units were under contract for sale at Terrazas with a book value of \$3.2 million. The condominium units are included in our real estate business segment. Depending on market conditions for new leases and renewals in this residential inventory, we may provide tenants rent concessions or abatements. We intend to sell the entire inventory of units over time. We are leasing the units currently under short-term leases (less than two-year terms) to offset operating expenses during our sales process, and therefore, any rent concessions or abatements would have no material impact on our operations.

The following table, organized by tenant type and acquisition date, summarizes our owned properties as of December 31, 2015 (\$ amounts in thousands):

Location	Acquisition date	Acquisition price	Year built/reno.	Lease expiration (1)	Approx. Carrying square footage of asset	Mortgage loan outstanding (2)	Asset net of mortgage loan (3)	Annual rental income (4)	Ownership Percentage (5)
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								outstanding			
Net Lease											
Radford, VA	12/23/15	\$ 1,564	2015	9/30/30	8,360	\$ 1,563	\$ —	\$ 1,563	\$ 104	100.0	%
Albion, PA	12/23/15	1,525	2015	9/30/30	8,184	1,523	—	1,523	101	100.0	%
Rural Retreat, VA	12/23/15	1,399	2015	9/30/30	8,305	1,398	—	1,398	93	100.0	%
Mount Vernon, AL	12/23/15	1,224	2015	6/30/30	8,323	1,236	—	1,236	84	100.0	%
Malone, NY	12/16/15	1,466	2015	6/30/30	8,320	1,472	—	1,472	99	100.0	%
Mercedes, TX	12/16/15	1,204	2015	11/30/30	9,100	1,262	—	1,262	86	100.0	%
Gordonville, MO	11/10/15	1,125	2015	9/30/30	9,026	1,202	776	426	80	100.0	%
Rice, MN	10/28/15	1,201	2015	9/30/30	9,002	1,235	822	413	85	100.0	%
Bixby, OK	10/27/15	10,979	2012	12/31/32	75,996	12,099	8,002	4,097	769	100.0	%

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Location	Acquisition date	Acquisition price	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)
Farmington, IL	10/23/15	1,303	2015	8/31/30	9,100	1,401	901	500	93	100.0 %
Grove, OK	10/20/15	5,030	2012	8/31/32	31,500	5,549	3,647	1,902	364	100.0 %
Jenks, OK	10/19/15	12,160	2009	9/24/33	80,932	13,350	8,855	4,495	912	100.0 %
Bloomington, IL	10/14/15	1,193	2015	8/31/30	9,026	1,287	822	465	85	100.0 %
Montrose, MN	10/14/15	1,167	2015	8/31/30	9,100	1,184	—	1,184	83	100.0 %
Lincoln County, MO	10/14/15	1,072	2015	8/31/30	9,002	1,131	743	388	76	100.0 %
Wilmington, IL	10/07/15	1,309	2015	8/31/30	9,002	1,390	908	482	93	100.0 %
Danville, IL	10/07/15	1,074	2015	8/31/30	9,100	1,154	743	411	76	100.0 %
Moultrie, GA	09/22/15	1,305	2014	6/30/29	8,225	1,293	935	358	85	100.0 %
Rose Hill, NC	09/22/15	1,420	2014	6/30/29	8,320	1,409	1,005	404	93	100.0 %
Rockingham, NC	09/22/15	1,158	2014	6/30/29	8,320	1,147	825	322	76	100.0 %
Biscoe, NC	09/22/15	1,216	2014	6/30/29	8,320	1,206	864	342	80	100.0 %
De Soto, IL	09/08/15	1,066	2015	7/31/30	9,100	1,101	707	394	76	100.0 %
Kerrville, TX	08/28/15	1,174	2015	7/31/30	9,100	1,222	769	453	84	100.0 %
Floresville, TX	08/28/15	1,251	2015	7/31/30	9,100	1,299	816	483	89	100.0 %
Minot, ND	08/19/15	6,644	2012	1/31/34	55,440	6,890	4,704	2,186	419	100.0 %
Lebanon, MI	08/14/15	1,200	2015	7/31/30	9,050	1,251	822	429	85	100.0 %
Effingham County, IL	08/10/15	1,195	2015	6/30/30	9,002	1,239	822	417	85	100.0 %
Ponce, Puerto Rico	08/03/15	8,900	2012	8/31/37	15,660	9,251	6,530	2,721	560	100.0 %
Tremont, IL	06/25/15	1,150	2015	5/31/30	9,026	1,175	794	381	82	100.0 %
Pleasanton, TX	06/24/15	1,316	2015	5/31/30	9,026	1,358	871	487	93	100.0 %
Peoria, IL	06/24/15	1,226	2015	5/31/30	9,002	1,275	860	415	87	100.0 %
Bridgeport, IL	06/24/15	1,186	2015	5/31/30	9,100	1,224	827	397	84	100.0 %
Warren, MN	06/24/15	1,055	2015	4/30/30	9,100	1,070	698	372	75	100.0 %
Canyon Lake, TX	06/18/15	1,377	2015	3/31/30	9,100	1,422	913	509	98	100.0 %
Wheeler, TX	06/18/15	1,075	2015	3/31/30	9,002	1,108	721	387	76	100.0 %
Aurora, MN	06/18/15	953	2015	3/31/30	9,100	978	—	978	68	100.0 %
Red Oak, IA	05/07/15	1,184	2014	10/31/29	9,026	1,183	778	405	84	100.0 %
Zapata, TX	05/07/15	1,150	2015	3/31/30	9,100	1,173	745	428	82	100.0 %
St. Francis, MN	03/26/15	1,117	2014	1/31/30	9,002	1,145	732	413	79	100.0 %
Yorktown, TX	03/25/15	1,208	2015	2/28/30	10,566	1,263	784	479	86	100.0 %
Battle Lake, MN	03/25/15	1,098	2014	2/28/30	9,100	1,131	719	412	78	100.0 %
Paynesville, MN	03/05/15	1,254	2015	11/30/26	9,100	1,222	803	419	89	100.0 %
Wheaton, MO	03/05/15	970	2015	11/30/29	9,100	943	655	288	69	100.0 %
Rotterdam, NY	03/03/15	12,619	1996	8/31/32	115,660	12,094	—	12,094	940	100.0 %
Hilliard, OH	03/02/15	6,384	2007	8/31/32	14,820	6,234	4,607	1,627	399	100.0 %
Niles, OH	03/02/15	5,200	2007	11/30/32	14,820	5,075	3,743	1,332	325	100.0 %
Rockland, MA	02/20/15	7,316	2004	8/31/37	13,566	8,437	—	8,437	457	100.0 %

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Crawfordsville, IN	02/20/15	6,000	2004	1/31/33	14,259	5,844	—	5,844	375	100.0	%
Youngstown, OH	02/20/15	5,400	2005	9/30/30	14,820	5,259	—	5,259	336	100.0	%
Kings Mountain, NC	01/29/15	21,241	1995	9/30/30	467,781	27,074	18,788	8,286	1,475	100.0	%
Iberia, MO	01/23/15	1,328	2015	12/31/29	10,542	1,288	902	386	94	100.0	%
Pine Island, MN	01/23/15	1,142	2014	4/30/27	9,100	1,103	775	328	81	100.0	%
Isle, MN	01/23/15	1,077	2014	1/31/30	9,100	1,040	729	311	77	100.0	%
Jacksonville, NC	01/22/15	8,632	2014	12/31/29	55,000	8,417	5,723	2,694	517	100.0	%
Evansville, IN	11/26/14	9,000	2014	12/31/35	71,680	8,714	6,475	2,239	540	100.0	%
Woodland Park, CO	11/14/14	3,969	2014	8/31/29	22,141	3,813	2,815	998	258	100.0	%
Bellport, NY	11/13/14	18,100	2014	8/16/34	87,788	17,488	12,900	4,588	1,119	100.0	%
Ankeny, IA	11/04/14	16,510	2013	10/30/34	94,872	15,987	11,766	4,221	991	100.0	%
Springfield, MO	11/04/14	11,675	2011	10/30/34	88,793	11,465	8,418	3,047	701	100.0	%
Cedar Rapids, IA	11/04/14	11,000	2012	10/30/34	79,389	10,537	7,840	2,697	660	100.0	%
Fairfield, IA	11/04/14	10,695	2011	10/30/34	69,280	10,311	7,626	2,685	642	100.0	%
Owatonna, MN	11/04/14	9,970	2010	10/30/34	70,825	9,704	7,173	2,531	598	100.0	%
Muscatine, IA	11/04/14	7,150	2013	10/30/34	78,218	8,623	5,144	3,479	429	100.0	%

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Location	Acquisition date	Acquisition price	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)
Sheldon, IA	11/04/14	4,300	2011	10/30/34	35,385	4,230	3,094	1,136	258	100.0%
Memphis, TN	10/24/14	5,310	1962	12/31/29	68,761	5,255	3,938	1,317	358	100.0%
Bennett, CO	10/02/14	3,522	2014	8/31/29	21,930	3,373	2,497	876	229	100.0%
Conyers, Georgia	08/28/14	32,530	2014	4/30/29	499,668	31,187	22,857	8,330	1,937	100.0%
O'Fallon, IL	08/08/14	8,000	1984	1/31/28	141,436	8,229	5,691	2,538	460	100.0%
El Centro, CA	08/08/14	4,277	2014	6/30/29	19,168	4,106	2,986	1,120	278	100.0%
Durant, OK	01/28/13	4,991	2007	2/28/33	14,550	4,608	3,226	1,382	323	100.0%
Gallatin, TN	12/28/12	5,062	2007	6/30/82	14,820	4,713	3,297	1,416	329	100.0%
Mt. Airy, NC	12/27/12	4,492	2007	6/30/82	14,820	4,304	2,928	1,376	292	100.0%
Aiken, SC	12/21/12	5,926	2008	2/28/83	14,550	5,500	3,856	1,644	384	100.0%
Johnson City, TN	12/21/12	5,262	2007	9/30/82	14,550	4,833	3,428	1,405	341	100.0%
Palmview, TX	12/19/12	6,820	2012	8/31/87	14,820	6,327	4,601	1,726	437	100.0%
Ooltewah, TN	12/18/12	5,703	2008	1/31/83	14,550	5,243	3,853	1,390	365	100.0%
Abingdon, VA	12/18/12	4,687	2006	6/30/81	15,371	4,642	3,094	1,548	300	100.0%
Wichita, KS	12/14/12	7,200	2012	10/15/62	73,322	6,457	4,822	1,635	536	100.0%
North Dartsmouth, MA	09/21/12	29,965	1989	7/31/57	103,680	25,960	19,170	6,790	2,142	100.0%
Vineland, NJ	09/21/12	22,506	2003	7/31/57	115,368	19,706	13,929	5,777	1,609	100.0%
Saratoga Springs, NY	09/21/12	20,222	1994	7/31/57	116,620	17,573	12,421	5,152	1,445	100.0%
Waldorf, MD	09/21/12	18,803	1999	7/31/57	115,660	17,271	12,208	5,063	1,344	100.0%
Mooresville, NC	09/21/12	17,644	2000	7/31/57	108,528	15,289	10,807	4,482	1,261	100.0%
Sennett, NY	09/21/12	7,476	1996	7/31/57	68,160	6,434	4,751	1,683	608	100.0%
DeLeon Springs, FL	08/13/12	1,242	2011	1/31/27	9,100	1,075	825	250	97	100.0%
Orange City, FL	05/23/12	1,317	2011	3/31/27	9,026	1,137	797	340	103	100.0%
Satsuma, FL	04/19/12	1,092	2011	11/30/26	9,026	916	716	200	86	100.0%
Greenwood, AR	04/12/12	5,147	2009	7/31/84	13,650	4,666	3,438	1,228	332	100.0%
Snellville, GA	04/04/12	8,000	2011	4/30/32	67,375	7,025	5,329	1,696	605	100.0%

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Columbia, SC	04/04/12	7,800	2001	4/30/32	71,744	6,976	5,184	1,792	581	100.0%
Millbrook, AL	03/28/12	6,941	2008	1/31/83	14,820	6,234	4,636	1,598	448	100.0%
Pittsfield, MA	02/17/12	14,700	2011	10/31/61	85,188	13,006	11,161	1,845	1,065	100.0%
Spartanburg, SC	01/14/11	3,870	2007	8/31/82	14,820	3,597	2,748	849	291	100.0%
Tupelo, MS	08/13/10	5,128	2007	11/30/92	14,691	4,448	3,090	1,358	400	100.0%
Lilburn, GA	08/12/10	5,791	2007	4/30/82	14,752	5,005	3,474	1,531	443	100.0%
Douglasville, GA	08/12/10	5,409	2008	10/31/83	13,434	4,789	3,264	1,525	416	100.0%
Elkton, MD	07/27/10	4,872	2008	9/30/82	13,706	4,213	2,928	1,285	380	100.0%
Lexington, SC	06/28/10	4,732	2009	9/30/83	14,820	4,168	2,898	1,270	362	100.0%
Total Net Lease		564,990			3,972,788	545,416	359,284	186,132	38,104	
Other										
Carmel, NY	10/14/15	6,700	1985	1/31/39	50,121	6,763	—	6,763	611	100.0%
Wayne, NJ	06/24/15	9,700	1980	7/31/27	56,387	9,482	6,682	2,800	1,100	100.0%
Grand Rapids, MI	06/18/15	9,300	1963	6/30/24	97,167	9,527	7,253	2,274	809	97.0 %
Grand Rapids, MI	06/18/15	6,300	1992	6/30/24	160,000	6,120	4,937	1,183	528	97.0 %
St. Paul, MN	09/22/14	62,340	1900	10/1/21	760,318	57,278	49,228	8,050	24,032	97.0 %
Richmond, VA	08/14/14	19,850	1986	4/30/21	195,881	18,432	15,810	2,622	4,783	77.5 %
Richmond, VA	06/07/13	118,405	1984	4/30/21	994,040	99,270	89,424	9,846	24,791	77.5 %
Oakland County, MI	02/01/13	18,000	1989	12/31/21	240,900	11,478	12,045	(567)	10,196	90.0 %
Total Other		250,595			2,554,814	218,350	185,379	32,971	66,850	
Condominium										
Miami, FL	11/21/13	80,000	2010		165,717	37,256	—	37,256	7,032	100.0%
Las Vegas, NV	12/20/12	119,000	2006		119,775	33,757	—	33,757	3,952	98.8 %
Total Condominium		199,000			285,492	71,013	—	71,013	10,984	
Total		\$1,014,585			6,813,094	\$834,779	\$544,663	\$290,116	\$115,938	

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

(2) Non-recourse.

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Annual rental income represents twelve months of contractual rental income due under leases outstanding for the (3) year ended December 31, 2015. Operating lease income on the combined 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) See Note 12 for further information regarding noncontrolling interests.

We own a portfolio of residential condominium units, some of which are subject to residential leases. We intend to (6) 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.

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 (7) 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.

Item 3. 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 4. Mine Safety Disclosures

Not applicable.

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Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock began trading on the NYSE under the symbol "LADR" on February 6, 2014. Prior to that time, there was no public market for our common stock.

Class A Common Stock

The following table sets forth the quarterly high, low and closing price per share of Class A common stock, reported on the NYSE, with respect to the periods indicated:

Period	High	Low	Close
2015			
First Quarter	\$20.00	\$17.61	\$18.51
Second Quarter	18.64	16.61	17.35
Third Quarter	17.59	14.21	14.32
Fourth Quarter	15.27	11.59	12.42
2014			
February 6, 2014 through March 31, 2014	\$19.77	\$16.50	\$18.88
Second Quarter	19.98	16.61	18.07
Third Quarter	20.13	16.78	18.90
Fourth Quarter	20.78	17.81	19.61

Dividends

The following table presents dividends declared (on a per share basis) of Class A common stock for the year ended December 31, 2015:

Declaration Date	Dividend per Share
March 12, 2015	\$0.250
June 8, 2015	0.250
September 1, 2015	0.275
December 1, 2015	1.450 (1)
Total	\$2.225

(1) On November 30, 2015, our board of directors approved the fourth quarter 2015 dividend of \$1.45 per share of our Class A common stock in order to meet our annual REIT taxable income distribution requirement and our one time E&P Distribution requirement. The dividend was paid as a combination of cash and Class A common stock with the total cash paid to shareholders equaling \$15.5 million.

Please see Note 11 to our combined consolidated financial statements for the year ended December 31, 2015 included elsewhere in this Annual Report for the tax treatment for our aggregate distributions per share.

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Consistent with our intention to operate as a REIT, we have paid and in the future intend to declare regular quarterly distributions to our shareholders.

In order to qualify as a REIT we must annually distribute at least 90% of our taxable income. In addition, we are required to make a one-time distribution of our undistributed accumulated earnings and profits attributable to taxable periods ending prior to January 1, 2015. The E&P Distribution requirement was \$48.3 million or \$0.90 per share. Pursuant to the terms of our Private Letter Ruling, we have paid our fourth quarter distribution in a combination of cash and stock and may pay future distributions in such a manner, although, 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.

On March 12, 2015, we announced that our board of directors declared a quarterly cash dividend of \$0.25 per share of Class A common stock, which was paid on April 15, 2015, to shareholders of record as of the close of business on April 6, 2015.

On June 8, 2015, we announced that our board of directors declared a quarterly cash dividend of \$0.25 per share of Class A common stock, which was paid on July 1, 2015, to shareholders of record as of the close of business on June 15, 2015.

On September 1, 2015, we announced that our board of directors declared a quarterly cash dividend of \$0.275 per share of Class A common stock, which was paid on October 1, 2015, to shareholders of record as of the close of business on September 10, 2015.

