

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

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2020

**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: 001-38082



**KKR Real Estate Finance Trust Inc.**

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

47-2009094

(I.R.S. Employer Identification No.)

9 West 57th Street, Suite 4200 New York, NY

(Address of principal executive offices)

10019

(Zip Code)

(212) 750-8300

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01 per share	KREF	New York Stock Exchange

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

**The number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of April 27, 2020 was 55,478,573.**

**KKR REAL ESTATE FINANCE TRUST INC.**  
**FORM 10-Q**  
**FOR THE QUARTER ENDED MARCH 31, 2020**  
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains 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"), which reflect our current views with respect to, among other things, our operations and financial performance. You can identify these forward-looking statements by the use of words such as "outlook," "believe," "expect," "potential," "continue," "may," "should," "seek," "approximately," "predict," "intend," "will," "plan," "estimate," "anticipate," the negative version of these words, other comparable words or other statements that do not relate strictly to historical or factual matters. By their nature, forward-looking statements speak only as of the date they are made, are not statements of historical fact or guarantees of future performance and are subject to risks, uncertainties, assumptions or changes in circumstances that are difficult to predict or quantify, in particular due to the uncertainties created by the COVID-19 pandemic, including the projected impact of COVID-19 on our business, financial performance and operating results. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs and projections will result or be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q. Such risks, uncertainties and other important factors include, among others, the risks, uncertainties and factors set forth under Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "Form 10-K"), and in the section entitled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q. Such risks and uncertainties include, but are not limited to, the following:

- the severity and duration of the COVID-19 pandemic;
  - potential risks and uncertainties relating to the ultimate geographic spread of COVID-19;
  - actions that may be taken by governmental authorities to contain the COVID-19 outbreak or to treat its impact;
  - the potential negative impacts of COVID-19 on the global economy and the impacts of COVID-19 on the Company's financial condition and business operations;
  - deterioration in the performance of the properties securing our investments that may cause deterioration in the performance of our investments and, potentially, principal losses to us;
  - difficulty or delays in redeploying the proceeds from repayments of our existing investments;
  - the general political, economic and competitive conditions in the United States and in any foreign jurisdictions in which we invest;
  - the level and volatility of prevailing interest rates and credit spreads;
  - adverse changes in the real estate and real estate capital markets;
  - general volatility of the securities markets in which we participate;
  - changes in our business, investment strategies or target assets;
  - difficulty in obtaining financing or raising capital;
  - adverse legislative or regulatory developments;
  - reductions in the yield on our investments and increases in the cost of our financing;
  - acts of God such as hurricanes, earthquakes and other natural disasters, pandemics such as COVID-19, acts of war and/or terrorism and other events that may cause unanticipated and uninsured performance declines and/or losses to us or the owners and operators of the real estate securing our investments;
  - defaults by borrowers in paying debt service on outstanding indebtedness;
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- the adequacy of collateral securing our investments and declines in the fair value of our investments;
- adverse developments in the availability of desirable investment opportunities whether they are due to competition, regulation or otherwise;
- difficulty in successfully managing our growth, including integrating new assets into our existing systems;
- the cost of operating our platform, including, but not limited to, the cost of operating a real estate investment platform and the cost of operating as a publicly traded company;
- the availability of qualified personnel and our relationship with our Manager;
- subsidiaries of KKR & Co. Inc. control us and KKR's interests may conflict with those of our stockholders in the future;
- our qualification as a real estate investment trust ("REIT") for U.S. federal income tax purposes and our exclusion from registration under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and
- authoritative accounting principles generally accepted in the United States of America ("GAAP") or policy changes from such standard-setting bodies such as the Financial Accounting Standards Board (the "FASB"), the Securities and Exchange Commission (the "SEC"), the Internal Revenue Service, the New York Stock Exchange and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements, including factors set forth under Part I, Item 1A. "Risk Factors" in the Form 10-K, Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A. "Risk Factors" in this Form 10-Q, as such factors may be updated from time to time in our other periodic filings with the SEC, which are accessible on the SEC's website at [www.sec.gov](http://www.sec.gov) and on the investor relations section of our website at [www.kkrreit.com](http://www.kkrreit.com). You should evaluate all forward-looking statements made in this Form 10-Q in the context of these risks and uncertainties.

We caution you that the risks, uncertainties and other factors referenced above may not contain all of the risks, uncertainties and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. All forward-looking statements in this Form 10-Q apply only as of the date made and are expressly qualified in their entirety by the cautionary statements included in this Form 10-Q and in other filings we make with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

Except where the context requires otherwise, the terms "Company," "we," "us," "our" and "KREF" refer to KKR Real Estate Finance Trust Inc., a Maryland corporation, and its subsidiaries; "Manager" refers to KKR Real Estate Finance Manager LLC, a Delaware limited liability company, our external manager; and "KKR" refers to KKR & Co. Inc., a Delaware corporation, and its subsidiaries.

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PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**KKR Real Estate Finance Trust Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**  
(Amounts in thousands, except share and per share data)

	March 31, 2020	December 31, 2019
<b>Assets</b>		
Cash and cash equivalents	\$ 369,867	\$ 67,619
Commercial mortgage loans, held-for-investment	5,089,968	4,931,042
Less: Allowance for credit losses	(65,979)	—
Commercial mortgage loans, held-for-investment, net	5,023,989	4,931,042
Equity method investments	34,441	37,469
Accrued interest receivable	17,263	16,305
Other assets	10,121	4,583
<b>Total Assets</b>	<b>\$ 5,455,681</b>	<b>\$ 5,057,018</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Secured financing agreements, net	\$ 3,368,329	\$ 2,884,887
Collateralized loan obligation, net	805,008	803,376
Convertible notes, net	139,420	139,075
Loan participations sold, net	64,972	64,966
Dividends payable	24,204	25,036
Accrued interest payable	7,513	6,686
Accounts payable, accrued expenses and other liabilities <sup>(A)</sup>	8,907	3,363
Due to affiliates	5,022	5,917
<b>Total Liabilities</b>	<b>4,423,375</b>	<b>3,933,306</b>
<b>Commitments and Contingencies (Note 11)</b>		
<b>Temporary Equity</b>		
Redeemable preferred stock	2,108	1,694
<b>Permanent Equity</b>		
Preferred stock, 50,000,000 authorized (1 share with par value of \$0.01 issued and outstanding as of March 31, 2020 and December 31, 2019)	—	—
Common stock, 300,000,000 authorized (55,838,032 and 57,486,583 shares with par value of \$0.01 issued and outstanding as of March 31, 2020 and December 31, 2019, respectively)	575	575
Additional paid-in capital	1,167,602	1,165,995
Accumulated deficit	(82,777)	(8,594)
Repurchased stock, 3,511,240 and 1,862,689 shares repurchased as of March 31, 2020 and December 31, 2019, respectively	(55,202)	(35,958)
<b>Total KKR Real Estate Finance Trust Inc. stockholders' equity</b>	<b>1,030,198</b>	<b>1,122,018</b>
<b>Total Permanent Equity</b>	<b>1,030,198</b>	<b>1,122,018</b>
<b>Total Liabilities and Equity</b>	<b>\$ 5,455,681</b>	<b>\$ 5,057,018</b>

(A) Includes \$4.3 million and \$0.0 million of reserve for unfunded loan commitments at March 31, 2020 and December 31, 2019, respectively.

See Notes to Condensed Consolidated Financial Statements.