On December 1, 2015, our board of directors declared a fourth quarter 2015 dividend of \$1.45 per share of Class A common stock, which included the E&P Distribution. The dividend was paid in a combination of cash and stock on January 21, 2016 to shareholders of record as of the close of business on December 10, 2015.

The total number of shares of Class A common stock distributed pursuant to the fourth quarter 2015 dividend was determined based on shareholder elections and the volume weighted average price of \$11.43 per share of Class A common stock on the New York Stock Exchange for the three trading days after January 8, 2016, the date that election forms were due. Shares of Class A common stock distributed as part of Ladder's fourth quarter 2015 dividend shall accrue dividend and other benefits together with all other shares of Ladder's Class A common stock.

On January 21, 2016, we paid an aggregate of \$15.5 million in cash to our Class A shareholders, accrued for dividends payable on unvested restricted stock of \$0.5 million and issued 5,607,762 shares of our Class A common stock, equivalent to \$64.1 million, in connection with the fourth quarter 2015 dividend of \$1.45 per share. In connection with the dividend, we also issued 4,468,031 shares of our Class B common stock and each of Series REIT and Series TRS of LCFH, issued 10,075,793 Series LP units corresponding to these Class A and Class B shares.

Holders

On February 29, 2016, the Company had 38 Class A common shareholders of record. This does not include the beneficial ownership of shares held in nominee name. The closing price per share of Class A common stock on February 29, 2016 was \$10.34.

Stock Repurchases

Our Board Authorization Policy, adopted by the board of directors on October 30, 2014, authorizes 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. During the year ended December 31, 2015, the Company repurchased 84,203 shares of Class A common stock at an average of \$11.81 per share for a total aggregate purchase price of \$1.0 million. All repurchased shares are recorded in treasury stock at cost.

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The following table presents information with respect to repurchases of common stock of the Company made during the quarter ended December 31, 2015 (\$ in thousands, except per share data and average price paid per share):

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2015 - October 31, 2015	—	\$—	—	\$—
November 1, 2015 - November 30, 2015	—	—	—	—
December 1, 2015 - December 31, 2015	84,203	11.81	84,203	49,006
Total	84,203	\$11.81	84,203	\$49,006

(1) The total number of shares repurchased includes shares purchased pursuant to the plan described in footnote (2) below.

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

During the period from January 1, 2016 through March 4, 2016, the Company repurchased 151,588 shares of Class A common stock for an aggregate price of \$1.6 million or an average of \$10.57 per share. As of March 4, 2016, the Company has a remaining amount available for repurchase of \$47.4 million.

Recent Sales of Unregistered Securities

Pursuant to the LLLP Agreement, the Continuing LCFH Limited Partners may from time to time (subject to the terms of the LLLP Agreement as in effect at the time) cause LCFH to exchange Series REIT LP Units and LC TRS I Shares (or Series TRS LP Units in lieu of such LC TRS I Shares) with an equal number of shares of our Class B common stock, for shares of our Class A common stock on a one-for-one basis, subject to equitable adjustments for stock splits, stock dividends and reclassifications. During the year ended December 31, 2015, 3,586,546 Series REIT LP Units and 3,586,546 Series TRS LP Units were collectively exchanged for 3,586,546 shares of Class A common stock and 3,586,546 shares of Class B common stock were canceled. We received no other consideration in connection with these exchanges, which were effected in reliance on Section 4(a)(2) of the Securities Act.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information, as of December 31, 2015, relating to equity compensation plans of the Company (including individual compensation arrangements) pursuant to which equity securities of the Company are authorized for issuance.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by shareholders	601,186	\$ 18.84	2,372,940
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	601,186	\$ 18.84	2,372,940

The Company currently has stock option and restricted stock awards to directors and employees outstanding under its 2014 Omnibus Incentive Plan (the "Plan"). The Plan provides for the equitable adjustment of outstanding awards upon the occurrence of certain events, including an extraordinary dividend, in order to preserve the intrinsic value of such awards. The compensation committee of the board of directors, which holds the authority to administer and interpret the Plan, determined it was necessary and appropriate, and in the best interests of the Company and its shareholders, to equitably adjust the outstanding stock option and restricted stock awards in respect of the fourth quarter 2015 dividend and to increase the number of shares available under the Plan to reflect the equitable adjustment of the stock options and restricted stock. Such equitable adjustment occurred on January 21, 2016 and is not reflected in the table above.

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Performance Graph

Our common stock began trading on the NYSE under the symbol “LADR” on February 6, 2014. Prior to that time, there was no public market for our common stock.

The following graph compares total shareholder returns, assuming reinvestment of dividends, for the period February 6, 2014 through December 31, 2015 to the Wells Fargo Commercial Mortgage REIT Index (“Commercial Mortgage REIT Index”) and the Standard & Poor’s Index (“S&P 500”). The closing price of the Company’s Class A common stock on February 6, 2014 (on which the graph is based) was \$16.99. The past shareholder return shown on the following graph is not necessarily indicative of future performance.

Comparison of Cumulative Total Shareholder Returns

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Item 6. Selected Financial Data

The information below should be read in conjunction with “Cautionary Statement Regarding Forward-Looking Statements,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our combined consolidated financial statements and the related notes thereto included in this Annual Report.

The historical financial information for this report included for all periods prior to our IPO were derived from the consolidated financial statements of LCFH and the balance sheet of LCC and does not reflect what our financial position, results of operations, and cash flows would have been had we been a separate, stand-alone public company during those periods. We were not operated as a separate, stand-alone public company for historical periods presented prior to the IPO and the related Reorganization Transactions, which were completed on February 11, 2014. The combined consolidated financial information may not be indicative of our future financial condition, results of operations or cash flows.

The following table sets forth selected financial data on a combined consolidated basis for the Company. The combined consolidated selected operating and balance sheet data of the Company as of December 31, 2015, 2014, 2013, 2012 and 2011, and for the years then ended have been derived from the Company’s financial statements for the respective periods. (\$ in thousands)

	Year Ended December 31,					
	2015	2014	2013	2012	2011	
Operating Data:						
Interest income	\$241,539	\$187,325	\$121,578	\$136,198	\$133,298	
Interest expense	113,303	77,574	48,745	36,440	35,836	
Net interest income	128,236	109,751	72,833	99,758	97,462	
Provision for loan losses	(600	) (600	) (600	) (449) —	
Net interest income after provision for loan losses	127,636	109,151	72,233	99,309	97,462	
Total other income	201,221	189,166	241,705	148,994	12,350	
Total costs and expenses	168,166	174,086	121,475	76,265	36,570	
Income before taxes	160,691	124,231	192,463	172,038	73,242	
Tax expense	14,557	26,605	3,730	2,584	1,510	
Net income	146,134	97,626	188,733	169,454	71,732	
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	(1,568) 370	1,098	49	(16)
Net income of combined Class A Common shareholders and predecessor unit holders	\$144,566	\$97,996	\$189,831	\$169,503	\$71,716	
Net (income) loss attributed to predecessor unit holders	—	12,628				
Net (income) loss attributed to noncontrolling interest in operating partnership	(70,745	) (66,437)			
Net income attributed to Class A common shareholders	\$73,821	\$44,187				
Earnings per share:						
Basic	\$1.43	\$0.90				
Diluted	\$1.42	\$0.86				
Weighted average shares outstanding:						

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Basic	51,702,188	49,296,417
Diluted	51,870,808	97,583,310

Dividends per share of Class A common stock \$2.225

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	Year Ended December 31,				
	2015	2014	2013	2012	2011
Cash Flow Data:					
Net cash provided by (used in):					
Operating activities	\$40,588	\$208,672	\$475,082	\$(116,007)	\$340,302
Investing activities	(29,847)	(2,369,464)	(1,081,868)	288,106	(330,377)
Financing activities	22,000	2,158,268	640,349	(211,272)	(12,564)
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$108,959	\$76,218	\$78,742	\$45,179	\$84,351
Mortgage loan receivables	2,310,409	1,939,008	979,568	949,651	514,038
Real estate securities	2,407,217	2,815,566	1,657,246	1,125,562	1,945,070
Real estate and related lease intangibles, net	834,779	768,986	624,219	380,022	28,835
Total assets	5,895,212	5,814,235	3,482,216	2,620,351	2,654,389
Total debt outstanding	4,274,723	4,182,954	2,208,041	1,478,913	1,615,641
Total liabilities	4,403,804	4,309,028	2,296,983	1,522,081	1,665,326
Total shareholders' equity (partners' capital)	828,215	785,432	1,176,397	1,097,688	988,937
Total noncontrolling interest in operating partnership	657,380	711,674	—	—	—
Total noncontrolling interest in consolidated joint ventures	5,813	8,101	8,837	582	125
Total equity (capital)	1,491,408	1,505,207	1,185,234	1,098,270	989,062

Item 7. 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 combined consolidated financial statements and the related notes of Ladder Capital Corp included within this 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" and "Risk Factors" within this 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 this Annual Report.

References to "Ladder," the "Company," "Successor" and "we," "our" and "us" refer subsequent to the IPO and related transactions described below to Ladder Capital Corp, a Delaware corporation incorporated in 2013, and its combined consolidated subsidiaries. These references (other than "Successor") in periods prior to the IPO and related transactions are to Ladder Capital Finance Holdings LLLP and subsidiaries ("LCFH" or "Predecessor").

Ladder Capital Corp was incorporated on May 21, 2013 as a holding company for the purpose of facilitating an IPO of common equity. On February 5, 2014, a registration statement relating to shares of Class A common stock of Ladder Capital Corp was declared effective and the price of such shares was set at \$17.00 per share. The IPO closed on February 11, 2014.

As a result of the IPO and certain other recapitalization transactions (collectively, the "IPO Transactions"), Ladder Capital Corp became the sole general partner of 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 combined consolidated financial statements.

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The following historical results of operations for the year ended December 31, 2014 consists of LCFH's operations for the period January 1, 2014 to February 10, 2014 and the Company's operations for the period February 11, 2014 to December 31, 2014. Results since inception consist of LCFH's operations from October 2008 to February 10, 2014 and Ladder Capital Corp's operations from February 11, 2014 to December 31, 2015.

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 conduit lending, balance sheet lending, securities investments, and real estate investments, provide for a stable base of net interest and rental income. We have originated \$15.3 billion of commercial real estate loans from our inception through December 31, 2015. During this timeframe, we also acquired \$8.6 billion of investment grade-rated securities secured by first mortgage loans on commercial real estate and \$1.3 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 December 31, 2015, we originated \$11.8 billion of conduit loans, \$11.3 billion of which were sold into 37 CMBS securitizations, making us, by volume, the second largest non-bank contributor of loans to CMBS securitizations in the United States in such period. Our sales of loans into securitizations are generally accounted for as true sales, not financings, and we generally retain no ongoing interest in loans which we securitize. The securitization of conduit loans enables us to reinvest our equity capital into new loan originations or allocate it to other investments.

As of December 31, 2015, we had \$5.9 billion in total assets and \$1.5 billion of total equity. As of that date, our assets included \$2.3 billion of loans, \$2.4 billion of securities, and \$834.8 million of real estate.

We have a diversified and flexible financing strategy supporting our business operations, including significant committed term financing from leading financial institutions. As of December 31, 2015, we had \$4.3 billion of debt financing outstanding. This financing comprised \$1.9 billion of financing from the Federal Home Loan Bank (the "FHLB"), \$866.0 million committed secured term repurchase agreement financing, \$394.7 million of other securities financing, \$544.7 million of third-party, non-recourse mortgage debt, \$319.6 million in aggregate principal amount of 7.375% senior notes due October 1, 2017 (the "2017 Notes") and \$300.0 million in aggregate principal amount of 5.875% senior notes due 2021 (the "2021 Notes," and collectively with the 2017 Notes, the "Notes"). There were no borrowings outstanding under our Credit Agreement and our Revolving Credit Facility. In addition, as of December 31, 2015, we had \$1.4 billion of committed, undrawn funding capacity available, consisting of \$50.0 million of availability under our \$50.0 million Credit Facility, \$380.4 million of undrawn committed FHLB financing and \$919.0 million of other undrawn committed financings. As of December 31, 2015, our debt-to-equity ratio was 2.9:1.0, as we employ leverage prudently to maximize financial flexibility.

Ladder was founded in October 2008. As of December 31, 2015, we were capitalized by public investors, our management team and a group of leading global institutional investors, including affiliates of Alberta Investment Management Corp., GI Partners, Ontario Municipal Employees Retirement System and TowerBrook Capital Partners. We have built our business to include 73 full-time industry professionals, including by hiring experienced personnel known to us in the commercial mortgage industry. Doing so has allowed us to maintain consistency in our culture and

operations and to focus on strong credit practices and disciplined growth.

We are led by a disciplined and highly aligned management team. As of December 31, 2015, our management team and directors held interests in our Company comprising 11.2% of our total equity. On average, our management team members have 27 years of experience in the industry. Our management team includes Brian Harris, Chief Executive Officer; Michael Mazzei, President; Pamela McCormack, Chief Strategy Officer and General Counsel; Marc Fox, Chief Financial Officer; Thomas Harney, Head of Merchant Banking & Capital Markets; and Robert Perelman, Head of Asset Management.

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.

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Recent Developments

FHLB Financing

On January 20, 2016, the Federal Housing Finance Agency (the “FHFA”), regulator of the FHLB, published a final rule in the Federal Register amending its regulation regarding the eligibility of captive insurance companies for FHLB membership. The final rule was effective February 19, 2016.

According to the final rule, Ladder’s captive insurance company subsidiary, Tuebor Captive Insurance Company LLC (“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 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 forty percent of Tuebor’s total assets.

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

FHLB advances amounted to 43.4% of the Company’s outstanding debt obligations as of December 31, 2015. 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. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and capital resources.”

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 may 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.

Stock Dividend and Distribution of Accumulated Earnings and Profits

On January 21, 2016, we paid an aggregate of \$15.5 million in cash to our Class A shareholders, accrued for dividends payable on unvested restricted stock of \$0.5 million and issued 5,607,762 shares of our Class A common stock, equivalent to \$64.1 million, in connection with the fourth quarter 2015 dividend of \$1.45 per share. The total number of shares of Class A common stock distributed pursuant to the fourth quarter 2015 dividend was determined based on shareholder elections and the volume weighted average price of \$11.43 per share of Class A common stock on the New York Stock Exchange for the three trading days after January 8, 2016, the date that election forms were due. In connection with the dividend, we also issued 4,468,031 shares of our Class B common stock and each of Series REIT and Series TRS of LCFH, issued 10,075,793 Series LP units corresponding to these Class A and Class B shares. We believe that the total value of our 2015 dividends was sufficient to fully distribute our 2015 taxable income

and our accumulated earnings and profits.

Borrowings under Credit Agreement

On January 24, 2016, the Company executed an amendment and extension of its credit agreement with one of its multiple committed financing counterparties, extending the maximum term of the credit agreement to April 24, 2016.

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Senior Unsecured Notes

During the period from January 1, 2016 through March 4, 2016, the Company retired \$20.6 million of principal of the 2017 Notes for a repurchase price of \$20.2 million recognizing a \$0.2 million net gain on extinguishment of debt after recognizing \$(0.2) million of unamortized debt issuance costs associated with the retired debt. The remaining \$298.9 million in aggregate principal amount of the 2017 Notes is due October 2, 2017.

During the period from January 1, 2016 through March 4, 2016, the Company retired \$21.7 million of principal of the 2021 Notes for a repurchase price of \$17.9 million recognizing a \$3.5 million net gain on extinguishment of debt after recognizing \$(0.3) million of unamortized debt issuance costs associated with the retired debt. The remaining \$278.3 million in aggregate principal amount of the 2021 Notes is due August 1, 2021.

Revolving Credit Facility

On February 26, 2016, the Company executed an amendment of its revolving credit facility, providing for, among other things, increasing the maximum funding capacity of the facility to \$143.0 million.

Stock Repurchases

During the period from January 1, 2016 through March 4, 2016, the Company repurchased 151,588 shares of Class A common stock for an aggregate price of \$1.6 million or an average of \$10.57 per share. As of March 4, 2016, the Company has a remaining amount available for repurchase of \$47.4 million.

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Our Businesses

We invest primarily in loans, securities and other interests in primarily 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 combined consolidated financial statements as of the dates indicated below (\$ in thousands):

	December 31, 2015			December 31, 2014		
Loans						
Conduit first mortgage loans	\$571,764	9.7	%	\$417,955	7.2	%
Balance sheet first mortgage loans	1,453,120	24.6	%	1,358,985	23.4	%
Other commercial real estate-related loans	285,525	4.8	%	162,068	2.8	%
Total loans	2,310,409	39.1	%	1,939,008	33.4	%
Securities						
CMBS investments	2,335,930	39.7	%	2,683,745	46.2	%
U.S. Agency Securities investments	71,287	1.2	%	131,821	2.3	%
Total securities	2,407,217	40.9	%	2,815,566	48.5	%
Real Estate						
Real estate and related lease intangibles, net	834,779	14.2	%	768,986	13.2	%
Total real estate	834,779	14.2	%	768,986	13.2	%
Other Investments						
Investments in unconsolidated joint ventures	33,797	0.6	%	6,041	0.1	%
FHLB stock	77,915	1.3	%	72,340	1.2	%
Total other investments	111,712	1.9	%	78,381	1.3	%
Total investments	5,664,117	96.1	%	5,601,941	96.4	%
Cash, cash equivalents and cash collateral held by broker	139,770	2.4	%	118,656	2.0	%
Other assets	91,325	1.5	%	93,638	1.6	%
Total assets	\$5,895,212	100.0	%	\$5,814,235	100.0	%

We invest in the following types of assets:

Loans

Conduit First Mortgage Loans. We 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. 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. Conduit first mortgage loans in excess of \$50.0 million also require approval of our board of directors' Risk and Underwriting Committee.

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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 or otherwise sell them as whole loans to third-party institutional investors. From our inception in 2008 through December 31, 2015, we have originated and funded \$11.8 billion of conduit first mortgage loans and securitized \$11.3 billion of such mortgage loans in 37 separate transactions, including two securitizations in 2010, three securitizations in 2011, six securitizations in 2012, six securitizations in 2013, ten securitizations in 2014 and ten securitizations in 2015. 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, and we have also completed two single-asset securitizations. During the years ended December 31, 2015, 2014 and 2013, conduit first mortgage loans remained on our balance sheet for a weighted average of 60, 45 and 67 days prior to securitization, respectively. As of December 31, 2015, we held 35 first mortgage loans that were substantially available for contribution into a securitization with an aggregate book value of \$571.8 million. 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 59.4% at December 31, 2015. The Company holds these conduit loans in its TRS.

Balance Sheet First Mortgage Loans. We also 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. Balance sheet first mortgage loans are originated, underwritten, approved and funded using the same comprehensive legal and underwriting approach, process and personnel used to originate our conduit first mortgage loans. Balance sheet first mortgage loans in excess of \$20.0 million also require the approval of our board of directors’ Risk and Underwriting Committee.

We generally seek to hold our balance sheet first mortgage loans for investment. 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 December 31, 2015, we held a portfolio of 67 balance sheet first mortgage loans with an aggregate book value of \$1.5 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 67.6% at December 31, 2015.

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 December 31, 2015, we held a portfolio of 40 other commercial real estate-related loans with an aggregate book value of \$285.5 million. Based on the loan balance and the “as-is” third-party FIRREA appraised values at origination, the weighted average loan-to-value ratio of the portfolio was 68.7% at December 31, 2015.

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The following charts set forth our total outstanding conduit first mortgage loans, balance sheet first mortgage loans and other commercial real estate-related loans as of December 31, 2015 and a breakdown of our loan portfolio by loan size and geographic location and asset type of the underlying real estate.

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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 \$50 million and all other securities positions in excess of \$26.0 million require the approval of our board of directors' Risk and Underwriting Committee. As of December 31, 2015, the estimated fair value of our portfolio of CMBS investments totaled \$2.3 billion in 167 CUSIPs (\$14.0 million average investment per CUSIP). As of that date, 98.5% of our CMBS investments were rated investment grade by Standard & Poor's, Moody's or Fitch, consisting of 87% AAA/Aaa-rated securities and 11.5% of other investment grade-rated securities, including 9% rated AA/Aa, 0.9% rated A/A and 1.6% rated BBB/Baa. In the future, we may invest in CMBS securities or other securities that are unrated. As of December 31, 2015, our CMBS investments had a weighted average duration of 3.2 years. The commercial real estate collateral underlying our CMBS investment portfolio is located throughout the United States. As of December 31, 2015, by property count and market value, respectively, 48.8% and 68.5% of the collateral underlying our CMBS investment portfolio was distributed throughout the top 25 MSAs in the United States, with 3.5% and 29.6% of the collateral located in the New York-Newark-Edison MSA, and the concentrations in each of the remaining top 24 MSAs ranging from 0.3% to 7.8% by property count and 0.2% to 11% 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 Ginnie Mae, or by a GSE, such as Fannie Mae or Freddie Mac. In addition, these securities are secured by first mortgage loans on commercial real estate. As of December 31, 2015, the estimated fair value of our portfolio of U.S. Agency Securities was \$71.3 million in 33 CUSIPs (\$2.2 million average investment per CUSIP), with a weighted average duration of 6.9 years. The commercial real estate collateral underlying our U.S. Agency Securities portfolio is located throughout the United States. As of December 31, 2015, by market value 17.6% and 64.5% of the collateral underlying our U.S. Agency Securities, excluding the collateral underlying our Agency interest-only securities, was located in California and New York, respectively, with no other state having a concentration greater than 10.0%. By property count, New York represented 44.8% and California represented 32.8% of such collateral, with no other state's concentration greater than 10.0%. While the specific geographic concentration of our Agency interest-only securities portfolio as of December 31, 2015 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 December 31, 2015, we owned 98 single tenant net leased properties with an aggregate book value of \$545.4 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 December 31, 2015, our net leased properties comprised a total of 4.0 million square feet and had a 100% occupancy rate, an average age since construction of 8.4 years and a weighted average remaining lease term of 16.1 years.

In addition, as of December 31, 2015, we owned 29 other properties with an aggregate book value of \$218.4 million. Through separate joint ventures, we owned a portfolio of 13 office buildings in Richmond, VA with a book value of \$99.3 million, a portfolio of four office buildings in St. Paul, MN with a book value of \$57.3 million, a portfolio of seven office buildings in Richmond, VA with a book value of \$18.4 million, a 13-story office building in Oakland County, MI with a book value of \$11.5 million, a two-story office building in Grand Rapids, MI with a book value of \$9.5 million and a warehouse in Grand Rapids, MI with a book value of \$6.1 million. We also own a two-story office

building in Wayne, NJ with a book value of \$9.5 million and a shopping center in Carmel, NY with a book value of \$6.8 million.

For further details regarding our portfolio of commercial real estate properties, including state of operation, see “Properties.”

Residential Real Estate. We sold 88 condominium units at Veer Towers in Las Vegas, NV, during the year ended December 31, 2015, generating aggregate gains on sale of \$16.5 million. We intend to sell the remaining units over time. As of December 31, 2015, we owned 132 residential condominium units at Veer Towers in Las Vegas, NV with a book value of \$33.8 million through a joint venture. As of December 31, 2015, seven condominium units were under contract for sale with a book value of \$1.9 million. As of December 31, 2015, the remaining condominium units we hold were 42.1% rented and occupied. During the year ended December 31, 2015, the Company recorded \$2.0 million of rental income from the condominium units.

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We sold 99 condominium units at Terrazas River Park Village in Miami, FL, during the year ended December 31, 2015, generating aggregate gains on sale of \$7.0 million. We intend to sell the remaining units over time. As of December 31, 2015, we owned 153 residential condominium units at Terrazas River Park Village in Miami, FL with a book value of \$37.3 million. As of December 31, 2015, 14 condominium units were under contract for sale with a book value of \$3.2 million. As of December 31, 2015, the remaining condominium units we hold were 78.6% rented and occupied. During the year ended December 31, 2015, the Company recorded \$3.5 million of rental income from the condominium units.

The Company holds these residential condominium units in its TRS.

Other Investments

Institutional Bridge Loan Partnership. In 2011, we established LCRIP I, an institutional partnership, with a Canadian sovereign pension fund to invest in first mortgage bridge loans that meet predefined criteria. Our partner owns 90% of the limited partnership interest, and we own the remaining 10% on a pari passu basis and act as general partner. We retain discretion over which loans to present to LCRIP I and our partner retains the discretion to accept or reject individual loans. As the general partner, we have engaged our advisory entity to manage the assets of LCRIP I and earn management fees and incentive fees from LCRIP I. In addition, we are entitled to retain origination fees of up to 1% on loans that we sell to LCRIP I and on a case-by-case basis as approved by our partner, may retain certain exit fees. During the quarter ended June 30, 2015, the last loan held by LCRIP I was repaid. LCRIP I will continue in existence until the fifth anniversary of the date of its closing, April 15, 2016. As of December 31, 2015, the book value of our investment in LCRIP I was \$48,771.

Unconsolidated Joint Venture. In connection with the origination of a loan in April 2012, we received a 25% equity kicker with the right to convert upon a capital event. On March 22, 2013, we refinanced the loan, and we converted our equity kicker interest into a 25% limited liability company membership interest in Grace Lake LLC. As of December 31, 2015, Grace Lake LLC owned an office building campus with a carrying value of \$65.2 million, which is net of accumulated depreciation of \$16.1 million, that is financed by \$73.6 million of long-term debt. Debt of Grace Lake LLC is nonrecourse to the limited liability company members, except for customary nonrecourse carve-outs for certain actions and environmental liability. As of December 31, 2015, the book value of our investment in Grace Lake LLC was \$2.9 million.

Unconsolidated Joint Venture. On August 7, 2015, the Company entered into a joint venture, 24 Second Avenue, with an operating partner to invest in a condominium development 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, ultimately, income is allocated and distributed 50% to the Company and 50% to the operating partner. As of December 31, 2015, the book value of our investment in 24 Second Avenue was \$30.9 million.

FHLB Stock. 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 (5) 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.

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, current and future earnings and cash flow from operations, existing debt facilities, and other borrowing programs in which we participate.

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We finance our portfolio of commercial real estate loans using committed term facilities provided by multiple financial institutions, with total commitments of \$1.5 billion at December 31, 2015, a \$50.0 million Credit Agreement, a \$75.0 million Revolving Credit Facility and through our FHLB membership. As of December 31, 2015, there was \$704.1 million outstanding under the committed term facilities. We finance our securities portfolio, including CMBS and U.S. Agency Securities, through our FHLB membership, a \$300.0 million committed term master repurchase agreement from a leading domestic financial institution and uncommitted master repurchase agreements with numerous counterparties. As of December 31, 2015, we had total outstanding balances of \$556.6 million under all securities master repurchase agreements. We finance our real estate investments with nonrecourse first mortgage loans. As of December 31, 2015, we had outstanding balances of \$544.7 million on these nonrecourse mortgage loans.

In addition to the amounts outstanding on our other facilities, we had \$1.9 billion of borrowings from the FHLB outstanding at December 31, 2015. As of December 31, 2015, we also had a \$50.0 million Credit Agreement, with no borrowings outstanding, a \$75.0 million Revolving Credit Facility, with no borrowings outstanding, and \$619.6 million of Notes issued and outstanding. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources” and Note 7, Debt Obligations in our combined consolidated financial statements for the year ended December 31, 2015 included elsewhere in this Annual 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 seek to maintain a debt-to-equity ratio of 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 December 31, 2015, our debt-to-equity ratio was 2.9:1.0. We believe that our predominantly senior secured assets and our moderate leverage provide financial flexibility to be able to capitalize on attractive market opportunities as they arise.

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

Business Outlook

We believe the commercial real estate finance market is currently characterized by stable property values, large volumes of maturing loans and a low interest rate environment. According to Trepp, more than \$1.7 trillion of commercial real estate debt is scheduled to mature over the next four years. Offsetting these positive factors, certain areas of the CMBS markets saw rapid spread widening versus Treasury swaps in the third and fourth quarters of 2015, and new Dodd-Frank regulations are set to go into effect in December of 2016, which may have unpredictable effects on pricing conditions for lower-rated and unrated CMBS.

For the year ended December 31, 2015, new CMBS issuance totaled \$101.0 billion, a 7.4% increase over the same period in 2014. For the year ended December 31, 2014, new CMBS issuance totaled \$94.1 billion, a 9.2% increase over the same period in 2013. For the year ended December 31, 2013, new CMBS issuance totaled \$86.1 billion. We

believe the CMBS market will continue to play an important role in the financing of commercial real estate in the U.S.

We believe our ability to quickly and efficiently shift our focus between lending, investing in securities, and making real estate investments allows us to take advantage of attractive investment opportunities under a variety of market conditions. There are times when the conduit lending/securitization market conditions are very favorable and we shift our focus and allocate our equity toward that market. At other times, especially when markets are under stress, investment in securities is more attractive and we quickly shift focus and equity accordingly.

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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; and (8) effectiveness of our hedging and other risk management practices.

Results of Operations

Year ended December 31, 2015 compared to the year ended December 31, 2014

Investment overview

Investment activity in the year ended December 31, 2015 focused on loan originations and securities activity. We originated and funded \$3.6 billion in principal value of commercial mortgage loans in the year ended December 31, 2015. We acquired \$725.9 million of new securities, which was offset by \$845.7 million of sales and \$186.9 million of amortization in the portfolio, which partially contributed to a net decrease in our securities portfolio of \$408.3 million. We also invested \$219.5 million in real estate and received proceeds from the sale of real estate of \$172.1 million.

Investment activity in the year ended December 31, 2014 focused on loan originations and securities investments. We originated and funded \$4.5 billion in principal value of commercial mortgage loans in the year ended December 31, 2014. We acquired \$2.2 billion of new securities, which was offset by \$768.6 million of sales and \$186.3 million of amortization in the portfolio, which partially contributed to a net increase in our securities portfolio of \$1.2 billion. We also invested \$254.5 million in real estate and received proceeds from the sale of real estate of \$123.4 million.

Operating overview

Net income attributable to Class A common shareholders totaled \$73.8 million for the year ended December 31, 2015, compared to \$44.2 million for the year ended December 31, 2014. The most significant drivers of the \$29.6 million increase are as follows:

a decrease in income tax expense (benefit) of \$12.0 million. Our predecessor/operating partnership is taxed as a partnership but is subject to certain state and local income taxes. Subsequent to our IPO, the Company was subject to U.S. federal and state income taxes on its share of the income of the operating partnership. The Company's election to be taxed as a REIT was effective as of January 1, 2015 and we expect to only pay taxes on the portion of our income earned in our taxable REIT subsidiary and some state and local taxes.

- a decrease in total costs and expenses of \$5.9 million compared to the prior year, primarily as a result of reduced incentive compensation expense due to reduced total net interest income after provision for loan losses and total other income ("Net Revenues") and loan/investment production, partially offset by higher depreciation and amortization expense associated with 2015 real estate acquisitions and the full year impact of 2014 real estate acquisitions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reconciliation of Non-GAAP Financial Measures" for a definition of Net Revenues and a reconciliation to total net interest income after provision for loan losses and total other income;
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an increase in net interest income of \$18.5 million, primarily as a result of higher average balance sheet first mortgage loan and other commercial real estate-related loan receivable and securities balances partially offset by higher interest expense as a result of higher outstanding financing obligations as well as the decrease in the average yield on the securities portfolio year-over-year;

an increase in total other income of \$12.1 million, primarily as a result of a \$55.9 million increase in net results from derivative transactions, a \$23.9 million increase in operating lease income, a \$10.6 million increase in profits on sale of real estate, net, partially offset by a decrease of \$74.2 million in profits on sales of loans, a decrease of \$3.3 million in unrealized gain (loss) on Agency interest-only securities and a decrease of \$3.0 million in realized gains on securities;

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Core Earnings, a non-GAAP measure, totaled \$191.5 million for the year ended December 31, 2015, compared to \$219.3 million for the year ended December 31, 2014. The significant components of the \$27.8 million decrease in Core Earnings are an increase in net interest income of \$18.5 million, an increase in operating lease income of \$23.8 million and the decrease in total costs and expenses discussed in the preceding paragraph more than offset by a decrease in profits on sales of loans, net of \$74.8 million and a decrease in net results from derivative transactions of \$5.7 million. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of Core Earnings and a reconciliation to income (loss) before taxes.

Net interest income

Interest income totaled \$241.5 million for the year ended December 31, 2015, compared to \$187.3 million for the year ended December 31, 2014. The \$54.2 million increase in interest income was primarily attributable to an increase in our average investment balances in our loan and our securities portfolios. For the year ended December 31, 2015, securities investments averaged \$2.5 billion and loan investments averaged \$2.2 billion. For the year ended December 31, 2014, securities investments averaged \$2.0 billion and loan investments averaged \$1.5 billion. The impact of the expanded base of interest bearing assets was partially offset by lower interest spreads earned on securities acquired and loans originated subsequent to December 31, 2014 versus the interest spreads prevailing prior to that date.

Interest expense totaled \$113.3 million for the year ended December 31, 2015, compared to \$77.6 million for the year ended December 31, 2014. The \$35.7 million increase in interest expense was primarily attributable to the increase in average debt balance that is required to finance the expanded book of investment assets. For the year ended December 31, 2015, our debt balances averaged \$4.3 billion versus an average debt balance of \$2.8 billion for the year ended December 31, 2014. 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 continued to increase during 2015 and our mortgage loan financing secured by such investments also similarly increased. Our interest expense related to mortgage loan financing increased by \$8.4 million from \$16.7 million for the year ended December 31, 2014 to \$25.1 million for the year ended December 31, 2015, primarily as a result of our increase in average outstanding mortgage loan financing of \$521.8 million for the year ended December 31, 2015 compared to \$347.0 million for the year ended December 31, 2014 and the increase in the average cost of financing.

Net interest income after provision for loan losses totaled \$127.6 million for the year ended December 31, 2015, compared to \$109.2 million for the year ended December 31, 2014. The \$18.4 million increase in net interest income after provision for loan losses was primarily attributable to the increase in loan and securities investment balances during 2015 compared to the same period a year ago, partially offset by the increase in debt balance.

Cost of funds, a non-GAAP measure, totaled \$140.1 million for the year ended December 31, 2015, compared to \$95.6 million for the year ended December 31, 2014. The \$44.5 million increase in cost of funds was primarily attributable to the increase in the average debt balance. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of cost of funds and a reconciliation to interest expense.

Interest spreads

As of December 31, 2015, the weighted average yield on our mortgage loan receivables was 6.8%, compared to 6.7% as of December 31, 2014 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 December 31, 2015, the weighted average interest rate on borrowings against our mortgage loan receivables was 2.4%, compared to 2.1% as of December 31, 2014. The increase in the rate on borrowings against our mortgage loan receivables was primarily due to the utilization of a higher proportion of higher-cost loan repurchase facilities as of December 31, 2015 versus December 31, 2014. As of

December 31, 2015, we had outstanding borrowings secured by our mortgage loan receivables equal to 46.3% of the carrying value of our mortgage loan receivables, compared to 41.8% as of December 31, 2014.