**KKR Real Estate Finance Trust Inc. and Subsidiaries**
**Condensed Consolidated Statements of Income (Unaudited)**

(Amounts in thousands, except share and per share data)

	<b>For the Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Net Interest Income</b>		
Interest income	\$ 71,079	\$ 64,751
Interest expense	39,082	34,842
Total net interest income	31,997	29,909
<b>Other Income</b>		
Income (loss) from equity method investments	(1,901)	1,125
Change in net assets related to CMBS consolidated variable interest entities	—	342
Other income	360	482
Total other income (loss)	(1,541)	1,949
<b>Operating Expenses</b>		
General and administrative	3,767	2,361
Provision for credit losses, net	55,274	—
Management fees to affiliate	4,299	4,287
Incentive compensation to affiliate	1,606	953
Total operating expenses	64,946	7,601
<b>Income (Loss) Before Income Taxes, Preferred Dividends and Redemption Value Adjustment</b>	<b>(34,490)</b>	<b>24,257</b>
Income tax expense	82	9
<b>Net Income (Loss)</b>	<b>(34,572)</b>	<b>24,248</b>
<b>Preferred Stock Dividends and Redemption Value Adjustment</b>	<b>592</b>	<b>(457)</b>
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ (35,164)</b>	<b>\$ 24,705</b>
<b>Net Income (Loss) Per Share of Common Stock</b>		
Basic	\$ (0.61)	\$ 0.43
Diluted	\$ (0.61)	\$ 0.43
<b>Weighted Average Number of Shares of Common Stock Outstanding</b>		
Basic	57,346,726	57,387,386
Diluted	57,346,726	57,477,234
<b>Dividends Declared per Basic and Diluted Share of Common Stock</b>	<b>\$ 0.43</b>	<b>\$ 0.43</b>

See Notes to Condensed Consolidated Financial Statements.

**KKR Real Estate Finance Trust Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Equity (Unaudited)**  
(Amounts in thousands, except share data)

	Permanent Equity								Temporary Equity	
	KKR Real Estate Finance Trust Inc.									
	Preferred Stock		Common Stock			Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Repurchased Stock	Total KKR Real Estate Finance Trust Inc. Stockholders' Equity	Redeemable Preferred Stock
	Shares	Stated Value	Shares	Par Value						
<b>Balance at December 31, 2019</b>	<b>1</b>	<b>\$ —</b>	<b>57,486,583</b>	<b>\$ 575</b>	<b>\$ 1,165,995</b>	<b>\$ (8,594)</b>	<b>\$ (35,958)</b>	<b>\$ 1,122,018</b>	<b>\$ 1,694</b>	
Repurchase of common stock	—	—	(1,648,551)	—	—	—	(19,244)	(19,244)	—	
Preferred dividends declared, per share	—	—	—	—	—	—	—	—	(178)	
Common dividends declared, \$0.43 per share	—	—	—	—	—	(24,010)	—	(24,010)	—	
Adjustment of redeemable preferred stock to redemption value	—	—	—	—	—	(414)	—	(414)	414	
Stock-based compensation	—	—	—	—	1,607	—	—	1,607	—	
Cumulative-effect adjustment upon adoption of ASU 2016-13 (Note 2)	—	—	—	—	—	(15,009)	—	(15,009)	—	
Net income (loss)	—	—	—	—	—	(34,750)	—	(34,750)	178	
<b>Balance at March 31, 2020</b>	<b>1</b>	<b>\$ —</b>	<b>55,838,032</b>	<b>\$ 575</b>	<b>\$ 1,167,602</b>	<b>\$ (82,777)</b>	<b>\$ (55,202)</b>	<b>\$ 1,030,198</b>	<b>\$ 2,108</b>	

	Permanent Equity								Temporary Equity	
	KKR Real Estate Finance Trust Inc.									
	Preferred Stock		Common Stock			Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Repurchased Stock	Total KKR Real Estate Finance Trust Inc. Stockholders' Equity	Redeemable Preferred Stock
	Shares	Stated Value	Shares	Par Value						
<b>Balance at December 31, 2018</b>	<b>1</b>	<b>\$ —</b>	<b>57,596,217</b>	<b>\$ 576</b>	<b>\$ 1,163,845</b>	<b>\$ (225)</b>	<b>\$ (31,854)</b>	<b>\$ 1,132,342</b>	<b>\$ 2,846</b>	
Repurchase of common stock	—	—	(212,809)	(2)	—	—	(4,104)	(4,106)	—	
Offering costs	—	—	—	—	(518)	—	—	(518)	—	
Preferred dividends declared, per share	—	—	—	—	—	—	—	—	(161)	
Common dividends declared, \$0.43 per share	—	—	—	—	—	(24,761)	—	(24,761)	—	
Adjustment of redeemable preferred stock to redemption value	—	—	—	—	—	618	—	618	(618)	
Stock-based compensation	—	—	—	—	991	—	—	991	—	
Net income (loss)	—	—	—	—	—	24,087	—	24,087	161	
<b>Balance at March 31, 2019</b>	<b>1</b>	<b>\$ —</b>	<b>57,383,408</b>	<b>\$ 574</b>	<b>\$ 1,164,318</b>	<b>\$ (281)</b>	<b>\$ (35,958)</b>	<b>\$ 1,128,653</b>	<b>\$ 2,228</b>	

See Notes to Condensed Consolidated Financial Statements.

**KKR Real Estate Finance Trust Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
(Amounts in thousands)

	For the Three Months Ended March 31,	
	2020	2019
<b>Cash Flows From Operating Activities</b>		
Net income (loss)	\$ (34,572)	\$ 24,248
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred debt issuance costs and discounts	5,388	4,377
Accretion of net deferred loan fees and discounts	(4,333)	(6,464)
Change in non-cash net assets of consolidated variable interest entities	—	154
(Income) Loss from equity method investments	2,789	(468)
Provision for credit losses, net	55,274	—
Stock-based compensation expense	1,607	991
Changes in operating assets and liabilities:		
Accrued interest receivable, net	(958)	724
Other assets	(687)	470
Accrued interest payable	827	1,019
Accounts payable, accrued expenses and other liabilities	1,895	546
Due to affiliates	146	14
<b>Net cash provided by (used in) operating activities</b>	<b>27,376</b>	<b>25,611</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale/syndication and principal repayments of commercial mortgage loans, held-for-investment	179,553	561,815
Origination of commercial mortgage loans, held-for-investment	(334,146)	(323,539)
Investment in commercial mortgage-backed securities, equity method investee	—	(1,770)
<b>Net cash provided by (used in) investing activities</b>	<b>(154,593)</b>	<b>236,506</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from borrowings under secured financing agreements	805,967	335,708
Payments of common stock dividends	(24,719)	(24,899)
Payments of preferred stock dividends	(303)	(271)
Principal repayments on borrowings under secured financing agreements	(324,825)	(424,665)
Payments of debt and collateralized debt obligation issuance costs	(2,206)	(1,258)
Payments of stock issuance costs	(157)	(717)
Payments to reacquire common stock	(23,252)	(4,106)
Tax withholding on stock-based compensation	(1,040)	—
<b>Net cash provided by (used in) financing activities</b>	<b>429,465</b>	<b>(120,208)</b>
<b>Net Increase (Decrease) in Cash, Cash Equivalents</b>	<b>302,248</b>	<b>141,909</b>
<b>Cash, Cash Equivalents at Beginning of Period</b>	<b>67,619</b>	<b>86,531</b>
<b>Cash, Cash Equivalents at End of Period</b>	<b>\$ 369,867</b>	<b>\$ 228,440</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the period for interest	\$ 33,376	\$ 30,834
Cash paid during the period for income taxes	—	127
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities</b>		
Dividend declared, not yet paid	24,204	24,850
Deferred financing costs, not yet paid	86	—
Deferred issuance costs, not yet paid	101	—

See Notes to Condensed Consolidated Financial Statements.



**KKR Real Estate Finance Trust Inc.**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(dollars in tables in thousands, except per share amounts)

**Note 1. Business and Organization**

KKR Real Estate Finance Trust Inc. (together with its consolidated subsidiaries, referred to throughout this report as the "Company", "KREF", "we", "us" and "our") is a Maryland corporation that was formed and commenced operations on October 2, 2014 as a mortgage real estate investment trust ("REIT") that focuses primarily on originating and acquiring senior loans secured by commercial real estate ("CRE") assets.