As of December 31, 2015, the weighted average yield on our real estate securities was 2.8%, compared to 3.0% as of December 31, 2014 as the weighted average yield on securities purchased was lower than the weighted average yield on securities that were sold or paid off. As of December 31, 2015, the weighted average interest rate on borrowings against our real estate securities was 1.0%, compared to 0.9% as of December 31, 2014. The increase in the rate on borrowings against our real estate securities from December 31, 2014 to December 31, 2015 was primarily due to higher prevailing market borrowing costs. As of December 31, 2015, we had outstanding borrowings secured by our real estate securities equal to 85.0% of the carrying value of our real estate securities, compared to 81.3% as of December 31, 2014.

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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 December 31, 2015 and 2014, the weighted average interest rate on mortgage borrowings against our real estate was 4.9%. As of December 31, 2015, we had outstanding borrowings secured by our real estate equal to 65.5% of the carrying value of our real estate, compared to 59.1% as of December 31, 2014.

Provision for loan losses

We had a \$0.6 million provision for loan losses for the years ended December 31, 2015 and 2014. We 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. As a result, our provision for loan losses remained unchanged for the years ended December 31, 2015 and 2014.

Operating lease income and tenant recoveries

Operating lease income totaled \$80.5 million for the year ended December 31, 2015, compared to \$56.6 million for the year ended December 31, 2014. The increase of \$23.9 million was attributable to acquisitions, which increased real estate to \$834.8 million at December 31, 2015 versus \$769.0 million at December 31, 2014, as well as a full period of operations of properties acquired in 2014.

Tenant recoveries totaled \$9.9 million for the year ended December 31, 2015, compared to \$9.2 million for the year ended December 31, 2014. The increase of \$0.7 million reflects the acquisitions of office properties in 2015. It also reflects additional recoveries on properties acquired in 2015 and a full period of recoveries on properties acquired in 2014.

Sale of loans, net

Income from sale of loans, net, which includes all loan sales, whether by securitization, whole loan sales or other means, totaled \$71.1 million for the year ended December 31, 2015, compared to \$145.3 million for the year ended December 31, 2014, a decrease of \$74.2 million. In the year ended December 31, 2015, we participated in ten separate securitization transactions, selling 210 loans with an aggregate outstanding principal balance of \$2.6 billion. In the year ended December 31, 2014, we participated in ten securitization transactions, selling 165 loans with an aggregate outstanding principal balance of \$3.5 billion. 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. The decrease in income from sales of securitized loans, net of hedging of \$64.6 million for the year ended December 31, 2015 compared to \$125.1 million for the year ended December 31, 2014 was due to a decline in the aggregate outstanding principal balance of loans sold, period over period, as well as increasing competition in the market and lower prevailing lending credit spreads for conduit loans.

Income 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 measure, represents the portion of income 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 from sale of loans, net.

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Realized gain (loss) on securities

Realized gain (loss) on securities totaled \$24.0 million for the year ended December 31, 2015, compared to \$27.0 million for the year ended December 31, 2014, a decrease of \$3.0 million. For the year ended December 31, 2015, we sold \$845.6 million of securities, comprised of \$829.4 million of CMBS and \$16.2 million U.S. Agency Securities. For the year ended December 31, 2014, we sold \$768.6 million of securities, comprised of \$692.3 million of CMBS and \$76.3 million of U.S. Agency Securities. The increase in sales of securities reflects higher transaction volume offset by lower profit margins in 2015 as compared to 2014.

Unrealized gain (loss) on Agency interest-only securities

Unrealized gain (loss) on Agency interest-only securities represented a loss of \$1.2 million for the year ended December 31, 2015, compared to a gain of \$2.1 million for the year ended December 31, 2014. The negative change of \$3.3 million in unrealized gain (loss) on Agency interest-only securities was due to an increase in interest rates and amortization and sales of the portfolio during the year ended December 31, 2015.

Income from sales of real estate, net

For the year ended December 31, 2015, income from sales of real estate, net totaled \$40.4 million compared to \$29.8 million for the year ended December 31, 2014. The increase of \$10.6 million was a result of the commercial real estate and residential condominium sales discussed below.

During the year ended December 31, 2015, we sold four single-tenant retail properties resulting in a net gain on sale of \$2.6 million and one office building in Minneapolis, MN, resulting in a net gain on sale of \$13.1 million. During the year ended December 31, 2014, we sold five single-tenant retail properties resulting in a net gain on sale of \$4.9 million and one office building in Richmond, VA, resulting in a net gain on sale of \$1.1 million.

During the year ended December 31, 2015, income from sales of residential condominiums totaled \$23.5 million. We sold 88 residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of \$16.5 million, and 99 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of \$7.0 million. During the year ended December 31, 2014, income from sales of residential condominiums totaled \$23.7 million. We sold 113 residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of \$19.1 million, and 72 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of \$4.7 million.

Other income

Fee and other income totaled \$15.2 million for the year ended December 31, 2015, compared to \$11.7 million for the year ended December 31, 2014. We generated fee income from the management of our institutional partnership and our managed account, both of which were terminated during 2015, dividend income on our investment in FHLB stock, as well as from origination fees, exit fees and other fees on the loans we originate and in which we invest. The \$3.5 million increase in fee and other income year-over-year was primarily due to an increase in dividends from our investment in FHLB stock, an increase in fee income on our loan portfolio and a gain on the disposition of a loan through foreclosure of real estate.

During the year ended December 31, 2014, we sold real estate in conjunction with an assignment of the related mortgage loan financing that had an unrecognized premium as of the date of sale and recognized a gain of \$0.4 million. This unrecognized premium is recognized as gain on assignment of mortgage loan financing on the combined consolidated statements of income.

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Net result from derivative transactions

Net result from derivative transactions represented a loss of \$38.9 million for the year ended December 31, 2015, which was comprised of an unrealized gain of \$10.2 million and a realized loss of \$49.1 million, compared to a loss of \$94.8 million which was comprised of an unrealized loss of \$14.4 million and a realized loss of \$80.4 million, for the year ended December 31, 2014, a positive change of \$55.9 million. The derivative positions that generated these results were a combination of interest rate swaps, caps, and futures that we employed in an effort to hedge the interest rate risk on the financing of our fixed rate assets and the net interest income we earn against the impact of changes in interest rates. The loss in 2015 was primarily related to volatility in interest rates during the year ended December 31, 2015. 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 \$0.4 million for the year ended December 31, 2015, compared to \$2.0 million for the year ended December 31, 2014. Earnings from our investment in LCRIP I totaled \$0.1 million for the year ended December 31, 2015, compared to \$1.1 million for the year ended December 31, 2014. The decrease of \$1.0 million reflects a decrease in the number of loans held by LCRIP I in 2015 compared to 2014. LCRIP I held no loans as of December 31, 2015 as the last loan held by LCRIP I was repaid during the quarter ended June 30, 2015. LCRIP I will continue in existence until the fifth anniversary of the date of its closing, April 15, 2016. Earnings from our investment in Grace Lake JV totaled \$0.8 million for the year ended December 31, 2015, compared to \$0.9 million for the year ended December 31, 2014. Earnings (loss) from our investment in 24 Second Avenue totaled \$(0.6) million for the year ended December 31, 2015, compared to none for the year ended December 31, 2014. We made our investment in 24 Second Avenue on August 7, 2015 and incurred \$0.6 million in upfront development costs.

Salaries and employee benefits

Salaries and employee benefits totaled \$61.6 million for the year ended December 31, 2015, compared to \$82.1 million for the year ended December 31, 2014. Salaries and employee benefits are comprised primarily of salaries, bonuses, originator bonuses related to loan profitability, equity based compensation and other employee benefits. The decrease of \$20.5 million in compensation expense was attributable to the decrease in incentive compensation expense in the year ended December 31, 2015 compared the year ended December 31, 2014 due to reduced actual Net Revenues and loan/investment production in the year ended December 31, 2015.

Operating expenses

Operating expenses totaled \$25.1 million for the year ended December 31, 2015, compared to \$25.4 million for the year ended December 31, 2014. Operating expenses are primarily composed of professional fees, lease expense, and technology expenses. Operating expenses remained relatively flat year-over-year as a result of increased investments in loans, securities and real estate, offset by a decrease in non-recurring REIT transaction costs and cost cutting initiatives.

Real estate operating expenses

Real estate operating expenses totaled \$35.9 million for the year ended December 31, 2015, compared to \$32.7 million for the year ended December 31, 2014. The increase of \$3.2 million in real estate operating expense was in part due to the acquisitions of office and residential real estate in 2014 and 2015. It also reflects additional operating

expenses related to properties acquired during 2015 and a full period of operating expenses on properties acquired during 2014.

Real estate acquisition costs

Real estate acquisition costs totaled \$2.0 million for the year ended December 31, 2015, compared to \$2.4 million for the year ended December 31, 2014. The decrease of \$0.4 million in real estate acquisition costs was due to the decrease in acquisitions of other commercial properties from 32.3% of total real estate acquisitions for the year ended December 31, 2014, compared to 14.6% of total real estate acquisitions for the year ended December 31, 2015. Other commercial properties generally have higher acquisition costs than net lease properties.

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Fee expense

Fee expense totaled \$4.5 million for the year ended December 31, 2015, compared to \$3.0 million for the year ended December 31, 2014. Fee expense is comprised primarily of custodian fees, financing costs and servicing fees related to loans. The increase of \$1.5 million in fee expense was primarily attributable to the increase in the balance of our mortgage loan receivables held for investment, net, at amortized cost at December 31, 2015, as compared to at December 31, 2014.

Depreciation and amortization

Depreciation and amortization totaled \$39.1 million for the year ended December 31, 2015, compared to \$28.4 million for the year ended December 31, 2014. The \$10.7 million increase in depreciation and amortization is attributable to acquisitions, which increased real estate to \$834.8 million at December 31, 2015 versus \$769.0 million at December 31, 2014, as well as a partial period of depreciation on 2015 acquisitions and a full period of depreciation on acquisitions made in 2014.

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 \$14.6 million for the year ended December 31, 2015, compared to \$26.6 million for the year ended December 31, 2014. The decrease of \$12.0 million is primarily attributable to the decrease in consolidated effective tax rate from December 31, 2014 to December 31, 2015 due to the REIT Structuring Transactions and our REIT election.

Year ended December 31, 2014 compared to the year ended December 31, 2013

Investment and financing overview

Investment activity in 2014 focused on loan originations and securities investments. We originated and funded \$4.5 billion in principal value of commercial mortgage loans in 2014. We acquired \$2.2 billion of new securities, which was offset by \$768.6 million of sales and \$186.3 million of amortization in the portfolio, which resulted in a net increase in our securities portfolio of \$1.2 billion. We also invested \$254.5 million in real estate.

Investment activity in 2013 focused on loan originations and securities investments. We originated and funded \$2.5 billion in principal value of commercial mortgage loans in 2013. We acquired \$1.2 billion of new securities, which was offset by \$192.4 million of sales and \$390.6 million of amortization in the portfolio, which contributed to a net increase in our securities portfolio of \$531.7 million. We also invested \$289.3 million in real estate.

The financing climate continued to be favorable in 2014. As discussed in the Overview, in February 2014, we completed an IPO of 15.2 million shares of Class A common stock generating net proceeds of \$238.5 million. We also entered into a new \$75.0 million revolving credit facility, secured by a pledge of the shares of certain subsidiaries. In addition, in August 2014, we issued \$300.0 million of 2021 Notes. Proceeds from the IPO, the revolving credit facility and the 2021 Notes are available to finance our working capital needs and for general corporate purposes. See “—Liquidity and Capital Resources” for a more detailed discussion on financing sources.

Operating overview

As a result of the IPO Transactions, net income attributable to Class A common shareholders for the year ended December 31, 2014 is not comparable to net income attributable to predecessor unitholders for the year ended

December 31, 2013.

The most significant drivers of this change are the result of a significant expansion of our loan origination and investment activity year-over-year. The significant components of the change are as follows:

increase in net interest income of \$36.9 million, primarily as a result of higher average loan receivable balances partially offset by higher interest expense as a result of higher outstanding financing obligations;
decrease in total other income of \$52.5 million, primarily as a result of a \$122.9 million decrease in net results from derivative transactions partially offset by an increase in operating lease income, tenant recoveries and gain on securities and sale of real estate, net;
increase in total costs and expenses of \$52.6 million compared to the prior year primarily as a result of additional personnel costs from additional head count related to our expanded operations and our executive compensation plans put in place at the time of our IPO;

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increase in income tax expense of \$22.9 million - our predecessor/operating partnership is taxed as a partnership but is subject to certain state and local income taxes. Subsequent to our IPO, the Company was subject to U.S. federal and state income taxes on its share of the income of the operating partnership.

Core Earnings, a non-GAAP measure, totaled \$219.3 million for the year ended December 31, 2014, compared to \$200.3 million for the year ended December 31, 2013. The significant components of the \$19.0 million increase in Core Earnings are the increase in net interest income of \$36.9 million, discussed in the preceding paragraph, offset by a decrease in income from sales of securitized loans, net of hedging, a non-GAAP measure, of \$32.9 million and the increase of total costs and expenses discussed in the preceding paragraph. See “—Reconciliation of Non-GAAP Financial Measures” for our definition of Core Earnings and a reconciliation to income (loss) before taxes.

Net interest income

Interest income totaled \$187.3 million for the year ended December 31, 2014, compared to \$121.6 million for the year ended December 31, 2013. The \$65.7 million increase in interest income was primarily attributable to an increase in our average investments in our loan portfolio and our securities portfolio. For the year ended December 31, 2014, securities investments averaged \$2.0 billion (57.2% of average mortgage loan receivables and real estate securities) and loan investments averaged \$1.5 billion. For the year ended December 31, 2013, securities investments averaged \$1.2 billion (60.2% of average mortgage loan receivables and real estate securities) and loan investments averaged \$760.5 million. The impact of the expanded base of interest bearing assets was partially offset by lower interest spreads earned on securities acquired in 2014 versus the interest spreads prevailing in the prior year.

Interest expense totaled \$77.6 million for the year ended December 31, 2014, compared to \$48.7 million for the year ended December 31, 2013. The \$28.8 million increase in interest expense was primarily attributable to the increase in average debt balance that are required to finance the expanded book of investment assets. For the year ended December 31, 2014, our debt balance averaged \$2.8 billion versus an average debt balance of \$1.4 billion for the year ended December 31, 2013, which was partially offset by greater use of FHLB borrowings, a lower cost of funding than other financing sources, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. 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 2014 and 2013 and our mortgage loan financing secured by such investments has also similarly increased. Our interest expense related to mortgage loan financing increased by \$11.0 million from \$5.7 million to \$16.7 million, primarily as a result of our increase in average outstanding mortgage loan financing which increased to \$347.0 million for the year ended December 31, 2014 from \$280.6 million for the year ended December 31, 2013 and the increase in the average cost of financing.

Net interest income after provision for loan losses totaled \$109.2 million for the year ended December 31, 2014, compared to \$72.2 million for the year ended December 31, 2013. The \$36.9 million increase in net interest income after provision for loan losses was primarily attributable to the increase in loan and securities investment balances during 2014 compared to the same period a year ago, partially offset by the increase in debt balance.

Cost of funds, a non-GAAP measure, totaled \$95.6 million for the year ended December 31, 2014, compared to \$57.0 million for the year ended December 31, 2013. The \$38.6 million increase in cost of funds was primarily attributable to the increase in the average debt balance and the issuance of the 2021 Notes referred to above. See “—Non-GAAP financial measures” for our definition of cost of funds and a reconciliation to interest expense.

Interest spreads

As of December 31, 2014, the weighted average yield on our mortgage loan receivables was 6.7%, compared to 7.8% as of December 31, 2013 as the weighted average yield on new loans originated was lower than the weighted average yield on loans that were securitized or paid off. As of December 31, 2014, the weighted average interest rate on borrowings against our mortgage loan receivables was 2.1%, compared to 1.7% as of December 31, 2013. The increase in the rate on borrowings against our mortgage loan receivables from December 31, 2013 to December 31, 2014 was primarily due to the utilization of a higher proportion of longer-term borrowings from the FHLB and greater use of securities repurchase facilities at higher cost as of December 31, 2014 versus December 31, 2013. As of December 31, 2014, we had outstanding borrowings secured by our mortgage loan receivables equal to 41.8% of the carrying value of our mortgage loan receivables, compared to 32.2% as of December 31, 2013.

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As of December 31, 2014, the weighted average yield on our real estate securities was 3.0%, compared to 4.2% as of December 31, 2013 as the weighted average yield on securities purchased was lower than the weighted average yield on securities that were sold or paid off. As of December 31, 2014, the weighted average interest rate on borrowings against our real estate securities was 0.9%, compared to 0.8% as of December 31, 2013. The increase in the rate on borrowings against our real estate securities from December 31, 2013 to December 31, 2014 was primarily due to the utilization of a higher proportion of longer-term borrowings from the FHLB and greater use of securities repurchase facilities at higher cost as of December 31, 2014 versus December 31, 2013. As of December 31, 2014, we had outstanding borrowings secured by our real estate securities equal to 81.3% of the carrying value of our real estate securities, compared to 77.5% as of December 31, 2013.

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 December 31, 2014, the weighted average interest rate on mortgage borrowings against our real estate was 4.9%, compared to 4.8% as of December 31, 2013. During the twelve month period between December 31, 2013 and December 31, 2014, the carrying value of our real estate portfolio increased from \$624.2 million to \$769.0 million while mortgage loan financing increased from \$291.1 million to \$447.4 million during the same time frame. As of December 31, 2014, we had outstanding borrowings secured by our real estate equal to 59.1% of the carrying value of our real estate, compared to 46.0% as of December 31, 2013.

Provision for loan losses

We had a \$0.6 million provision for loan losses for the year ended December 31, 2014, compared to a \$0.6 million provision for loan losses for the year ended December 31, 2013. We 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. Since inception, we have had no events of impairment on the loans we originated. However, 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. As a result, our provision for loan losses remained unchanged for the years ended December 31, 2014 and 2013.

Operating lease income and tenant recoveries

Operating lease income totaled \$56.6 million for the year ended December 31, 2014, compared to \$37.4 million for the year ended December 31, 2013. The increase of \$19.3 million was attributable to acquisitions which increased real estate to \$769.0 million at December 31, 2014 versus \$624.2 million at December 31, 2013, as well as a full year of operations of properties which were acquired in 2013.

Tenant recoveries totaled \$9.2 million for the year ended December 31, 2014, compared to \$3.3 million for the year ended December 31, 2013. The increase of \$5.9 million reflects the acquisitions of office and residential real estate in 2013 and 2014. It also reflects additional recoveries on properties acquired in 2014 and a full year of recoveries on properties acquired in 2013.

Sale of loans, net

Income from sale of loans, net, which includes all loan sales, whether by securitization, whole loan sales or other means, totaled \$145.3 million for the year ended December 31, 2014, compared to \$146.7 million for the year ended December 31, 2013, a decrease of \$1.4 million. In the year ended December 31, 2014, we participated in 10 separate securitization transactions, selling 165 loans with an aggregate outstanding principal balance of \$3.5 billion. In the

year ended December 31, 2013, we participated in six securitization transactions, selling 139 loans with an aggregate outstanding principal balance of \$2.2 billion. 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. The decrease in securitization profit margin from 7.1% in 2013 to 3.6% in 2014 was due to increasing competition in the market and lower prevailing lending rates for conduit loans.

Income 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 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 from sale of loans, net.

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Gain (loss) on securities

Gain (loss) on securities totaled \$27.0 million for the year ended December 31, 2014, compared to \$4.2 million for the year ended December 31, 2013, an increase of \$22.7 million. For the year ended December 31, 2014, we sold \$768.6 million of securities, comprised of \$692.3 million of CMBS and \$76.3 million of U.S. Agency Securities. For the year ended December 31, 2013, we sold \$192.4 million of securities, comprised of \$121.2 million of CMBS and \$71.2 million of U.S. Agency Securities. The increase reflects higher transaction volume and higher profit margins in 2014 as compared to 2013.

Unrealized gain (loss) on Agency interest-only securities

Unrealized gain (loss) on Agency interest-only securities represented a gain of \$2.1 million for the year ended December 31, 2014, compared to a loss of \$2.7 million for the year ended December 31, 2013. The positive change of \$4.8 million in unrealized gain (loss) on Agency interest-only securities was due to amortization of the portfolio, as well as sales of Agency interest-only securities during the year ended December 31, 2014.

Income from sales of real estate, net

For the year ended December 31, 2014, income from sales of real estate, net totaled \$29.8 million compared to \$13.6 million for the year ended December 31, 2013. The increase of \$16.2 million was a result of the commercial real estate and residential condominium sales discussed below.

For the year ended December 31, 2014, income from sales of commercial real estate properties totaled \$6.0 million. We sold five single-tenant retail properties resulting in a net gain on sale of \$4.9 million and one office building in Richmond, VA, resulting in a net gain on sale of \$1.1 million. For the year ended December 31, 2013, there were no sales of commercial real estate properties.

During the year ended December 31, 2014, income from sales of residential condominiums totaled \$23.7 million. We sold 113 residential condominium units from Veer Towers in Las Vegas, NV, resulting in a net gain on sale of \$19.1 million, and 72 residential condominium units from Terrazas River Park Village in Miami, FL, resulting in a net gain on sale of \$4.7 million. For the year ended December 31, 2013, income from sales of 94 residential condominium units from Veer Towers in Las Vegas, NV, resulted in a net gain on sale of \$13.6 million. Sales of condominium units from Terrazas River Park Village did not commence until 2014.

Other income

Fee income totaled \$11.7 million for the year ended December 31, 2014, compared to \$7.9 million for the year ended December 31, 2013. We generate fee income from the management of our institutional partnership and managed accounts as well as from origination fees, exit fees and other fees on the loans we originate and in which we invest. The \$3.8 million increase in fee income year-over-year was primarily due to an increase in loan origination volume.

Gain on assignment of mortgage loan financing totaled \$0.4 million for the year ended December 31, 2014, compared to none for the year ended December 31, 2013. During the year ended December 31, 2014, we sold real estate in conjunction with an assignment of the related mortgage loan financing that had an unrecognized premium as of the date of sale. This unrecognized premium is recognized as gain on assignment of mortgage loan financing on the combined consolidated statements of income.

Loss on extinguishment of debt totaled \$0.1 million, for the year ended December 31, 2014, compared to none for the year ended December 31, 2013. During the year ended December 31, 2014, the 2017 Notes with a principal value of

\$5.4 million were repurchased by the Company for \$5.6 million.

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Net result from derivative transactions

Net result from derivative transactions represented a loss of \$94.8 million for the year ended December 31, 2014, which was comprised of an unrealized loss of \$14.4 million and a realized loss of \$80.4 million, compared to a gain of \$28.1 million which was comprised of an unrealized gain of \$14.0 million and a realized gain of \$14.1 million, for the year ended December 31, 2013, a negative change of \$122.9 million. The derivative positions that generated these results were a combination of interest rate swaps, caps, and futures that we employed in an effort to hedge the interest rate risk on the financing of our fixed rate assets and the net interest income we earn against the impact of changes in interest rates. The loss in 2014 was primarily related to a decrease in interest rates during the year ended December 31, 2014, which generally increased the value of our fixed rate loan and securities investments, and decreased the fair value of our offsetting derivative transactions. The total net result from derivative transactions is comprised of hedging interest expense, realized losses related to hedge terminations and unrealized 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 from investment in unconsolidated joint ventures

In 2011, we entered into an institutional partnership (“LCRIP I”) for which we use the equity method of accounting. We act as general partner and own a 10% limited partner interest in the institutional partnership. We are entitled to a fee based upon the average net equity invested in LCRIP I, which is subject to a fee reduction in the event average net equity invested in LCRIP I exceeds \$100.0 million. Our proportionate share of the net income of LCRIP I, as defined in the LCRIP I Partnership agreement, is reflected on our combined consolidated statements of income as earnings from investment in unconsolidated joint ventures.

In 2013, we acquired a 25% limited liability company membership interest in Grace Lake JV, LLC (“Grace Lake”) for which we use the equity method of accounting. We receive distributions on a pari passu basis with one other financial institution’s equity interest. Our proportionate share of the net income of the limited liability company, as defined in the limited liability company agreement, is reflected on our combined consolidated statements of income as earnings from investment in unconsolidated joint ventures.

Earnings from our investment in LCRIP I totaled \$1.1 million for the year ended December 31, 2014, compared to \$2.6 million for the year ended December 31, 2013. The decrease of \$1.5 million reflects the lower investment balances. Earnings from our investment in Grace Lake totaled \$0.9 million for the year ended December 31, 2014, compared to \$0.6 million for the year ended December 31, 2013. The increase of \$0.3 million reflects a full year of income during 2014 and a partial year of income in 2013. Total earnings from investment in unconsolidated joint ventures totaled \$2.0 million for the year ended December 31, 2014, compared to \$3.2 million for the year ended December 31, 2013.

Salaries and employee benefits

Salaries and employee benefits totaled \$82.1 million for the year ended December 31, 2014, compared to \$61.0 million for the year ended December 31, 2013. Salaries and employee benefits are comprised primarily of salaries, bonuses, originator bonuses related to loan profitability, equity based compensation and other employee benefits. Additional compensation expense in 2014 (as compared to 2013) was attributable to additional head count and a new executive compensation plan put in place at the time of the IPO in 2014.

Operating expenses

Operating expenses totaled \$25.4 million for the year ended December 31, 2014, compared to \$14.9 million for the year ended December 31, 2013. Operating expenses are comprised primarily of professional fees, lease expense, and

technology expenses. The increase in operating expenses is a result of increased investment activity in securities and real estate, as well as increased loan originations. It is also due to higher costs associated with operating as a public company, as well as cost incurred related to restructuring the Company for REIT related operations.

Real estate operating expenses

Real estate operating expenses totaled \$32.7 million for the year ended December 31, 2014, compared to \$17.4 million for the year ended December 31, 2013. The increase of \$15.3 million in real estate operating expense was in part due to the acquisitions of office and residential real estate in 2013 and 2014. It also reflects additional operating expenses related to properties acquired during 2014 and a full year of operating expenses on properties acquired during 2013.

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Real estate acquisition costs

Real estate acquisition costs totaled \$2.4 million for the year ended December 31, 2014, compared to \$3.6 million for the year ended December 31, 2013. The decrease of \$1.2 million in real estate acquisition costs was due to the decrease in the purchase of real estate from \$289.3 million in the year ended December 31, 2013 to \$254.5 million in the year ended December 31, 2014.

Fee expense

Fee expense totaled \$3.0 million for the year ended December 31, 2014, compared to \$3.0 million for the year ended December 31, 2013. 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 the greater use of FHLB borrowings, a lower cost of funding than other financing sources, for the year ended December 31, 2014, compared to the year ended December 31, 2013.

Depreciation and amortization

Depreciation and amortization totaled \$28.4 million for the year ended December 31, 2014, compared to \$21.5 million for the year ended December 31, 2013. The \$6.9 million increase in depreciation and amortization is attributable to acquisitions which increased real estate to \$769.0 million at December 31, 2014 versus \$624.2 million at December 31, 2013, as well as a partial year of depreciation on 2014 acquisitions and a full year of depreciation on acquisitions made in 2013.

Income tax expense

Income tax expense totaled \$26.6 million for the year ended December 31, 2014, compared to \$3.7 million for the year ended December 31, 2013. The increase of \$22.9 million is primarily attributable to the IPO and Reorganization Transactions that occurred on February 11, 2014 which subjected the Company to U.S. federal, state and local income taxes (including the New York City Unincorporated Business Tax (“NYC UBT”) on the LLLP). Prior to the IPO and Reorganization Transactions the Company was an LLLP subject to the NYC UBT only. Prospectively, such taxes are expected to be substantially reduced as a result of our REIT election to the extent of our consolidated operations are conducted through qualified REIT subsidiaries or pass through entities, assuming we maintain our REIT status and pay adequate dividends in cash or stock. Our share of operations conducted through TRSs will continue to be subject to U.S. federal and state income taxes.

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.

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 combined 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.

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Our primary sources of liquidity have been (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) borrowings under our credit agreement, (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. As a REIT, we will also be required to make sufficient dividend payments to our shareholders (and equivalent distributions to the Continuing LCFH Limited Partners) in amounts at least sufficient to maintain our REIT status. We have obtained the Private Letter Ruling, pursuant to which 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.

We have historically maintained a debt-to-equity ratio of 3:1 or below. This ratio typically fluctuates during the course of a fiscal year due to the normal course of business in our conduit lending operations, in which we generally securitize our inventory of loans at intervals, and also because of changes in our asset mix, due in part to such securitizations. We generally seek to match fund our assets according to their liquidity characteristics and expected hold period. We believe that the defensive positioning of our predominantly senior secured assets and our financing strategy has allowed us to maintain financial flexibility to capitalize on an attractive range of market opportunities as they have arisen.

We and our subsidiaries may incur substantial additional debt in the future. However, we are subject to certain restrictions on our ability to incur additional debt in the indentures governing the Notes (the "Indentures") and our other debt agreements. Under the Indentures, we may not incur certain types of indebtedness unless our consolidated debt to equity ratio (as defined in the Indentures) is less than or equal to 4.00 to 1.00 and our consolidated non-funding debt to equity ratio (as defined in the Indentures) is less than or equal to 1.75 to 1.00, 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 nonrecourse 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 December 31, 2015, we had unrestricted cash and cash equivalents of \$109.0 million, unencumbered loans of \$644.4 million, unencumbered securities of \$5.6 million and restricted cash of \$49.8 million.

To maintain our qualification as a REIT under the Code, we must 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. Pursuant to the terms of our Private Letter Ruling we paid our fourth quarter 2015 dividend 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, \$404.0 million of Tuebor's member's capital was restricted from transfer to Tuebor's parent without prior approval of state insurance regulators at December 31, 2015.

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 regulations, which require that dividends may only be made with regulatory approval. Largely as a result of this restriction, \$2.8 million of LCS's member's capital was restricted from transfer to LCS's parent without prior approval of regulators at December 31, 2015.

Cash and cash equivalents

We held unrestricted cash and cash equivalents of \$109.0 million and \$76.2 million at December 31, 2015 and 2014, respectively.

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Cash generated from operations

Our operating activities were a net provider of cash of \$40.6 million during the year ended December 31, 2015, and were a net provider of cash of \$208.7 million for the year ended December 31, 2014. 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.

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 December 31, 2015 and 2014 are set forth in the table below (\$ in thousands):

	December 31, 2015	December 31, 2014
Committed loan facilities	\$704,149	\$509,024
Committed securities facility	161,887	174,853
Uncommitted securities facilities	394,719	747,789
Total repurchase agreements	1,260,755	1,431,666
Borrowings under credit agreement	—	11,000
Borrowings under credit and security agreement	—	46,750
Revolving credit facility	—	25,000
Mortgage loan financing	544,663	447,409
Borrowings from the FHLB	1,856,700	1,611,000
Senior unsecured notes	612,605	610,129
Total debt obligations	\$4,274,723	\$4,182,954

The Company's repurchase facilities include covenants covering minimum net worth requirements (ranging from \$75.0 million to \$900.3 million), maximum reductions in net worth over stated time periods, minimum liquidity levels (typically \$30.0 million of cash or a higher standard that often allows for the inclusion of different percentages of liquid securities in the determination of compliance with the requirement), maximum leverage ratios (calculated in various ways based on specified definitions of indebtedness and net worth) and a fixed charge coverage ratio of 1.25x, and, in the instance of one provider, an interest coverage ratio of 1.50x, in each case, if certain liquidity thresholds are not satisfied. We believe we were in compliance with all covenants as of December 31, 2015 and 2014. 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 \$1.5 billion of credit capacity. 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 December 31, 2015.

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.

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Committed securities facility

We are a party to a term master repurchase agreement with a major U.S. banking institution for CMBS, totaling \$300.0 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.

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):

Quarter Ended	Total			Collateralized Borrowings Under Repurchase Agreements (1)			Other Collateralized Borrowings (2)		
	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
December 31, 2012	793,917	776,672	868,754	793,917	776,672	868,754	—	—	—
March 31, 2013	382,161	428,531	559,516	382,161	428,531	559,516	—	—	—
June 30, 2013	254,978	236,809	415,182	254,978	236,809	415,182	—	—	—
September 30, 2013	6,151	112,060	317,646	6,151	112,060	317,646	—	—	—
December 31, 2013	609,835	307,437	609,835	609,835	307,437	609,835	—	—	—
March 31, 2014	370,970	549,085	782,147	370,970	549,085	782,147	—	—	—
June 30, 2014	685,693	1,056,118	1,258,258	685,693	1,056,118	1,258,258	—	—	—
September 30, 2014	761,627	836,330	895,904	761,627	831,330	880,904	—	5,000	15,000
December 31, 2014	1,489,416	1,394,674	1,603,206	1,431,666	1,340,924	1,545,456	57,750	53,750	57,750
March 31, 2015	1,456,163	1,481,913	1,506,723	1,409,413	1,427,496	1,447,973	46,750	54,417	58,750
June 30, 2015	1,178,130	1,308,066	1,492,066	1,056,380	1,216,316	1,370,316	121,750	91,750	121,750
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
	1,260,755	1,296,608	1,344,330	1,260,755	1,283,008	1,323,930	—	13,600	20,400

December 31,
2015

- (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.

Borrowings under Credit Agreement

On January 24, 2013, we entered into a \$50.0 million credit agreement with one of our committed financing counterparties in order to finance our securities and lending activities. As of December 31, 2015, there were no borrowings outstanding under this facility. There were \$11.0 million of borrowings outstanding as of December 31, 2014.

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LCFH is subject to customary affirmative covenants and negative covenants, including limitations on the assumption or incurrence of additional liens or debt, restrictions on certain payments or transfers of assets, and restrictions on the amendment of contracts or documents related to the assets under pledge. Under the credit agreement, LCFH is subject to customary financial covenants relating to maximum leverage, minimum tangible net worth, and minimum liquidity consistent with our other credit facilities. Our ability to borrow under this credit agreement will be dependent on, among other things, LCFH's compliance with the financial covenants.

Borrowings under Credit and Security Agreement

On October 31, 2014, we entered into a credit and security agreement with a major banking institution to finance one of our assets in the amount of \$46.8 million and an interest rate of LIBOR plus 185 basis points. As of December 31, 2015 there were no borrowings outstanding as the borrowings were paid-off during the quarter ended September 30, 2015. As of December 31, 2014, there were \$46.8 million of borrowings outstanding under the Company's Credit and Security Agreement.

We are subject to customary affirmative and negative covenants under this agreement, including prohibitions on additional indebtedness or liens, restrictions on fundamental changes, and limitations to underlying loan actions or modifications. There are no financial covenants applicable to this agreement.

Revolving Credit Facility

On February 11, 2014, we entered into a revolving credit facility (the "Revolving Credit Facility"). The Revolving Credit Facility provides for an aggregate maximum borrowing amount of \$75.0 million, including a \$25.0 million sublimit for the issuance of letters of credit. The Revolving Credit Facility is available on a revolving basis to finance the Company's working capital needs and for general corporate purposes. The Revolving Credit Facility has a three-year maturity, which maturity may be extended by two twelve-month periods subject to the satisfaction of customary conditions, including the absence of default. Interest is incurred on the Revolving Credit Facility at a rate of one-month LIBOR plus 3.50% per annum payable monthly in arrears.

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

LCFH is subject to customary affirmative covenants and negative covenants, including limitations on the incurrence of additional debt, liens, restricted payments, sales of assets and affiliate transactions 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.