KREF has elected and intends to maintain its qualification to be taxed as a REIT under the requirements of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), for U.S. federal income tax purposes. As such, KREF will generally not be subject to U.S. federal income tax on that portion of its income that it distributes to stockholders if it distributes at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. See Note 14 regarding taxes applicable to KREF.

KREF is externally managed by KKR Real Estate Finance Manager LLC ("Manager"), an indirect subsidiary of KKR & Co. Inc. (together with its subsidiaries, "KKR"), through a management agreement ("Management Agreement") pursuant to which the Manager provides a management team and other professionals who are responsible for implementing KREF's business strategy, subject to the supervision of KREF's board of directors. For its services, the Manager is entitled to management fees and incentive compensation, both defined in, and in accordance with the terms of, the Management Agreement (Note 12).

As of March 31, 2020, KKR beneficially owned 22,008,616 shares of KREF's common stock, of which 2,008,616 shares were held by KKR on behalf of a third-party investor.

KREF's principal business activities are related to the origination and purchase of credit investments related to CRE. Management assesses the performance of KREF's current portfolio of leveraged and unleveraged commercial mortgage loans and commercial mortgage-backed securities ("CMBS") as a whole and makes operating decisions accordingly. As a result, management presents KREF's operations within a single reporting segment.

**Note 2. Summary of Significant Accounting Policies**

**Basis of Presentation** — The accompanying unaudited condensed consolidated financial statements and related notes of KREF are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and instructions to Form 10-Q. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required in annual financial statements. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements have been condensed or omitted. The condensed consolidated financial statements include the accounts of KREF and its consolidated subsidiaries, and all intercompany transactions and balances have been eliminated. In the opinion of management, all adjustments considered necessary for a fair presentation of KREF's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K.

**Risks and Uncertainties** — The recent outbreak of the coronavirus pandemic ("COVID-19") around the globe continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The impact of the outbreak has been rapidly evolving around the globe, with several countries taking drastic measures to limit the spread of the virus by instituting quarantines or lockdowns and imposing travel restrictions. Such actions are creating significant disruptions to global supply chains, and adversely impacting several industries, including but not limited to, airlines, hospitality, retail and the broader real estate industry.

The major disruption caused by COVID-19 brought to a halt most economic activity in most of the United States resulting in a significant increase in unemployment claims and will likely result in a significant decline in the U.S. Gross Domestic Product ("GDP").

COVID-19 could have a continued and prolonged adverse impact on economic and market conditions and trigger a period of global economic slowdown which could have a material adverse effect on the Company's results and financial condition.

The full impact of COVID-19 on the real estate industry, the credit markets and consequently on the Company's financial condition and results of operations is uncertain and cannot be predicted at the current time as it depends on several factors beyond the control of the Company including, but not limited to (i) the uncertainty around the severity and duration of the outbreak, (ii) the effectiveness of the United States public health response, (iii) the pandemic's impact on the U.S. and global economies, (iv) the timing, scope and effectiveness of additional governmental responses to the pandemic, (v) the timing and speed of economic recovery, including the availability of a treatment or vaccination for COVID-19 and (vi) the negative impact on our borrowers, real estate values and cost of capital.

**Use of Estimates** — The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management makes subjective estimates to project cash flows KREF expects to receive on its investments in loans and securities as well as the related market discount rates, which significantly impacts the interest income, impairments, allowance for loan loss and fair values recorded or disclosed. The effects of COVID-19 may negatively and materially impact significant estimates and assumptions used by the Company including, but not limited to estimates of expected credit losses, valuation of our equity method investments and the fair value estimates of the Company's assets and liabilities. Actual results could materially differ from those estimates.

**Consolidation** — KREF consolidates those entities for which (i) it controls through either majority ownership or voting rights or (ii) management determines that KREF is the primary beneficiary of entities deemed to be variable interest entities ("VIEs").

**Variable Interest Entities** — VIEs are entities (i) in which equity investors do not have an interest with the characteristics of a controlling financial interest, (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or (iii) established with non-substantive voting rights. A VIE is required to be consolidated only by its primary beneficiary, which is defined as the party that has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and that has the obligation to absorb losses of, or the right to receive benefits from, the VIE that could be potentially significant to the VIE (Note 8).

To assess whether KREF has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, KREF considers all the facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes, first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power to direct those activities. To assess whether KREF has the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE, KREF considers all of its economic interests and applies judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE.

**Collateralized Loan Obligation** — KREF consolidates a collateralized loan obligation that closed in November 2018 ("KREF 2018-FL1" or "CLO") (Note 5). Management determined that KREF 2018-FL1 Ltd. and KREF 2018-FL1 LLC (the "CLO Issuers"), wholly-owned subsidiaries of KREF, were VIEs and that KREF was the primary beneficiary. KREF is the primary beneficiary of the VIEs since it has the ability to control the most significant activities of the CLO Issuers through ownership of non-investment grade rated subordinated controlling tranches, has the obligation to absorb losses, and the right to receive benefits, that could potentially be significant to these entities. As a result, KREF consolidates the CLO Issuers.

The collateral assets of the CLO, comprised of a pool of loan participations (Note 5) are included in "Commercial mortgage loans, held-for-investment, net" on the accompanying Condensed Consolidated Balance Sheets. The liabilities of KREF's consolidated CLO Issuers consist solely of obligations to the senior CLO noteholders, excluding subordinated CLO tranches held by KREF as such interests are eliminated in consolidation, are presented in "Collateralized loan obligation, net" in the accompanying Condensed Consolidated Balance Sheets. The collateral assets of the CLO can only be used to settle the obligations of the consolidated CLO. The interest income from the CLO collateral assets and the interest expense on the CLO liabilities are presented on a gross basis in "Interest income" and "Interest expense", respectively, in KREF's Condensed Consolidated Statements of Income.

**CMBS** — KREF consolidates those trusts that issue beneficial ownership interests in mortgage loans secured by CRE (commonly known as CMBS) when KREF holds a variable interest in, and management considers KREF to be the primary beneficiary of, those trusts. Management believes the performance of the assets that underlie CMBS issuances most significantly impacts the economic performance of the trust, and the primary beneficiary is generally the entity that conducts

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activities that most significantly impact the performance of the underlying assets. In particular, the most subordinate tranches of CMBS expose the holder to the greater variability of economic performance when compared to more senior tranches since the subordinate tranches absorb a disproportionately higher amount of the credit risk related to the underlying assets. Generally, a trust designates the most junior subordinate tranche outstanding as the controlling class, which entitles the holder of the controlling class to unilaterally appoint and remove the special servicer for the trust. The special servicer is responsible for the servicing and administration of delinquent and nonperforming loans as well as real estate owned ("REO") properties held as collateral delivered on foreclosed loans. While the special servicer cannot prevent losses, its services to the trust are designed to mitigate credit losses to holders of the CMBS.

For any CMBS trust that KREF consolidates, KREF holds an unrated tranche that represents the most subordinated tranche of the CMBS issued by that trust, which include the controlling class. As the holder of the most subordinate tranche, KREF is in a first loss position and has the right to receive benefits. As the holder of the controlling class, KREF has the ability to unilaterally appoint and remove the special servicer for the trust. In these cases, management considers KREF to be the primary beneficiary and consolidates that CMBS trust.

For VIEs in which management determines KREF is the primary beneficiary, all of the underlying assets, liabilities and equity of the trusts are recorded on KREF's books, and the initial investment, along with any associated unrealized holding gains and losses, are eliminated in consolidation. Similarly, the interest income earned from these trusts is eliminated in consolidation.