As of December 31, 2015, there were no borrowings outstanding under the Revolving Credit Facility. As of December 31, 2014, there were \$25.0 million of borrowings outstanding under the Revolving Credit Facility.

Mortgage loan financing

We generally finance our real estate using long-term nonrecourse mortgage financing. During the year ended December 31, 2015, we executed 51 term debt agreements to finance real estate. These nonrecourse debt agreements are fixed rate financing at rates ranging from 4.25% to 6.75%, maturing between 2018 and 2025 and totaling \$544.7 million at December 31, 2015 and \$447.4 million at December 31, 2014. These long-term nonrecourse mortgages include net unamortized premiums of \$6.1 million and \$5.3 million at December 31, 2015 and 2014, 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 \$0.9 million and \$0.6 million of premium amortization, which decreased interest expense, for the years ended December 31, 2015 and 2014, respectively. The loans are collateralized by real estate and related lease intangibles, net, of \$711.1 million and \$591.6 million as of December 31, 2015 and 2014, respectively.

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FHLB financing

On July 11, 2012, Tuebor became a member of the FHLB. As of December 31, 2015, Tuebor had \$1.9 billion of borrowings outstanding (with an additional \$380.4 million of committed term financing available from the FHLB), with terms of overnight to 8 years, interest rates of 0.28% to 2.74%, and advance rates of 58.7% to 95.2% of the collateral. As of December 31, 2015, collateral for the borrowings was comprised of \$1.7 billion of CMBS and U.S. Agency Securities and \$568.2 million of first mortgage commercial real estate loans. On June 26, 2015, Tuebor's advance limit was increased to the lowest of \$2.9 billion, 40% of Ladder Capital Corp's total assets or 150% of Ladder Capital Corp's total equity. As of December 31, 2014, Tuebor had \$1.6 billion of borrowings outstanding (with an additional \$289.0 million of committed term financing available from the FHLB), with terms of overnight to 10 years, interest rates of 0.30% to 2.74%, and advance rates of 50% to 95.2% of the collateral. As of December 31, 2014, collateral for the borrowings was comprised of \$1.6 billion of CMBS and U.S. Agency Securities and \$451.8 million of first mortgage commercial real estate loans.

On January 20, 2016, the FHFA, regulator of the FHLB, published a final rule in the Federal Register amending its regulation regarding the eligibility of captive insurance companies for FHLB membership. The final rule was effective February 19, 2016.

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 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 forty percent of Tuebor's total assets.

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

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, \$404.0 million of the member's capital were restricted from transfer to Tuebor's parent without prior approval of state insurance regulators at December 31, 2015.

Senior unsecured notes

On August 1, 2014, LCFH issued \$300.0 million in aggregate principal amount of 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.

On September 19, 2012, LCFH issued \$325.0 million in aggregate principal amount of the 2017 Notes. The 2017 Notes require interest payments semi-annually in cash in arrears on April 1 and October 1 of each year, beginning on September 19, 2012. The 2017 Notes are unsecured and are subject to incurrence-based covenants, including limitations on the incurrence of additional debt, restricted payments, liens, sales of assets, affiliate transactions and other covenants typical for financings of this type.

On 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. The remaining \$319.6 million in aggregate

principal amount of the 2017 Notes is due October 2, 2017.

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LCFH issued 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 LCFH with no assets, operations, revenues or cash flows other than those related to the issuance, administration and repayment of the Notes. Ladder Capital Corp and certain subsidiaries of LCFH currently guarantee the obligations under the Notes and the indenture. Ladder Capital Corp is the general partner of LCFH and, through LCFH and its subsidiaries, operates the Ladder Capital business. As of December 31, 2015, Ladder Capital Corp has a 55.6% economic interest in LCFH, and has a majority voting interest and controls the management of LCFH as a result of its ability to appoint board members. As a result, Ladder Capital Corp consolidates the financial results of LCFH and records noncontrolling interest for the economic interest in LCFH held by the Continuing LCFH Limited Partners. In addition, Ladder Capital Corp, through certain subsidiaries which are treated as taxable REIT subsidiaries (each a “TRS”), is indirectly subject to U.S. federal, state and local income taxes. Other than the noncontrolling interest in the Operating Partnership and U.S. federal, state and local income taxes, there are no material differences between Ladder Capital Corp’s combined consolidated financial statements and LCFH’s consolidated financial statements.

Stock Repurchases

Our Board Authorization Policy, adopted by the board of directors on October 30, 2014, authorizes 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 December 31, 2015, we have a remaining amount available for repurchase of \$49.0 million, which represents 7.1% in the aggregate of our outstanding Class A common stock based on the closing price of \$12.42 per share on such date.

The following table is a summary of our repurchase activity during the year ended December 31, 2015 (\$ in thousands):

	Shares	Amount(1)
Authorizations remaining as of December 31, 2014		\$50,000
Additional authorizations		—
Repurchases paid	84,203	(994)
Repurchases unsettled		—
Authorizations remaining as of December 31, 2015		\$49,006

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

During the period from January 1, 2016 through March 4, 2016, the Company repurchased 151,588 shares of Class A common stock for an aggregate price of \$1.6 million or an average of \$10.57 per share. As of March 4, 2016, the Company has a remaining amount available for repurchase of \$47.4 million.

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 must distribute our undistributed accumulated earnings and profits attributable to taxable periods prior to January 1, 2015. We have therefore paid and in the future intend to declare regular quarterly distributions to our shareholders in an amount approximating our net taxable income.

Pursuant to our Private Letter Ruling 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 or a capital gain. 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.

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The following table presents dividends declared (on a per share basis) of Class A common stock for the year ended December 31, 2015:

Declaration Date	Dividend per Share
March 12, 2015	\$0.250
June 8, 2015	0.250
September 1, 2015	0.275
December 1, 2015	1.450 (1)
Total	\$2.225

(1) On November 30, 2015, our board of directors approved the fourth quarter 2015 dividend of \$1.45 per share of our Class A common stock in order to meet our annual REIT taxable income distribution requirement and our one time E&P Distribution requirement. The dividend was paid as a combination of cash and Class A common stock with the total cash paid to shareholders equaling \$15.5 million.

Please see Note 11 to our combined consolidated financial statements for the year ended December 31, 2015 included elsewhere in this Annual Report for the tax treatment for our aggregate distributions per share.

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 \$754.8 million for the year ended December 31, 2015 and \$215.8 million for the year ended December 31, 2014. Repayment of real estate securities provided net cash of \$186.9 million for the year ended December 31, 2015 and \$186.3 million for the year ended December 31, 2014. The increase in principal repayments on investments is due to the growth of our loan and securities investments year over year.

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. Proceeds from sales of mortgage loans provided net cash of \$2.5 billion for the year ended December 31, 2015 and \$3.5 billion for the year ended December 31, 2014.

Proceeds from the sale of securities

We invest in CMBS and U.S. Agency Securities. Proceeds from sales of securities provided net cash of \$845.7 million for the year ended December 31, 2015 and \$768.6 million for the year ended December 31, 2014.

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 \$98.6 million for the year ended December 31, 2015 and \$123.4 million for the year ended December 31, 2014.

Proceeds from the issuance of equity

For the year ended December 31, 2015, there were no proceeds realized in connection with the issuance of equity. There were \$238.5 million proceeds realized for the issuance of equity for the year ended December 31, 2014. We

may issue additional equity in the future.

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Other potential sources of financing

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

Contractual obligations

Contractual obligations as of December 31, 2015 were as follows (\$ in thousands):

	Contractual Obligations				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
Secured financings	\$2,534,105	\$332,430	\$141,769	\$647,761	\$3,656,065
Unsecured revolving credit facility	—	—	—	—	—
Senior unsecured notes	—	319,555	—	300,000	619,555
Interest payable(1)	69,376	111,187	86,278	95,291	362,132
Other funding obligations(2)	115,242	—	—	—	115,242
Payments pursuant to tax receivable agreement	—	2,235	—	—	2,235
Operating lease obligations	1,198	2,461	2,361	1,279	7,299
Total	\$2,719,921	\$767,868	\$230,408	\$1,044,331	\$4,762,528

(1) 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 December 31, 2015 to determine the future interest payment obligations.

(2) Comprised of our off-balance sheet unfunded commitment to provide additional first mortgage loan financing and our commitment to purchase GN construction loan securities as of December 31, 2015.

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

Off-Balance Sheet Arrangements

We have made investments in various unconsolidated joint ventures. See Note 6, Investment in 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 December 31, 2015, our off-balance sheet arrangements consisted of \$112.8 million of unfunded commitments of mortgage loan receivables held for investment, which was composed of \$111.4 million to provide additional first mortgage loan financing and \$1.4 million to provide additional mezzanine loan financing. As of December 31, 2014, our off-balance sheet arrangements consisted of \$158.1 million of unfunded commitments of mortgage loan receivables held for investment, which was comprised of \$155.5 million to provide

additional first mortgage loan financing and \$2.6 million to provide additional mezzanine 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 combined consolidated balance sheets and are not reflected on our combined consolidated balance sheets.

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Critical Accounting Policies

The preparation of financial statements in accordance with GAAP requires management to make estimates and judgments in certain circumstances that affect amounts reported as assets, liabilities, revenues and expenses. We have established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well controlled, reviewed and applied consistently from period to period. We base our estimates on historical corporate and industry experience and various other assumptions that we believe to be appropriate under the circumstances. For all of these estimates, we caution that future events rarely develop exactly as forecasted, and therefore, routinely require adjustment.

During 2015, management reviewed and evaluated these critical accounting estimates and believes they are appropriate. Our significant accounting policies are described in Item 8—“Financial Statements and Supplemental Data—Note 2.” The following is a summary of accounting policies that require more significant estimates and judgments:

Mortgage Loans Receivable Held for Investment

Loans that the Company has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal balances net of any unearned income, unamortized deferred fees or costs, premiums or discounts and an allowance for loan losses. Loan origination fees and direct loan origination costs are deferred and recognized in interest income over the estimated life of the loans using the interest method, adjusted for actual prepayments. Upon the decision to sell such loans, the Company will transfer the loan from mortgage loan receivables held for investment to mortgage loan receivables held for sale at the lower of carrying value or fair value less cost to sell on the combined consolidated balance sheets.

The Company evaluates each loan classified as a mortgage loan receivable held for investment for impairment at least quarterly. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to the contractual terms of the loan. If the loan is considered to be impaired, an allowance is recorded to reduce the carrying value of the loan to the present value of the expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if recovery of the Company's investment is expected solely from the collateral.

The Company's loans are typically collateralized by real estate. As a result, the Company regularly evaluates the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property as well as the financial and operating capability of the borrower/sponsor on a loan by loan basis. The Company also evaluates the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, the Company considers the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management personnel, who utilize various data sources, including (i) periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, the borrowers exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and other market data.

Upon the completion of the process above, the Company concluded that no loans originated by the Company were impaired as of December 31, 2015 and 2014. Significant judgment is required when evaluating loans for impairment, therefore actual results over time could be materially different.

In addition, the Company assesses a portfolio-based loan loss provision. The Company estimates its loan loss provision based on its historical loss experience and expectation of losses inherent in the investment portfolio but not yet realized. Since inception, the Company has had no events of impairment on any of the loans it has originated, however, 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 are aged and approach maturity and ultimate refinancing where applicable.

Real Estate Securities

The Company designates its real estate securities investments on the date of acquisition of the investment. Real estate securities that the Company does not hold for the purpose of selling in the near-term, but may dispose of prior to maturity, are designated as available-for-sale and are carried at estimated fair value with the net unrealized gains or losses on all securities, except for Government National Mortgage Association (“GNMA”) interest-only and Federal Home Loan Mortgage Corp (“FHLMC”) interest-only securities (collectively, “Agency interest-only securities”), recorded as a component of other comprehensive income (loss) in shareholders’ equity.

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The Company's Agency interest-only securities are considered to be hybrid financial instruments that contain embedded derivatives. As a result, the Company accounts for them as hybrid instruments in their entirety at fair value with changes in fair value recognized in earnings in the combined consolidated statements of income in accordance with ASC 815. The Company's recognition of interest income from its Agency interest-only and all other securities, including effective interest from amortization of premiums, follows the Company's Revenue Recognition Policy, as disclosed within Note 2 to our combined consolidated financial statements for the year ended December 31, 2015 included elsewhere in this Annual Report, for recognizing interest income on its securities. The interest income recognized from the Company's Agency interest-only securities is recorded in interest income on the combined consolidated statements of income. The Company uses the specific identification method when determining the cost of securities sold and the amount of gain (loss) on securities recognized in earnings. The Company accounts for the changes in the fair value of the unfunded portion of its GNMA Construction securities, which are included in real estate securities, available-for-sale, on the combined consolidated balance sheet, as available for sale securities. Unrealized losses on securities that, in the judgment of management, are other than temporary are charged against earnings as a loss in the combined consolidated statements of income. The Company estimates the fair value of its CMBS primarily based on pricing services and broker quotes for the same or similar securities in which it has invested. Different judgments and assumptions could result in materially different estimates of fair value.

When the estimated fair value of an available-for-sale security is less than amortized cost, the Company will consider whether there is an other-than-temporary impairment in the value of the security. An impairment will be considered other-than-temporary based on consideration of several factors, including (i) if the Company intends to sell the security, (ii) if it is more likely than not that the Company will be required to sell the security before recovering its cost, or (iii) the Company does not expect to recover the security's cost basis (i.e., a credit loss). A credit loss will have occurred if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis. If the Company intends to sell an impaired debt security or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis less any current period credit loss, the impairment is other-than-temporary and will be recognized currently in earnings equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Company does not intend to, nor is it more likely than not that it will be required to sell before recovery, the impairment is other-than-temporary and will be separated into (i) the estimated amount relating to the credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss recognized in other comprehensive income. Estimating cash flows and determining whether there is other-than-temporary impairment require management to exercise judgment and make significant assumptions, including, but not limited to, assumptions regarding estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. As a result, actual impairment losses, and the timing of income recognized on these securities, could differ from reported amounts.

The Company utilizes an internal model as its primary pricing source to develop its prices for its CMBS and other commercial real estate securities guaranteed by a U.S. governmental agency or by a government sponsored entity (together, "U.S. Agency Securities"). Different judgments and assumptions could result in materially different estimates of fair value. To confirm its own valuations, the Company requests prices for each of its CMBS and U.S. Agency Securities investments from three different sources, including third parties that provide pricing services and brokers, although since broker quotes for the same or similar securities in which Ladder has invested are non-binding, the Company does not consider them to be a primary source for valuation. The Company may also develop a price for a security based on its direct observations of market activity and other observations. Typically, at least two prices per security are obtained.

Prior to using a third-party pricing service for valuation, the Company develops an understanding of the valuation methodologies used by such pricing services through discussions with their representatives and review of their valuation methodologies used for different types of securities. The Company understands that the pricing services

develop estimates of fair value for CMBS and U.S. Agency Securities using various techniques, including discussion with their internal trading desks, proprietary models and matrix pricing approaches. The Company does not have access to, and is therefore not able to review in detail, the inputs used by the pricing services in developing their estimates of fair value. However, on at least a monthly basis as part of our closing process, the Company evaluates the fair value information provided by the pricing services by comparing this information for reasonableness against its direct observations of market activity for similar securities and anecdotal information obtained from market participants that, in its assessment, is relevant to the determination of fair value. This process may result in the Company “challenging” the estimate of fair value for a security if it is unable to reconcile the estimate provided by the pricing service with its assessment of fair value for the security. Accordingly, in following this approach, the Company’s objective is to ensure that the information used by pricing services in their determination of fair value of securities is reasonable and appropriate.

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Since inception, the Company has not encountered significant variation in the values obtained from the various pricing sources. In the extremely limited occasions where the prices received were challenged, the challenge resulted in the prices provided by the pricing services being updated to reflect current market updates or cash flow assumptions.

Real Estate

The Company generally acquires real estate assets through cash purchases. Based on the Company's strategic plan to realize the maximum value from the real estate acquired, properties are classified as Real estate, net or Real estate held for sale in the combined consolidated balance sheets. When the Company intends to hold, operate or develop the property for a period of at least 12 months, assets are classified as Real estate, net, and when the Company intends to market these properties for sale in the near term, assets are classified as Real estate held for sale in the combined consolidated balance sheets. The Company records acquired real estate at cost and makes assessments as to the useful lives of depreciable assets. The Company considers the period of future benefit of the asset to determine its appropriate useful lives. Depreciation is computed using a straight-line method over the estimated useful life of 20 to 47 years for buildings, four to 15 years for building fixtures and improvements and the remaining lease term for acquired intangible lease assets.

The Company classifies most of its investments in real estate as held and used. The Company measures and records a property that is classified as held and used at its carrying amount, adjusted for any depreciation expense and impairments, as applicable.

Certain of the Company's real estate investments are condominium units that the Company intends to sell over time. As of January 1, 2014, the date the Company adopted the accounting guidance in Accounting Standard Update ("ASU") 2014-8, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-8"), the results of operations and the related gain or loss on sale of properties that have been sold are reflected in other income or presented in discontinued operations in the combined consolidated statements of income due to fact that the disposal does not represent a strategic shift that has (or will have) a major effect on the Company's operations and financial results and full disposal is not expected to be completed within one year. Prior to January 1, 2014, the results of operations and the related gain or loss on sale of condominium units that have been sold are not reflected as held for sale or presented in discontinued operations in the combined consolidated statements of income due to the significant continuing involvement in the real estate held through the consolidated homeowner's association.

Certain of the Company's real estate is leased to others on a net lease basis where the tenant is generally responsible for payment of real estate taxes, property, building and general liability insurance and property and building maintenance. These leases are for fixed terms of varying length and provide for annual rentals. Rental income from leases is recognized on a straight-line basis over the term of the respective leases. The cumulative excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in unbilled rent receivable within other assets in the combined consolidated balance sheets.