Management elected the fair value option for KREF's initial and subsequent recognition of the assets and liabilities of KREF's consolidated CMBS VIEs in order to provide users of the financial statements with better information regarding the effects of credit risk and other market factors on the CMBS beneficially held by KREF's stockholders. Since the changes in fair value include the interest income and interest expense associated with these CMBS VIEs, management does not consider the separate presentation of the components of fair value changes to be relevant. Management has elected to present these items in aggregate as "Other Income — Change in net assets related to CMBS consolidated variable interest entities" in the accompanying Condensed Consolidated Statements of Income; the residual difference between the fair value of the trust's assets and liabilities represents KREF's beneficial interest in the CMBS VIEs.

Management separately presents the assets and liabilities of KREF's consolidated VIEs as individual line items on KREF's Condensed Consolidated Balance Sheets for entities in which the VIEs assets can only be used to settle the VIE's obligations. The liabilities of KREF's consolidated VIEs consist solely of obligations to the CMBS holders of the consolidated trust, excluding CMBS held by KREF as such interests are eliminated in consolidation, and the interest accrued thereon, presented as "Liabilities — Variable interest entity liabilities, at fair value." The assets of KREF's consolidated VIEs consist principally of commercial mortgage loans and the interest accrued thereon, and are likewise presented as a single line item entitled "Assets — Commercial mortgage loans held in variable interest entities, at fair value."

Assets of a CMBS trust, as a whole, can only be used to settle the obligations of the consolidated CMBS VIE. The assets of KREF's CMBS VIEs are not individually accessible by, and obligations of the CMBS VIEs are not recourse to, the bondholders.

KREF derives the fair value of its Level 3 CMBS VIE assets from its Level 3 CMBS VIE liabilities, which management considers to possess more observable market value data than the CMBS VIE assets. See "— Fair Value — Valuation of CMBS Consolidated VIEs" for additional discussion regarding management's valuation of consolidated CMBS VIEs. During the three months ended September 30, 2019, KREF sold the remaining directly held CMBS investments, including an unrated tranche that represented the most subordinated tranche of the CMBS issued by that trust, including the controlling class. Accordingly, KREF deconsolidated the respective CMBS trust (Note 8).

*Temporary Equity* — KREF's Special Non-Voting Preferred Stock ("SNVPS") became redeemable in the second quarter of 2018. As a result, starting with the second quarter of 2018, KREF adjusts the carrying value of the SNVPS to its redemption value quarterly. Accordingly, KREF adjusted the carrying value of the SNVPS to its redemption value of \$2.1 million as of March 31, 2020 and recorded a \$0.4 million non-cash redemption value adjustment to the SNVPS ("SNVPS Redemption Value Adjustment") during the three months ended March 31, 2020. Such adjustment is treated similar to a dividend on preferred stock for GAAP purposes, accordingly, the SNVPS Redemption Value Adjustment is therefore deducted from (or added back to) "Net Income (Loss)" to arrive at "Net Income (Loss) Attributable to Common Stockholders" on KREF's Condensed Consolidated Statements of Income.

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*Equity method investments*— Investments are accounted for under the equity method when KREF has significant influence over the operations of an investee, but KREF does not consolidate that investment. Equity method investments, for which management has not elected a fair value option, are initially recorded at cost and subsequently adjusted for KREF's share of net income or loss and cash contributions and distributions each period.

Management determined that KREF's investment in the Manager is an interest in a VIE, however KREF is not the primary beneficiary. KREF does not have substantive participating or kick-out rights nor the power to direct activities and the obligation to absorb losses of the Manager that could be significant to the Manager. KREF accounts for its investment in the Manager using the equity method (Note 8).

Management determined that KREF's investment in an aggregator vehicle alongside KKR Real Estate Credit Opportunity Partners L.P. ("RECOP I") is an interest in a VIE, however KREF is not the primary beneficiary and does not have substantive participating or kick-out rights. Management elected the fair value option for KREF's investment in RECOP I. KREF records its share of net asset value in RECOP I in "Equity method investments" on its Condensed Consolidated Balance Sheets and its share of unrealized gains or losses in "Income from equity method investments" in its Condensed Consolidated Statements of Income.

KREF classifies distributions received from equity method investees using the cumulative earnings approach. Distributions received up to the cumulative earnings from each equity method investee are considered returns on investment and presented within "Cash Flows from Operating Activities" in the Condensed Consolidated Statements of Cash Flows; excess distributions received are considered returns of investment and presented within "Cash Flows from Investing Activities" in the Condensed Consolidated Statements of Cash Flows.

**Fair Value** — GAAP requires the categorization of the fair value of financial instruments into three broad levels that form a hierarchy based on the transparency of inputs to the valuation.

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 - Inputs are other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability.

Level 3 - Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

KREF follows this hierarchy for its financial instruments. The classifications are based on the lowest level of input that is significant to the fair value measurement.

Estimates of fair value for cash and cash equivalents, restricted cash, and convertible notes are measured using observable, quoted market prices, or Level 1 inputs.

*Valuation Process* — The Manager reviews the valuation of Level 3 financial instruments as part of KKR's quarterly process. As of March 31, 2020, KKR's valuation process for Level 3 measurements, as described below, subjected valuations to the review and oversight of various committees. KKR has a global valuation committee assisted by the asset class-specific valuation committees, including a real estate valuation committee that reviews and approves all preliminary Level 3 valuations for real estate assets, including the financial instruments held by KREF. The global valuation committee is responsible for coordinating and implementing KKR's valuation process to ensure consistency in the application of valuation principles across portfolio investments and between periods. All Level 3 valuations are also subject to approval by the global valuation committee.

*Valuation of Commercial Mortgage Loans and Participation Sold* — Management generally considers KREF's commercial mortgage loans Level 3 assets in the fair value hierarchy as such assets are illiquid, structured investments that are specific to the underlying property and its operating performance (Note 13). On a quarterly basis, management engages an independent valuation firm to estimate the fair value of each loan categorized as a Level 3 asset. Management reviews the quarterly loan valuation estimates provided by the independent valuation firm. These loans are generally valued using a discounted cash flow model using discount rates derived from observable market data applied to the capital structure of the respective sponsor and

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estimated property value. In the event that management's estimate of fair value differs from the fair value estimate provided by the independent valuation firm, KREF ultimately relies solely upon the valuation prepared by the investment personnel of the Manager.

*Valuation of CLO Consolidated VIEs* — Management estimates the fair value of the CLO liabilities using prices obtained from an independent valuation firm. If prices received from the independent valuation firm are inconsistent with values determined in connection with management's independent review, management makes inquiries to the independent valuation firm about the prices received and related methods. In the event management determines the price obtained from an independent valuation firm to be unreliable or an inaccurate representation of the fair value of the CLO liabilities (based on considerations given to observable market data), management then compiles evidence independently and presents the independent valuation firm with such evidence supporting a different value. As a result, the independent valuation firm may revise their price accordingly. However, if management continues to disagree with the price from the independent valuation firm, in light of evidence presented that management compiled independently and believes to be compelling, management considers the independent valuation firm's quotation unreliable or inaccurate representation of the fair value of the CLO liabilities.

In the event that the quotation from the independent valuation firm is not available or determined to be unreliable or an inadequate representation of the fair value of the CLO liabilities, valuations are prepared using inputs based on non-binding broker quotes obtained from independent, well-known, major financial brokers that are CLO market makers. In validating any non-binding broker quote used in this circumstance, management compares the non-binding quote to the observable market data points at such time and used to validate prices received from the independent valuation firm in addition to understanding the valuation methodologies used by the market makers. These market participants utilize a similar methodology as the independent valuation firm to value the CLO liabilities, with the key input of expected yield determined independently based on both observable and unobservable factors (as described above). To avoid reliance on any single broker-dealer, management receives a minimum of two non-binding quotes, of which the average is used.

*Valuation of CMBS Consolidated VIEs* — Management categorizes the financial assets and liabilities of the CMBS trusts that KREF consolidates as Level 3 assets and liabilities in the fair value hierarchy and has elected the fair value option for financial assets and liabilities of each CMBS trust. Management has adopted the measurement alternative included in Accounting Standards Update ("ASU") No. 2014-13, *Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity* ("ASU 2014-13"). Pursuant to ASU 2014-13, management measures both the financial assets and financial liabilities of the CMBS trusts consolidated by KREF using the fair value of the financial liabilities, which management considers more observable than the fair value of the financial assets. Accordingly, KREF presents the CMBS issued by a consolidated trust, but not beneficially owned by KREF's stockholders, as financial liabilities in KREF's condensed consolidated financial statements, measured at their estimated fair value; KREF measures the financial assets as the total estimated fair value of the CMBS issued by a consolidated trust, regardless of whether such CMBS represent interests beneficially owned by KREF's stockholders. Under the measurement alternative prescribed by ASU 2014-13, KREF's "Net Income (Loss)" reflects the economic interests in the consolidated CMBS beneficially owned by KREF's stockholders, presented as "Change in net assets related to CMBS consolidated variable interest entities" in the Condensed Consolidated Statements of Income, which includes applicable (i) changes in the fair value of CMBS beneficially owned by KREF, (ii) interest and servicing fees earned from the CMBS trust and (iii) other residual returns or losses of the CMBS trust, if any (Note 8).

*Other Valuation Matters* — For Level 3 financial assets originated, or otherwise acquired, and financial liabilities assumed during the calendar month immediately preceding a quarter end that were conducted in an orderly transaction with an unrelated party, management generally believes that the transaction price provides the most observable indication of fair value given the illiquid nature of these financial instruments, unless management is aware of any circumstances that may cause a material change in the fair value through the remainder of the reporting period. For instance, significant changes to the underlying property or its planned operations may cause material changes in the fair value of commercial mortgage loans acquired, or originated, by KREF.

KREF's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors. When an independent valuation firm expresses an opinion on the fair value of a financial instrument in the form of a range, management selects a value within the range provided by the independent valuation firm, generally the midpoint, to assess the reasonableness of management's estimated fair value for that financial instrument.

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See Note 13 for additional information regarding the valuation of KREF's financial assets and liabilities.

**Sales of Financial Assets and Financing Agreements** — KREF will, from time to time, transfer loans, securities and other assets as well as finance assets in the form of secured borrowings. In each case, management evaluates whether the transaction constitutes a sale through legal isolation of the transferred financial asset from KREF, the ability of the transferee to pledge or exchange the transferred asset without constraint and the transfer of control of the transferred asset. For transfers that constitute sales, KREF (i) recognizes the financial assets it retains and liabilities it has incurred, if any, (ii) derecognizes the financial assets it has sold, and derecognizes liabilities when extinguished and (iii) recognizes a realized gain, or loss, based upon the excess, or deficient, proceeds received over the carrying value of the transferred asset. KREF does not recognize a gain, or loss, on interests retained, if any, where management elected the fair value option prior to sale.

**Balance Sheet Measurement**

**Cash and Cash Equivalents and Restricted Cash** — KREF considers cash equivalents as highly liquid short-term investments with maturities of 90 days or less when purchased. Substantially all amounts on deposit with major financial institutions exceed insured limits.

KREF must also maintain sufficient cash and cash equivalents to satisfy liquidity covenants related to its secured financing agreements. However, such amounts are not restricted from use in KREF's current operations, and KREF does not present these cash and cash equivalents as restricted. As of March 31, 2020 and December 31, 2019, KREF was required to maintain unrestricted cash and cash equivalents of at least \$50.4 million and \$33.4 million, respectively, to satisfy its liquidity covenants (Note 4).

**Adoption of ASU No. 2016-13, Financial Instruments — Credit Losses** — On January 1, 2020, KREF adopted ASU No. 2016-13, Financial Instruments—Credit Losses, and subsequent amendments (“ASU 2016-13”), which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss (“CECL”) model. CECL amends the previous credit loss model to reflect a reporting entity's current estimate of all expected credit losses, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, and off-balance sheet credit exposures such as unfunded loan commitments. The allowance for credit losses required under ASU 2016-13 is deducted from the respective loans' amortized cost basis on our condensed consolidated balance sheets. The allowance for credit losses attributed to unfunded loan commitments is included in “Accounts payable, accrued expenses and other liabilities” in the condensed consolidated balance sheets. The guidance also requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

In connection with KREF's adoption of ASU 2016-13 on January 1, 2020, KREF implemented new processes including the utilization of loan loss forecasting models, updates to KREF's reserve policy documentation, changes to internal reporting processes and related internal controls. KREF has implemented loan loss forecasting models for estimating expected life-time credit losses, at the individual loan level, for its commercial mortgage loan portfolio. The CECL forecasting methods used by KREF include (i) a probability of default and loss given default method using underlying third-party CMBS/CRE loan database with historical loan losses from 1998 to 2019 and (ii) probability weighted expected cash flow method, depending on the type of loan and the availability of relevant historical market loan loss data. KREF might use other acceptable alternative approaches in the future depending on, among other factors, the type of loan, underlying collateral, and availability of relevant historical market loan loss data.

KREF estimates the CECL expected credit losses for its loan portfolio, including unfunded loan commitments, at the individual loan level. Significant inputs to KREF's forecasting methods include (i) key loan-specific inputs such as loan-to-value (“LTV”), vintage year, loan-term, underlying property type, occupancy, geographic location, and expected timing and amount of future loan fundings, (ii) performance against the underwritten business plan and KREF's internal loan risk rating and (iii) a macro-economic forecast. Given the uncertain economic environment and the lack of clarity on the economic outlook, which largely depends on the severity and duration of the COVID-19 pandemic and how quickly normal economic activity resumes, the Company determined that a shorter forecast period of two quarters is appropriate with reversion to historical mean losses over two additional quarters. These estimates may change in future periods based on available future macro-economic data and might result in a material change in the Company's future estimates of expected credit losses for its loan portfolio. KREF considers the individual loan internal risk rating as the primary credit quality indicator underlying the CECL assessment. In

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certain instances, KREF considers relevant loan-specific qualitative factors to certain loans to estimate its CECL expected credit losses.

KREF considers loan investments that are both (i) expected to be substantially repaid through the operation or sale of the underlying collateral, and (ii) for which the borrower is experiencing financial difficulty, to be "collateral-dependent" loans. For such loans that KREF determines that foreclosure of the collateral is probable, the Company measures the expected losses based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. For collateral-dependent loans that KREF determines foreclosure is not probable, KREF applies a practical expedient to estimate expected losses using the difference between the collateral's fair value (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan.

Based on KREF's loan portfolio at January 1, 2020, the pre COVID-19 economic environment and the respective expectations for future economic conditions at the time, KREF recorded a cumulative-effect adjustment to KREF's accumulated deficit as of January 1, 2020 of \$15.0 million, or \$0.26 per common share, of which \$1.1 million, or \$0.02 per common share, is attributable to unfunded loan commitments.

The following table illustrates the day-one financial statements impact of the adoption of ASU 2016-13 on January 1, 2020:

	Pre-adoption	Transition Adjustment	Post-adoption
<b>Assets</b>			
Commercial mortgage loans, held-for-investment	\$ 4,931,042	\$ —	\$ 4,931,042
Less: Allowance for credit losses	—	(13,909)	(13,909)
Commercial mortgage loans, held-for-investment, net	\$ 4,931,042	\$ (13,909)	\$ 4,917,133
<b>Liabilities</b>			
Accounts payable, accrued expenses and other liabilities <sup>(A)</sup>	\$ 3,363	\$ 1,100	\$ 4,463
<b>Permanent Equity</b>			
Accumulated deficit	\$ (8,594)	\$ (15,009)	\$ (23,603)

(A) Includes reserve for unfunded loan commitments.