Allocation of Purchase Price for Acquired Real Estate

In accordance with the guidance for business combinations, the Company determines whether a transaction or other event is a business combination. If the transaction is determined to be a business combination, the Company determines if the transaction should be considered to be between entities under common control. The acquisition of an entity under common control is accounted for on the carryover basis of accounting whereby the assets and liabilities of the companies are recorded on the same basis as they were carried by the company under common control. All other business combinations, including rental property, are accounted for by applying the acquisition method of accounting. The Company will immediately expense acquisition related costs and fees associated with such

acquisitions.

Upon acquisition of rental property, the Company estimates the fair value of acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities assumed, generally consisting of the fair value of (i) above and below market leases, (ii) in-place leases and (iii) tenant relationships. The Company allocates the purchase price to the assets acquired and liabilities assumed based on their fair values. The Company records goodwill or a gain on bargain purchase (if any) if the net assets acquired/liabilities assumed exceed the purchase consideration of a transaction. In estimating the fair value of the tangible and intangible assets acquired, the Company considers information obtained about each property as a result of its due diligence and marketing and leasing activities, and utilizes various valuation methods, such as estimated cash flow projections utilizing appropriate discount and capitalization rates, estimates of replacement costs net of depreciation, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

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Above-market and below-market lease values for acquired properties are initially recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the remaining initial term plus the term of any below-market fixed rate renewal options for below-market leases. The capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining terms of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed rate renewal options of the respective leases. If a tenant with a below market rent renewal does not renew, any remaining unamortized amount will be taken into income at that time. Below-market leases are included in other liabilities in the combined consolidated balance sheets and accreted to rental income over the life of the lease.

Other intangible assets acquired include amounts for in-place lease values and tenant relationship values, which are based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the respective tenant. Factors to be considered by management in its analysis of in-place lease values include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, management considers leasing commissions, legal and other related expenses. Characteristics considered by management in valuing tenant relationships include the nature and extent of the Company's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles are amortized to expense over the anticipated life of the relationships but in no event do the amortization periods for intangible assets exceed the depreciable lives of the buildings. If a tenant terminates its lease, the unamortized portion of the in-place lease value and tenant relationship intangibles are charged to expense.

The fair value of other investments and debt assumed are valued using techniques consistent with those disclosed in Note 8, depending on the nature of the investments or debt. The fair value of other assumed assets and liabilities are based on best information available at the time of the acquisition.

Impairment of Property Held for Use

On a periodic basis, management assesses whether there are any indicators that the value of the Company's properties classified as held for use may be impaired. In addition to identifying any specific circumstances which may affect a property or properties, management considers other criteria for determining which properties may require assessment for potential impairment. The criteria considered by management include reviewing low leased percentages, significant near-term lease expirations, recently acquired properties, current and historical operating and/or cash flow losses, near-term mortgage debt maturities or other factors that might impact the Company's intent and ability to hold the property. A property's value is impaired only if management's estimate of the aggregate future cash flows (undiscounted and without debt service charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the property over the fair value of the property. The Company's estimates of aggregate future cash flows expected to be generated by each property are based on a number of assumptions. These assumptions are generally based on management's experience in its local real estate markets and the effects of current market conditions. The assumptions are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the future cash flows estimated by management in

its impairment analyses may not be achieved, and actual losses or impairments may be realized in the future.

Investments in Unconsolidated Joint Ventures

The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting. The Company applies the equity method by initially recording these investments at cost, as investments in unconsolidated joint ventures, subsequently adjusted for equity in earnings and cash contributions and distributions. The outside basis portion of the Company's joint ventures is amortized over the anticipated useful lives of the underlying ventures' tangible and intangible assets acquired and liabilities assumed. Generally, the Company would discontinue applying the equity method when the investment (and any advances) is reduced to zero and would not provide for additional losses unless the Company has guaranteed obligations of the venture or is otherwise committed to providing further financial support for the investee. If the venture subsequently generates income, the Company only recognizes its share of such income to the extent it exceeds its share of previously unrecognized losses.

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On a periodic basis, management assesses whether there are any indicators that the value of the Company's investments in unconsolidated joint ventures may be impaired. An investment is impaired only if management's estimate of the value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the value of the investment. The Company's estimates of value for each investment (particularly in commercial real estate joint ventures) are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the values estimated by management in its impairment analyses may not be realized, and actual losses or impairment may be realized in the future. See Note 6, Investment in Unconsolidated Joint Ventures.

Capitalization of Interest

Capitalization of costs begins when the activities necessary to get the development project ready for its intended use begins, which include costs incurred before the beginning of construction. Capitalization of costs ceases when the development project is substantially complete and ready for its intended use. Determining when a development project commences, and when it is substantially complete and ready for its intended use involves a degree of judgment. We generally consider a development project to be substantially complete and ready for its intended use upon receipt of a certificate of occupancy. We cease cost capitalization if activities necessary for the development of the property have been suspended. Capitalized costs are allocated to the specific components of a project that are benefited.

Interest shall be capitalized for investments accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations. The investor's investment in the investee, not the individual assets or projects of the investee, is the qualifying asset for purposes of interest capitalization.

Valuation of Financial Instruments

Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, fair values are not necessarily indicative of the amounts the Company could realize upon disposition of the financial instruments. Financial instruments with readily available active quoted prices, or for which fair value can be measured from actively quoted prices, generally will have a higher degree of pricing observability and will therefore require a lesser degree of judgment to be utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and will require a higher degree of judgment in measuring fair value. Pricing observability is generally affected by such items as the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and overall market conditions. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts.

For a further discussion regarding the measurement of financial instruments see Note 8, Fair Value of Financial Instruments.

Derivative Instruments

In the normal course of business, the Company is exposed to the effect of interest rate changes and may undertake a strategy to limit these risks through the use of derivatives. To address exposure to interest rates, the Company uses derivatives primarily to economically hedge the fair value variability of fixed rate assets caused by interest rate

fluctuations and overall portfolio market risk. The Company may use a variety of derivative instruments that are considered conventional, or “plain vanilla” derivatives, including interest rate swaps, futures, caps, collars and floors, to manage interest rate risk.

To determine the fair value of derivative instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. Standard market conventions and techniques such as discounted cash flow analysis, option-pricing models, and termination cost may be used to determine fair value. All such methods of measuring fair value for derivative instruments result in an estimate of fair value, and such value may never actually be realized.

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The Company recognizes all derivatives on the combined consolidated balance sheets at fair value. The Company does not generally designate derivatives as hedges to qualify for hedge accounting for financial reporting purposes and therefore any net payments under, or fluctuations in the fair value of, these derivatives have been recognized currently in net result from derivative transactions in the accompanying combined consolidated statements of income. The Company records derivative asset and liability positions on a gross basis with any collateral posted with or received from counterparties recorded separately on the Company's combined consolidated balance sheets.

Deferred Tax Asset and Amount Due Pursuant to Tax Receivable Agreement

In conjunction with the IPO, the Company is treated for U.S. federal income tax purposes as having directly purchased LP Units in LCFH from the existing unitholders. In the future, additional Series REIT LP Units, LC TRS I Shares (or Series TRS LP Units in lieu of such LC TRS I Shares) and shares of our Class B common stock may be exchanged for shares of Class A common stock in the Company. The initial purchase and these future exchanges may result in an increase in the tax basis of LCFH's assets attributable to the Company's interest in LCFH. These increases in the tax basis of LCFH's assets attributable to the Company's interest in LCFH would not have been available but for this initial purchase and future exchanges. Such increases in tax basis may increase (for tax purposes) depreciation and amortization deductions and therefore reduce the amount of income tax the Company would otherwise be required to pay in the future. The Tax Receivable Agreement provides for the payment by the Company to its Continuing LCFH Limited Partners (the "TRA Members") of 85% of the amount of cash savings in U.S. federal, state and local income tax or franchise tax that the Company actually realizes as a result of (a) the increase in tax basis attributable to exchanges by the TRA Members and (b) tax benefits related to imputed interest deemed to be paid by the Company as a result of this Tax Receivable Agreement. The Company would benefit from the remaining 15% of cash savings, if any, in income tax that it realizes and record any such estimated tax benefits as an increase to additional paid-in-capital. For purposes of the Tax Receivable Agreement, cash savings in income tax will be computed by comparing the Company's actual income tax liability to the amount of such taxes that it 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 it not entered into the Tax Receivable Agreement. The term of the Tax Receivable Agreement commenced upon consummation of the IPO and will continue until all such tax benefits have been utilized or expired, unless the Company exercises its right to terminate the Tax Receivable Agreement for an amount based on an agreed value of payments remaining to be made under the agreement. The Company has recorded the estimated tax benefits related to the increase in tax basis and imputed interest as a result of the future exchanges described above as a deferred tax asset in the combined consolidated statements of financial condition. The amount due to the TRA Members related to the Tax Receivable Agreement as a result of the future exchanges described above is recorded as amount due pursuant to Tax Receivable Agreement in the combined consolidated statements of financial condition.

The Tax Receivable Agreement was amended and restated in connection with our REIT Election, effective as of December 31, 2014 (the "TRA Amendment"), in order to preserve a portion of the potential tax benefits currently existing under the Tax Receivable Agreement that would otherwise be reduced in connection with our REIT Election. The TRA Amendment provides that, in lieu of the existing tax benefit payments under the Tax Receivable Agreement for the 2015 taxable year and beyond, LC TRS I LLC ("LC TRS I") will pay to the TRA Members 85% of the amount of the benefits, if any, that LC TRS I realizes or under certain circumstances (such as a change of control) is deemed to realize as a result of (i) the increases in tax basis resulting from the TRS Exchanges by the TRA Members, (ii) any incremental tax basis adjustments attributable to payments made pursuant to the TRA Amendment, and (iii) any deemed interest deductions arising from payments made by LC TRS I under the TRA Amendment. Under the TRA Amendment, LC TRS I may benefit from the remaining 15% of cash savings in income tax that it realizes, which is in the same proportion realized by the Company under the existing Tax Receivable Agreement. The purpose of the TRA Amendment was to preserve the benefits of the Tax Receivable Agreement to the extent possible in a REIT, although, as a result, the amount of payments made to the TRA Members under the TRA Amendment is expected to be less than would be made under the prior Tax Receivable Agreement. The TRA Amendment continues to share such benefits in

the same proportions and otherwise has substantially the same terms and provisions as the prior Tax Receivable Agreement. See Note 1 and Note 15 for further discussion of the Tax Receivable Agreement.

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Interest Income

Interest income is accrued based on the outstanding principal amount and contractual terms of the Company's loans and securities. Discounts or premiums associated with the purchase of loans and investment securities are amortized or accreted into interest income as a yield adjustment on the effective interest method, based on expected cash flows through the expected recovery period of the investment. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections. The Company has historically collected, and expects to continue to collect, all contractual amounts due on its originated loans. As a result, the Company does not adjust the projected cash flows to reflect anticipated credit losses for these loans. If the performance of a credit deteriorated security is more favorable than forecasted, the Company will generally accrete more credit discount into interest income than initially or previously expected. These adjustments are made prospectively beginning in the period subsequent to the determination that a favorable change in performance is projected. Conversely, if the performance of a credit deteriorated security is less favorable than forecasted, an other-than-temporary impairment may be taken, and the amount of discount accreted into income will generally be less than previously expected.

The effective yield on securities is based on the projected cash flows from each security, which is estimated based on the Company's observation of the then current information and events and will include assumptions related to interest rates, prepayment rates and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses (if applicable), and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on such securities. Actual maturities of the securities are affected by the contractual lives of the associated mortgage collateral, periodic payments of scheduled principal, and repayments of principal. Therefore, actual maturities of the securities will generally be shorter than stated contractual maturities.

For loans classified as held for investment and that the Company has not elected to record at fair value under FASB ASC 825, origination fees and direct loan origination costs are recognized in interest income over the loan term as a yield adjustment using the effective interest method. For loans classified as held for sale and that the Company has not elected to record at fair value under FASB ASC 825, origination fees and direct loan origination costs are deferred adjusting the basis of the loan and are realized as a portion of the gain/(loss) on sale of loans when sold. As of December 31, 2015, the Company did not hold any loans for which the fair value option was elected.

For our CMBS rated below AA, which represents 4% of the Company's CMBS portfolio as of December 31, 2015, cash flows from a security are estimated by applying assumptions used to determine the fair value of such security and the excess of the future cash flows over the investment are recognized as interest income under the effective yield method. The Company will review and, if appropriate, make adjustments to, its cash flow projections at least quarterly and monitor these projections based on input and analysis received from external sources and its judgment about interest rates, prepayment rates, the timing and amount of credit losses and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in interest income recognized and amortization of any premium or discount on, or the carrying value of, such securities.

For investments purchased with evidence of deterioration of credit quality for which it is probable, at acquisition, that the Company will be unable to collect all contractually required payments receivable, the Company will apply the provisions of ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality." ASC 310-30 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. ASC 310-30 limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest and other cash flows (cash flows expected at

acquisition to be collected) over the investor's initial investment in the loan. ASC 310-30 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual or valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment.

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Stock Based Compensation Plan

The Company accounts for its equity-based compensation awards using the fair value method, which requires an estimate of fair value of the award at the time of grant. The Company recognizes the compensation expense related to the time-based vesting criteria on a straight-line basis over the requisite service period. 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.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic ASC 842) (“ASU 2016-02”). The guidance in ASU 2016-02 supersedes the lease recognition requirements in ASC Topic 840, Leases. ASU 2016-02 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). This update requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. This update requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact the Company’s consolidated financial statements as the Company has certain operating lease arrangements for which it is the lessee. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In January 2016, FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). This update requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The pronouncement also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. ASU 2016-01 applies to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company anticipates adopting this update in the quarter ending March 31, 2018 and is currently evaluating the impact on the Company’s combined consolidated financial statements.

In September 2015, FASB issued ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustment (“ASU 2015-16”). This update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 applies to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Entities must apply the new guidance prospectively to adjustments to provisional amounts that occur after the effective date of ASU 2015-16, with earlier adoption permitted for financial statements that have not yet been made available for issuance. The Company anticipates adopting this update in the quarter ending March 31, 2016 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial statements.

In June 2015, FASB issued ASU 2015-10, Technical Corrections and Improvements (“ASU 2015-10”). The amendments in this update cover a wide range of topics in the codification and are generally categorized as follows: amendments related to differences between original guidance and the codification; guidance clarification and reference corrections; simplification, and minor improvements. The amendments are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, but not

required. As the objectives of this standard are to clarify the codification, correct unintended application of guidance, eliminate inconsistencies and to improve the codification's presentation of guidance, the adoption of this standard is not expected to have a significant effect on current accounting practice or create a significant administrative cost on most entities. The Company anticipates adopting this update in the quarter ending March 31, 2016 and does not expect the adoption to have a material impact on the Company's combined consolidated financial statements.

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In May 2015, FASB issued ASU 2015-08, Business Combinations (Topic 805): Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (“ASU 2015-08”). The amendments in ASU 2015-08 amend various SEC paragraphs included in the FASB’s Accounting Standards Codification (“ASC”) to reflect the issuance of Staff Accounting Bulletin No. 115 (“SAB 115”). SAB 115 rescinds portions of the interpretive guidance included in the SEC’s Staff Accounting Bulletins series and brings existing guidance into conformity with ASU 2014-17, Business Combinations (Topic 805): Pushdown Accounting, which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The Company has adopted the amendments in ASU 2015-08, effective May 8, 2015, as the amendments in the update were effective upon issuance. The adoption did not have a material impact on the Company’s combined consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). The amended guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected by the amendments in this ASU. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of this ASU was permitted for financial statements that have not been previously issued. Entities must apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. The Company elected to early adopt this update in the quarter ended June 30, 2015. The adoption did not have a material impact on the Company’s combined consolidated financial statements. In August, 2015, FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (ASU 2015-15”), which amends ASC 835-30, Interest - Imputation of Interest. This update clarifies the presentation and subsequent measurement of debt issuance costs associated with lines of credit. These costs may be deferred and presented as an asset and subsequently amortized ratably over the term of the revolving debt arrangement. The Company elected to early adopt this update in the quarter ended September 30, 2015. The adoption did not have a material impact on the Company’s combined consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). This ASU makes changes to the VIE model and voting interest (“VOE”) model consolidation guidance. The main provisions of the ASU include the following: (i) adding a requirement that limited partnerships and similar legal entities must provide partners with either substantive kick-out rights or substantive participating rights over the general partner to qualify as a VOE rather than a VIE; (ii) eliminating the presumption that the general partner should consolidate a limited partnership; (iii) eliminating certain conditions that need to be met when evaluating whether fees paid to a decision maker or service provider are considered a variable interest; (iv) excluding certain fees paid to decision makers or service providers when evaluating which party is the primary beneficiary of a VIE; and (v) revising how related parties are evaluated under the VIE guidance. Lastly, the ASU eliminates the indefinite deferral of FAS 167, which allowed reporting entities with interests in certain investment funds to follow previous guidance in FIN 46 (R). However, the ASU permanently exempts reporting entities from consolidating registered money market funds that operate in accordance with Rule 2a-7 of the Investment Company Act. The ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Entities may apply this ASU either using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning period of adoption or retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted provided that the ASU is applied from the beginning of the fiscal year of adoption. The Company anticipates adopting this update in the quarter ending March 31, 2016 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial statements.