*Commercial Mortgage Loans Held-For-Investment and Allowance for Credit Losses* — KREF recognizes its investments in commercial mortgage loans based on management's intent, and KREF's ability, to hold those investments through their contractual maturity. Management classifies those loans that management does not intend to sell in the foreseeable future, and KREF is able to hold until maturity, as held-for-investment. Loans that are held-for-investment are carried at their aggregate outstanding face amount, net of applicable (i) unamortized origination or acquisition premiums and discounts, (ii) unamortized deferred nonrefundable fees and other direct loan origination costs, and (iii) allowance for credit losses, net of charge-offs or write-downs of impaired loans. If a loan is determined to be impaired, management writes down the loan through a charge to the "Allowance for credit losses". See "— Expense Recognition — Commercial Mortgage Loans, Held-For-Investment" for additional discussion regarding management's determination for loan losses. KREF applies the interest method to amortize origination or acquisition premiums and discounts and deferred nonrefundable fees or other direct loan origination costs, or on a straight-line basis when it approximates the interest method. Loans for which management elects the fair value option at the time of origination, or acquisition, are carried at fair value on a recurring basis (Note 3).

*Commercial Mortgage Loans Held-For-Sale* — Loans that KREF originates or acquires, which KREF is unable to hold, or management intends to sell or otherwise dispose of, in the foreseeable future are classified as held-for-sale and are carried at the lower of amortized cost or fair value.

*Secured Financing Agreements* — KREF's secured financing agreements, including uncommitted repurchase facilities, Term Lending Agreement, Warehouse Facility, Asset Specific Financings and Term Loan Financings, are treated as floating-rate collateralized financing arrangements carried at their contractual amounts, net of unamortized debt issuance costs (Note 4). Included within KREF's secured financing agreements is KREF's corporate revolving credit facility ("Revolver"), which is full recourse to certain guarantor wholly-owned subsidiaries of KREF.

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*Convertible Notes, Net* — KREF accounts for its convertible debt with a cash conversion feature in accordance with ASC 470-20 “Debt with Conversion and Other Options” which requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement, to be separately accounted for in a manner that reflects the issuer’s nonconvertible debt borrowing rate. The initial proceeds from the sale of convertible notes are allocated between a liability component and an equity component in a manner that reflects interest expense at the rate of similar nonconvertible debt that could have been issued at such time. The equity component represents the excess initial proceeds received over the fair value of the liability component of the notes as of the date of issuance. KREF measured the estimated fair value of the debt component of the 6.125% convertible senior notes due May 15, 2023 (“Convertible Notes”) as of the issuance date based on KREF’s nonconvertible debt borrowing rate. The equity component of the Convertible Notes is reflected within additional paid-in capital on the Condensed Consolidated Balance Sheets, and the resulting debt discount is amortized over the period during which such Convertible Notes are expected to be outstanding (through the maturity date) as additional non-cash interest expense using the interest method, or on a straight line basis when it approximates the interest method. The additional non-cash interest expense attributable to such convertible notes will increase in subsequent periods through the maturity date as the notes accrete to their par value over the same period (Note 6).

*Loan Participations Sold, Net* — In connection with its investments in CRE loans, KREF finances certain investments through the syndication of non-recourse, or limited-recourse, loan participation to unaffiliated third parties. KREF’s presentation of the senior loan and related financing involved in the syndication depends upon whether the transaction is recognized as a sale under GAAP, though such differences in presentation do not generally impact KREF’s net stockholders’ equity or net income aside from timing differences in the recognition of certain transaction costs.

To the extent that a sale is recognized under GAAP from the syndication, KREF derecognizes the participation in the senior/whole loan that KREF sold and continues to carry the retained portion of the loan as an investment. While KREF does not generally expect to recognize a material gain or loss on these sales, KREF would realize a gain or loss in an amount equal to the difference between the net proceeds received from the third party purchaser and its carrying value of the loan participation that KREF sold at time of sale. Furthermore, KREF recognizes interest income only on the portion of the loan that it retains as a result of the sale.

To the extent that a sale is not recognized under GAAP from the syndication, KREF does not derecognize the participation in the senior/whole loan that it sold. Instead, KREF recognizes a loan participation sold liability in an amount equal to the principal of the loan participation syndicated less any unamortized discounts or financing costs resulting from the syndication. KREF continues to recognize interest income on the entire senior loan, including the interest attributable to the loan participation sold, as well as interest expense on the loan participation sold liability (Note 7).

*Other Assets and Accounts Payable, Accrued Expenses and Other Liabilities* — As of March 31, 2020, other assets primarily included \$4.0 million of payments for stock repurchases that were not yet settled, and \$3.1 million of deferred financing costs related to KREF’s Revolver (Note 4). As of December 31, 2019, other assets primarily included \$2.4 million of deferred financing costs related to KREF’s Revolver. As of March 31, 2020, accounts payable, accrued expenses and other liabilities mainly consisted of \$3.5 million of accrued expenses, \$1.2 million of good faith deposits, and \$4.3 million of allowance for credit losses related to KREF’s unfunded loan commitments. As of December 31, 2019, accounts payable, accrued expenses and other liabilities mainly consisted of \$2.7 million of accrued expenses and \$0.7 million of good faith deposits.

*Dividends Payable* — KREF accrues for dividends on its common stock and the redeemable preferred stock upon declaration of such dividends. In March 2020, KREF’s board of directors declared a dividend of \$0.43 per share of common stock to shareholders of record as of March 31, 2020, which was accrued in “Dividends payable” on KREF’s Condensed Consolidated Balance Sheet as of March 31, 2020 and was subsequently paid on April 15, 2020.

*Special Non-Voting Preferred Stock* — Equity instruments that are redeemable for cash or other assets are classified as temporary equity if the instrument is redeemable, at the option of the holder, at a fixed or determinable price on a fixed or determinable date or upon the occurrence of an event that is not solely within the control of the issuer. Redeemable equity instruments are initially carried at the fair value of the equity instrument at the issuance date, which is subsequently adjusted at each balance sheet date if the instrument is currently redeemable or probable of becoming redeemable. KREF accounted for the SNVPS as redeemable preferred stock since a third party holds a redemption option, exercisable after May 5, 2018, and such redemption is not solely within KREF’s control. The SNVPS became redeemable in the second quarter of 2018. As a result, starting with the second quarter of 2018, KREF adjusts the carrying value of the SNVPS to its redemption value



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quarterly. Accordingly, KREF adjusted the carrying value of the SNVPS to its redemption value of \$2.1 million as of March 31, 2020 and recorded a \$0.4 million non-cash SNVPS Redemption Value Adjustment during the three months ended March 31, 2020.

*Repurchased Stock* — KREF accounts for repurchases of its common stock based on the settlement date and presents repurchased stock in “Repurchased stock” on its Condensed Consolidated Balance Sheets (Note 9). Payments for stock repurchases that are not yet settled as of the reporting date are presented within “Other assets” on the Condensed Consolidated Balance Sheets. As of March 31, 2020, KREF did not retire any repurchased stock.

***Income Recognition***

*Interest Income* — Loans where management expects to collect all contractually required principal and interest payments are considered performing loans. KREF accrues interest income on performing loans based on the outstanding principal amount and contractual terms of the loan. Interest income also includes origination fees and direct loan origination costs for loans that KREF originates, but where management did not elect the fair value option, as a yield adjustment using the interest method over the loan term, or on a straight line basis when it approximates the interest method. KREF expenses origination fees and direct loan origination costs for loans acquired, but not originated, by KREF as well as loans for which management elected the fair value option, as incurred.