In August 2014, FASB issued ASU 2014-15, Presentation of Financial Statements — Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern (“ASU 2014-15”). The guidance in ASU 2014-15 sets forth management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern as well as the related required disclosures. ASU 2014-15 indicates that, when preparing interim and annual financial statements, management should evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity’s ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, and, if applicable, whether it is probable that management’s plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods and annual periods thereafter. Early application is permitted. The Company anticipates adopting this update in the quarter ending March 31, 2017 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial statements.

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In August 2014, FASB issued ASU 2014-14, Receivables-Trouble Debt Restructurings by Creditor (ASC Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans Upon Foreclosure (“ASU 2014-14”). The guidance in ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The guidance is effective for fiscal years beginning after December 15, 2014, and the interim periods within those fiscal years. An entity should adopt the amendments in ASU 2014-14 using either a prospective transition method or a modified retrospective transition method. Early adoption, including adoption in an interim period, is permitted if the entity already has adopted ASU 2014-4. The Company adopted this update in the quarter ended March 31, 2015, and the adoption did not have a material effect on the Company’s combined consolidated financial statements.

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

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

In June 2014, FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings and Disclosures (“ASU 2014-11”). The pronouncement changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The pronouncement also requires two new disclosures. The first disclosure requires an entity

to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The pronouncement is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is not permitted. The Company adopted this update in the quarter ended March 31, 2015, and the adoption did not have a material effect on the Company's combined consolidated financial statements.

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In May 2014, FASB issued ASU 2014-9, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-9”). ASU 2014-9 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. In adopting ASU 2014-9, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, FASB issued ASU 2015-14, Deferral of the Effective Date (“ASU 2015-14”), which amends ASU 2014-09. As a result, the effective date for the amendments contained in ASU 2014-09 will be the first quarter of fiscal year 2018, with early adoption permitted in the first quarter of fiscal year 2017. The adoption will use one of two retrospective application methods. The Company anticipates adopting this update in the quarter ending March 31, 2018 and does not expect the adoption to have a material impact on the Company’s combined consolidated financial statements.

Reconciliation of Non-GAAP Financial Measures

Core Earnings

We present Core Earnings, which is a non-GAAP measure, as a supplemental measure of our performance. We consider common shareholders and Continuing LCFH Limited Partners to have fundamentally equivalent interest 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 interests held by Continuing LCFH Limited Partners.

We define Core Earnings as income before taxes adjusted to exclude: (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; (iv) the premium (discount) on mortgage loan financing and the related amortization of premium (discount) on mortgage loan financing recorded during the period; (v) non-cash stock-based compensation; and (vi) certain one-time transactional items.

As discussed in Note 2 to the combined consolidated financial statements included elsewhere in this Annual 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.

As more fully discussed in Note 2 to the combined consolidated financial statements included elsewhere in this Annual 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 open hedging positions adjusts for timing differences between when we recognize changes in the fair values of our assets and derivatives which we use to hedge asset values.

Set forth below is an unaudited reconciliation of income (loss) before taxes to Core Earnings (\$ in thousands):

	Year Ended December 31,		
	2015	2014	2013

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Income (loss) before taxes	\$ 160,691	\$ 124,231	\$ 192,463
Net loss attributable to noncontrolling interest in consolidated joint ventures (GAAP)	(1,568) 370	1,098
Our share of real estate depreciation, amortization and gain adjustments (1)	28,704	21,997	19,067
Adjustments for unrecognized derivative results (2)	(10,213	) 51,308	(18,721
Unrealized (gain) loss on agency IO securities	1,249	(2,144	) 2,665
Premium (discount) on mortgage loan financing, net of amortization	802	1,442	888
Non-cash stock-based compensation	10,277	16,738	2,881
One-time transactional adjustment (3)	1,509	5,380	—
Core Earnings	\$ 191,451	\$ 219,322	\$ 200,341

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- (1) The following is a reconciliation of GAAP depreciation and amortization to our share of real estate depreciation, amortization and gain adjustments amounts presented in the computation of Core Earnings in the preceding table (\$ in thousands):

	Year Ended December 31,		
	2015	2014	2013
Total GAAP depreciation and amortization	\$39,061	\$28,447	\$21,515
Less: Depreciation and amortization related to non-rental property fixed assets	(108)	(176)	(548)
Less: Non-controlling interests' share of consolidated depreciation and amortization	(2,830)	(2,590)	(1,622)
Our share of real estate depreciation and amortization	\$36,123	\$25,681	\$19,345
Realized gain from accumulated depreciation and amortization on real estate sold (see below)	\$(7,965)	\$(3,912)	\$(281)
Less: Non-controlling interests' share of accumulated depreciation and amortization on real estate sold	546	228	3
Our share of accumulated depreciation and amortization on real estate sold	\$(7,419)	\$(3,684)	\$(278)
Our share of real estate depreciation and amortization and gain adjustments	\$28,704	\$21,997	\$19,067

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

	Year Ended December 31,		
	2015	2014	2013
GAAP realized gain on sale of real estate, net	\$40,386	\$29,760	\$13,565
Less: Realized gain from accumulated depreciation and amortization on real estate sold	(7,965)	(3,912)	(281)
Adjusted gain/loss on sale of real estate for purposes of Core Earnings	\$32,421	\$25,848	\$13,284

- (2) The following is a reconciliation of GAAP net results from derivative transactions to our hedging unrecognized result presented in the computation of Core Earnings in the preceding table (\$ in thousands):

	Year Ended December 31,		
	2015	2014	2013
Hedging interest expense	\$(26,820)	\$(18,062)	\$(8,243)
Hedging realized result	(22,330)	(25,428)	17,598
Hedging unrecognized result	10,213	(51,308)	18,720
Net results from derivative transactions	\$(38,937)	\$(94,798)	\$28,075

- (3) One-time transactional adjustment for costs related to restructuring the Company for REIT related operations. All costs were expensed and accrued for in the period incurred.

We present Core Earnings because we believe it assists investors in comparing our performance across reporting periods on a consistent basis by excluding non-cash expenses and unrecognized results from derivatives and Agency interest-only securities, which we believe makes comparisons across reporting periods more relevant by eliminating timing differences related to 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.

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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 attributable to shareholders or as an alternative to cash flow as a measure of our liquidity or any other performance measures calculated in accordance with GAAP.

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 measure, as a supplemental measure of the performance of our loan securitization business. Income from sales of securitized loans, net is a key component of our results. 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 interest rate hedging. 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 measure, in the table below.

Set forth below is an unaudited reconciliation of income from sale of securitized loans, net to income from sale of loans, net as reported in our combined 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 combined consolidated financial statements included herein (\$ in thousands except for number of loans and securitizations):

	Year Ended December 31,		
	2015	2014	2013
Number of loans	210	165	139
Face amount of loans sold into securitizations	\$2,584,939	\$3,493,041	\$2,231,049
Number of securitizations	10	10	6
Income from sales of securitized loans, net (1)	\$71,066	\$145,075	\$141,683
Hedge gain/(loss) related to loans securitized (2)	(6,475	) (19,984	) 16,285
Income from sales of securitized loans, net of hedging	\$64,591	\$125,091	\$157,968

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

	Year Ended December 31,		
	2015	2014	2013
Income from sales of loans (non-securitized), net	\$—	\$200	\$5,025
Income from sales of securitized loans, net	71,066	145,075	141,683
Income from sales of loans, net	\$71,066	\$145,275	\$146,708

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

	Year Ended December 31,		
	2015	2014	2013
Hedge gain/(loss) related to lending and securities positions	\$(32,462)	\$(74,814)	\$11,790
Hedge gain/(loss) related to loans securitized	(6,475)	(19,984)	16,285
Net results from derivative transactions	\$(38,937)	\$(94,798)	\$28,075

Cost of funds

We present cost of funds, which is a non-GAAP 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 combined consolidated statements of income adjusted to include the net interest expense component resulting from our hedging activities, which is currently included in net results from derivative transactions on our combined consolidated statements of income. Interest income, net of cost of funds, which is a non-GAAP measure, is defined as interest income, less cost of funds.

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

	Year Ended December 31,		
	2015	2014	2013
Interest expense	\$(113,303)	\$(77,574)	\$(48,745)
Net interest expense component of hedging activities (1)	(26,820)	(18,062)	(8,243)
Cost of funds	\$(140,123)	\$(95,636)	\$(56,988)
Interest income	\$241,539	\$187,325	\$121,578
Cost of funds	(140,123)	(95,636)	(56,988)
Interest income, net of cost of funds	\$101,416	\$91,689	\$64,590

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	Year Ended December 31,		
	2015	2014	2013
(1) Net interest expense component of hedging activities	\$(26,820)	\$(18,062)	\$(8,243)
Hedging realized result	(22,330)	(25,428)	17,598
Hedging unrecognized result	10,213	(51,308)	18,720
Net result from derivative transactions	\$(38,937)	\$(94,798)	\$28,075

Net Revenues

We present Net Revenues, which is a non-GAAP measure, as a supplemental measure of the Company's performance, excluding operating expenses. We define Net Revenues as net interest income after provision for loan losses and total other income, which are both disclosed on the Company's combined consolidated statements of income. We present interest income on investments, net and income from sales of loans, net as a percent of Net Revenues to determine the impact of the net interest from our investments and the securitization activity on our Net Revenues (\$ in thousands).

	Year Ended December 31,		
	2015	2014	2013
Net interest income after provision for loan losses	\$127,636	\$109,151	\$72,233
Total other income	201,221	189,166	241,705
Net Revenues	\$328,857	\$298,317	\$313,938

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Item 7A. 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 December 31, 2015 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 December 31, 2015, both adjusted for the effects of our interest rate hedging activities (\$ in thousands):

	Projected change in net income	Projected change in portfolio value
Change in interest rate:		
Decrease by 1.00%	\$ (6,490	) \$36,636
Increase by 1.00%	8,958	(35,992)

Market Value Risk

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

Liquidity Risk

Market disruptions may lead to a significant decline in transaction activity in all or a significant portion of the asset classes in which the Company invests and may at the same time lead to a significant contraction in short-term and long-term debt and equity funding sources. A decline in liquidity of real estate and real estate-related investments, as

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

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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 December 31, 2015, the Company believes it was in compliance with all covenants.

Diversification Risk

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

Concentrations of Market Risk

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

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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. The Company established registered investment adviser subsidiaries, Ladder Capital Adviser LLC and LCR Income I GP LLC (the “Advisers”). The Advisers are required to be compliant with SEC requirements on an ongoing basis and are 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 Advisers or Tuebor fail to comply with regulatory requirements, they could be subject to loss of their licenses and registration and/or economic penalties.

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Item 8. Financial Statements

The combined consolidated financial statements of Ladder Capital Corp and Predecessor and the notes related to the foregoing combined consolidated financial statements are included in this Item 8.

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All other schedules are omitted because they are not required or the required information is shown in the combined consolidated financial statements or notes thereto.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Of Ladder Capital Corp:

In our opinion, the combined consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Ladder Capital Corp and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related combined consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New York, NY
March 4, 2016

Table of ContentsLadder Capital Corp and Predecessor
Combined Consolidated Balance Sheets
(Dollars in Thousands)

	December 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 108,959	\$ 76,218
Cash collateral held by broker	30,811	42,438
Mortgage loan receivables held for investment, net, at amortized cost	1,738,645	1,521,053
Mortgage loan receivables held for sale	571,764	417,955
Real estate securities, available-for-sale	2,407,217	2,815,566
Real estate and related lease intangibles, net	834,779	768,986
Investments in unconsolidated joint ventures	33,797	6,041
FHLB stock	77,915	72,340
Derivative instruments	2,821	423
Due from brokers	—	4
Accrued interest receivable	22,776	24,658
Other assets	65,728	68,553
Total assets	\$ 5,895,212	\$ 5,814,235
Liabilities and Equity		
Liabilities		
Debt obligations	\$ 4,274,723	\$ 4,182,954
Derivative instruments	5,504	13,445
Amount payable pursuant to tax receivable agreement	1,910	862
Dividends payable	17,456	—
Accrued expenses	78,142	91,993
Other liabilities	26,069	19,774
Total liabilities	4,403,804	4,309,028
Commitments and contingencies (Note 17)	—	—
Equity		
Class A common stock, par value \$0.001 per share, 600,000,000 shares authorized; 55,758,710 and 51,471,579 shares issued and 55,209,849 and 51,431,872 shares outstanding	55	51
Class B common stock, par value \$0.001 per share, 100,000,000 shares authorized; 44,055,987 and 47,647,023 shares issued and outstanding	44	—
Additional paid-in capital	776,866	725,538
Treasury stock, 548,861 shares, at cost, at December 31, 2015	(5,812))
Retained earnings	60,618	44,187
Accumulated other comprehensive income (loss)	(3,556)	) 15,656
Total shareholders' equity	828,215	785,432
Noncontrolling interest in operating partnership	657,380	711,674
Noncontrolling interest in consolidated joint ventures	5,813	8,101
Total equity	1,491,408	1,505,207
Total liabilities and equity	\$ 5,895,212	\$ 5,814,235

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

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

	Year Ended December 31,		
	2015	2014	2013
Net interest income			
Interest income	\$241,539	\$187,325	121,578
Interest expense	113,303	77,574	48,745
Net interest income	128,236	109,751	72,833
Provision for loan losses	600	600	600
Net interest income after provision for loan losses	127,636	109,151	72,233
Other income			
Operating lease income	80,465	56,649	37,395
Tenant recoveries	9,907	9,183	3,271
Sale of loans, net	71,066	145,275	146,708
Realized gain (loss) on securities	24,007	26,977	4,231
Unrealized gain (loss) on Agency interest-only securities	(1,249)	) 2,144	(2,665)
Realized gain on sale of real estate, net	40,386	29,760	13,565
Fee and other income	15,205	11,704	7,922
Net result from derivative transactions	(38,937)	) (94,798)	) 28,075
Earnings (loss) from investment in unconsolidated joint ventures	371	1,990	3,203
Gain on assignment of mortgage loan financing	—	432	—
Loss on extinguishment of debt	—	(150)) —
Total other income	201,221	189,166	241,705
Costs and expenses			
Salaries and employee benefits	61,612	82,144	61,038
Operating expenses	25,103	25,398	14,937
Real estate operating expenses	35,886	32,670	17,404
Real estate acquisition costs	1,983	2,404	3,626
Fee expense	4,521	3,023	2,955
Depreciation and amortization	39,061	28,447	21,515
Total costs and expenses	168,166	174,086	121,475
Income (loss) before taxes	160,691	124,231	192,463
Income tax expense (benefit)	14,557	26,605	3,730
Net income	146,134	97,626	188,733
Net (income) loss attributable to noncontrolling interest in consolidated joint ventures	(1,568)	) 370	1,098
Pre-IPO net income to predecessor unitholders	—	—	\$189,831
Pre-IPO net loss attributable to predecessor unitholders	—	12,628	
Net (income) loss attributable to noncontrolling interest in operating partnership	(70,745)) (66,437))
Net income attributable to Class A common shareholders	\$73,821	\$44,187	

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	Year Ended December 31,		
	2015	2014	2013
Earnings per share:			
Basic	\$1.43	\$0.90	
Diluted	\$1.42	\$0.86	
Weighted average shares outstanding:			
Basic	51,702,188	49,296,417	
Diluted	51,870,808	97,583,310	
Dividends per share of Class A common stock (Note 11):	\$2.225	\$—	

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

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

	Year Ended December 31,		
	2015	2014	2013
Net income	\$ 146,134	\$ 97,626	\$ 188,733
Other comprehensive income (loss)			
Unrealized gains on securities, net of tax:			
Unrealized gain (loss) on real estate securities, available for sale (1)	(11,403)	43,179	(16,130)
Reclassification adjustment for (gains) included in net income (2)	(25,142)	(25,163)	(4,231)
Total other comprehensive income (loss)	(36,545)	18,016	(20,361)
Comprehensive income	109,589	115,642	168,372
Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures	(1,568)	370	1,098
Comprehensive income of combined Class A common shareholders and Predecessor unit holders	\$ 108,021	\$ 116,012	\$ 169,470
Comprehensive (income) attributable to predecessor unitholders	—	(4,380)	
Comprehensive (income) attributable to noncontrolling interest in operating partnership	(54,247)	(66,957)	
Comprehensive income attributable to Class A common shareholders	\$ 53,774	\$ 44,675	

(1) Amounts are net of provision for (benefit from) \$0.5 million and \$5.8 million for the years ended December 31, 2015 and 2014, respectively and none for the year ended December 31, 2013.

(2) Amounts are net of (provision for) benefit of \$(0.5) million and \$(5.8) million for the years ended December 31, 2015 and 2014, respectively and none for the year ended December 31, 2013.

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

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

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

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

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

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

	Predecessor's Partners' Capital			Shareholders' Equity							Total Shareholders' Equity/Partners Capital
	Series A Preferred Units	Series B Preferred Units	Common Units	LP Units	Class A Common Shares	Class B Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	
Balance, December 31, 2012	\$781,101	\$272,215	\$44,372	\$—	\$—	\$—	\$—	\$—	\$—	\$582	\$1,098,270
Contributions	—	1,800	—	—	—	—	—	—	—	9,846	11,646
Distributions	(58,093)	(18,333)	(19,016)	—	—	—	—	—	—	(493)	(95,935)
Equity based compensation	—	2,428	453	—	—	—	—	—	—	—	2,881
Net income (loss)	115,349	36,670	37,812	—	—	—	—	—	—	(1,098)	188,733
Other comprehensive income	(12,372)	(3,933)	(4,056)	—	—	—	—	—	—	—	(20,361)
Balance, December 31, 2013	\$825,985	\$290,847	\$59,565	\$—	\$—	\$—	\$—	\$—	\$—	\$8,837	\$1,185,234
Contributions	—	—	—	—	—	—	—	—	—	1,841	1,841
Distributions	—	(369)	—	—	—	—	—	—	—	(47,920)	(47,920)