*Other Income* — KREF recognizes interest income earned on its cash balances and miscellaneous fee income in “Other income” on its Condensed Consolidated Statements of Income. Interest income on cash balances totaled \$0.3 million and \$0.2 million for the three months ended March 31, 2020 and 2019, respectively.

*Realized Gain (Loss) on Sale of Investments* — KREF recognizes the excess, or deficiency, of net proceeds received, less the net carrying value of such investments, as realized gains or losses, respectively. KREF reverses cumulative, unrealized gains or losses previously reported in its Condensed Consolidated Statements of Income with respect to the investment sold at the time of sale.

***Expense Recognition***

*Commercial Mortgage Loans, Held-For-Investment* — For each loan in KREF's portfolio, management performs a quarterly evaluation of impairment indicators of loans classified as held-for-investment using applicable loan, property, market and sponsor information obtained from borrowers, loan servicers and local market participants. Such indicators may include the net present value of the underlying collateral, property operating cash flows, the sponsor's financial wherewithal and competency in managing the property, macroeconomic trends, and property submarket-specific economic factors. The evaluation of these indicators of impairment requires significant judgment by management to determine whether failure to collect contractual amounts is probable.

If management deems that it is probable that KREF will be unable to collect all amounts owed according to the contractual terms of a loan, impairment of that loan is indicated. If management considers a loan to be impaired, management writes-down the loan through a charge to the "Allowance for credit losses" based on the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral. Significant judgment is required in determining impairment and in estimating the resulting credit loss allowance, and actual losses, if any, could materially differ from those estimates.

Management considers loans to be past due when a monthly payment is due and unpaid for 60 days or more. Loans are placed on nonaccrual status and considered non-performing when full payment of principal and interest is in doubt, which generally occurs when principal or interest is 120 days or more past due unless the loan is both well secured and in the process of collection. Interest received on loans placed on nonaccrual status are accounted for under the cost-recovery method, until qualifying for return to accrual. Management may return a loan to accrual status when repayment of principal and interest is reasonably assured under the terms of the restructured loan. As of March 31, 2020, KREF did not hold any loans that management placed on nonaccrual status or otherwise considered past due.

In conjunction with reviewing commercial mortgage loans held-for-investment for impairment, the Manager evaluates KREF's commercial mortgage loans on a quarterly basis, assesses the risk factors of each loan, and assigns a risk rating based on a variety of factors, including, without limitation, underlying real estate performance and asset value, values of comparable

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properties, durability and quality of property cash flows, sponsor experience and financial wherewithal, and the existence of a risk-mitigating loan structure. Additional key considerations include loan-to-value ratios, debt service coverage ratios, loan structure, real estate and credit market dynamics, and risk of default or principal loss. Based on a five-point scale, KREF's loans are rated "1" through "5," from less risk to greater risk, which ratings are defined as follows:

1—Very Low Risk—The underlying property performance has surpassed underwritten expectations, and the sponsor's business plan is generally complete. The property demonstrates stabilized occupancy and/or rental rates resulting in strong current cash flow and/or a very low loan-to-value ratio (<65%). At the level of performance, it is very likely that the underlying loan can be refinanced easily in the period's prevailing capital market conditions.

2—Low Risk—The underlying property performance has matched or exceeded underwritten expectations, and the sponsor's business plan may be ahead of schedule or has achieved some or many of the major milestones from a risk mitigation perspective. The property has achieved improving occupancy at market rents, resulting in sufficient current cash flow and/or a low loan-to-value ratio (65%-70%). Operating trends are favorable, and the underlying loan can be refinanced in today's prevailing capital market conditions. The sponsor/manager is well capitalized or has demonstrated a history of success in owning or operating similar real estate.

3—Average Risk—The underlying property performance is in-line with underwritten expectations, or the sponsor may be in the early stages of executing its business plan. Current cash flow supports debt service payments, or there is an ample interest reserve or loan structure in place to provide the sponsor time to execute the value-improvement plan. The property exhibits a moderate loan-to-value ratio (<75%). Loan structure appropriately mitigates additional risks. The sponsor/manager has a stable credit history and experience owning or operating similar real estate.

4—High Risk/Potential for Loss: A loan that has a risk of realizing a principal loss. The underlying property performance is behind underwritten expectations, or the sponsor is behind schedule in executing its business plan. The underlying market fundamentals may have deteriorated, comparable property valuations may be declining or property occupancy has been volatile, resulting in current cash flow that may not support debt service payments. The loan exhibits a high loan-to-value ratio (>80%), and the loan covenants are unlikely to fully mitigate some risks. Interest payments may come from an interest reserve or sponsor equity.

5—Impaired/Loss Likely: A loan that has a very high risk of realizing a principal loss or has otherwise incurred a principal loss. The underlying property performance is significantly behind underwritten expectations, the sponsor has failed to execute its business plan and/or the sponsor has missed interest payments. The market fundamentals have deteriorated, or property performance has unexpectedly declined or valuations for comparable properties have declined meaningfully since loan origination. Current cash flow does not support debt service payments. With the current capital structure, the sponsor might not be incentivized to protect its equity without a restructuring of the loan. The loan exhibits a very high loan-to-value ratio (>90%), and default may be imminent.

*Commercial Mortgage Loans, Held-For-Sale* — For commercial mortgage loans held-for-sale, KREF applies the lower of cost or fair value accounting and may be required, from time to time, to record a nonrecurring fair value adjustment.

*Accrued Interest Receivables* — KREF elected not to measure an allowance for credit losses for accrued interest receivables. KREF generally writes off accrued interest receivable balance when interest is 120 days or more past due unless the loan is both well secured and in the process of collection. Write-offs of accrued interest receivable are recognized as "Provision for credit losses, net" in the Condensed Consolidated Statements of Income. KREF did not write-off any accrued interest receivable during the three months ended March 31, 2020.

*Interest Expense* — KREF expenses contractual interest due in accordance with KREF's financing agreements as incurred.

*Deferred Debt Issuance Costs* — KREF capitalizes and amortizes deferred financing costs incurred in connection with financing arrangements over their respective expected term using the interest method, or on a straight line basis when it approximates the interest method. KREF presents such expensed amounts, as well as deferred amounts written off, as additional interest expense in its Condensed Consolidated Statements of Income.

*General and Administrative Expenses* — KREF expenses general and administrative costs, including legal, diligence and audit fees; information technology costs; insurance premiums; and other costs as incurred.

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*Management and Incentive Compensation to Affiliate* — KREF expenses management fees and incentive compensation earned by the Manager on a quarterly basis in accordance with the Management Agreement (Note 12).

*Income Taxes* — Certain activities of KREF are conducted through joint ventures that are formed as limited liability companies, taxed as partnerships, and consolidated by KREF. Some of these joint ventures are subject to state and local income taxes, based on the tax jurisdictions in which they operate. In addition, certain activities of KREF are conducted through taxable REIT subsidiaries consolidated by KREF. Taxable REIT subsidiaries are subject to federal, state and local income taxes (Note 14).

As of March 31, 2020 and December 31, 2019, KREF did not have any material deferred tax assets or liabilities arising from future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in accordance with GAAP and their respective tax bases.

KREF recognizes tax benefits for uncertain tax positions only if it is more likely than not that the position is sustainable based on its technical merits. Interest and penalties on uncertain tax positions are included as a component of the provision for income taxes in KREF's Condensed Consolidated Statements of Income. As of March 31, 2020, KREF did not have any material uncertain tax positions.

***Stock-Based Compensation***

KREF's stock-based compensation consists of awards issued to employees of the Manager or its affiliates that vest over the life of the awards, as well as restricted stock units issued to certain members of KREF's board of directors. The Company recognizes the compensation cost of stock-based awards to its directors and employees of the Manager or its affiliates on a straight-line basis over the awards' term at their grant date fair value. KREF accounts for forfeitures as they occur. Refer to Note 10 for additional information.

***Earnings per Share***

KREF presents basic and diluted earnings per share ("EPS"). Basic EPS, or Net Income (Loss) Per Share of Common Stock, Basic, is calculated by dividing Net Income (Loss) Attributable to Common Stockholders by the Basic Weighted Average Number of Shares of Common Stock Outstanding, for the period.

Diluted EPS, or Net Income (Loss) Per Share of Common Stock, Diluted, is calculated by starting with Basic EPS and adding the weighted average dilutive shares issuable from restricted stock units, computed using the treasury stock method, to the weighted average common shares outstanding in the denominator. Refer to Note 9 for additional discussion of earnings per share.

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**Note 3. Commercial Mortgage Loans**

The following table summarizes KREF's investments in commercial mortgage loans as of March 31, 2020 and December 31, 2019:

Loan Type	Outstanding Face Amount	Amortized Cost <sup>(A)</sup>	Carrying Value <sup>(B)</sup>	Loan Count	Weighted Average		
					Floating Rate Loan % <sup>(C)</sup>	Coupon <sup>(C)</sup>	Life (Years) <sup>(D)</sup>
<b>March 31, 2020</b>							
<u>Loans held-for-investment</u>							
Senior loans <sup>(E)</sup>	\$ 5,059,468	\$ 5,032,066	\$ 4,970,847	37	100.0%	4.8%	3.9
Mezzanine loans	58,731	57,902	53,142	3	90.6	10.0	4.3
	<u>\$ 5,118,199</u>	<u>\$ 5,089,968</u>	<u>\$ 5,023,989</u>	<u>40</u>	<u>99.9%</u>	<u>4.9%</u>	<u>3.9</u>
<b>December 31, 2019</b>							
<u>Loans held-for-investment</u>							
Senior loans <sup>(E)</sup>	\$ 4,919,298	\$ 4,890,408	4,890,408	37	100.0%	5.0%	4.1
Mezzanine loans	41,400	40,634	40,634	2	86.7	9.6	4.6
	<u>\$ 4,960,698</u>	<u>\$ 4,931,042</u>	<u>4,931,042</u>	<u>39</u>	<u>99.9%</u>	<u>5.1%</u>	<u>4.1</u>

(A) Amortized cost represents the outstanding face amount of loan, net of applicable unamortized discounts and loan origination fees.

(B) Carrying value represents the amortized cost of loan, net of applicable allowance for credit losses.

(C) Average weighted by outstanding face amount of loan. Weighted average coupon assumes the greater of applicable one-month LIBOR rates of 0.99% and 1.76% as of March 31, 2020 and December 31, 2019, respectively, or the applicable contractual LIBOR floor.

(D) The weighted average life of each loan is based on the expected timing of the receipt of contractual principal repayments assuming all extension options are exercised by the borrower.

(E) Senior loans may include accommodation mezzanine loans in connection with the senior mortgage financing. Also, includes vertical loan participations sold with a face amount of \$65.0 million and a carrying value of \$65.0 million as of March 31, 2020 and December 31, 2019, respectively. Includes CLO loan participations of \$1.0 billion as of March 31, 2020 and December 31, 2019, respectively.

**Activity** — For the three months ended March 31, 2020, the loan portfolio activity was as follows:

	Held-for-Investment	Held-for-Sale	Total
<b>Carrying amount at December 31, 2019</b>	<b>\$ 4,931,042</b>	<b>\$ —</b>	<b>\$ 4,931,042</b>
Purchases and originations, net <sup>(A)</sup>	334,146	—	334,146
Proceeds from sales and principal repayments	(179,553)	—	(179,553)
Accretion of loan discount and other amortization, net <sup>(B)</sup>	4,333	—	4,333
Amortized cost at March 31, 2020	5,089,968	—	5,089,968
Cumulative-effect adjustment upon adoption of ASU 2016-13	(13,909)	—	(13,909)
Provision for credit losses, net	(52,070)	—	(52,070)
<b>Carrying amount at March 31, 2020</b>	<b>\$ 5,023,989</b>	<b>\$ —</b>	<b>\$ 5,023,989</b>

(A) Net of applicable premiums, discounts and deferred loan origination costs. Includes fundings on previously originated loans.

(B) Includes accretion of applicable discounts, certain fees and deferred loan origination costs.

As of March 31, 2020 and December 31, 2019, there was \$28.2 million and \$29.7 million, respectively, of unamortized deferred loan fees and discounts included in commercial mortgage loans, held-for-investment, net in the Condensed Consolidated Balance Sheets. KREF recognized prepayment fee income and net accelerated fees income of \$0.0 million and \$0.2 million, respectively, during the three months ended March 31, 2020. KREF recognized prepayment fee income and net accelerated fees income of \$0.2 million and \$2.3 million, respectively, during the three months ended March 31, 2019.

**Loan Risk Ratings** — As further described in Note 2, our Manager evaluates KREF's commercial mortgage loan portfolio on a quarterly basis. In conjunction with the quarterly commercial mortgage loan portfolio review, KREF's Manager assesses the risk factors of each loan and assigns a risk rating based on a variety of factors. Loans are rated "1" (very low risk) through "5"

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Impaired/Loss Likely), which ratings are defined in Note 2. The following table allocates the principal balance and net book value of the loan portfolio based on KREF's internal risk ratings:

March 31, 2020					December 31, 2019				
Risk Rating	Number of Loans	Net Book Value	Total Loan Exposure <sup>(A)</sup>	Total Loan Exposure %	Risk Rating	Number of Loans	Net Book Value	Total Loan Exposure <sup>(A)</sup>	Total Loan Exposure %
1	2	\$ 157,360	\$ 158,074	3.0%	1	1	\$ 85,730	\$ 86,000	1.7%
2	3	288,303	291,268	5.6	2	5	450,827	451,858	9.0
3	28	3,855,849	4,001,127	77.0	3	33	4,394,485	4,501,440	89.3
4	7	722,477	746,330	14.4	4	—	—	—	—
5	—	—	—	—	5	—	—	—	—
	40	\$ 5,023,989	\$ 5,196,799	100.0%		39	\$ 4,931,042	\$ 5,039,298	100.0%

(A) In certain instances, KREF finances its loans through the non-recourse sale of a senior interest that is not included in the condensed consolidated financial statements. Total loan exposure includes the entire loan KREF originated and financed, including \$143.6 million of such non-consolidated interests as of March 31, 2020 and December 31, 2019, respectively.

As of March 31, 2020, the average risk rating of KREF's portfolio was 3.0 (Average Risk), weighted by total loan exposure, as compared to 2.9 (Average Risk) as of December 31, 2019.

**Loan Vintage** — The following tables present the amortized cost of the loan portfolio at March 31, 2020, by KREF's internal risk rating and year of origination. The risk ratings are updated as of March 31, 2020.

March 31, 2020											
Risk Rating	Number of Loans	Outstanding Face Amount	Amortized Cost by Year of Origination							Total	Carrying Amount
			2020	2019	2018	2017	2016	2015			
Commercial Mortgage Loans											
1	2	\$ 158,074	\$ —	\$ —	\$ 157,618	\$ —	\$ —	\$ —	\$ 157,618	\$ 157,360	
2	3	291,268	—	61,014	41,894	187,488	—	—	290,396	288,303	
3	28	3,922,527	284,979	2,407,120	1,056,354	149,807	—	—	3,898,260	3,855,849	
4	7	746,330	—	75,578	328,408	209,418	—	130,290	743,694	722,477	
5	—	—	—	—	—	—	—	—	—	—	
	40	\$ 5,118,199	\$ 284,979	\$ 2,543,712	\$ 1,584,274	\$ 546,713	\$ —	\$ 130,290	\$ 5,089,968	\$ 5,023,989	

**Allowance for Credit Losses** — For the three months ended March 31, 2020, the changes to allowance for credit losses were as follows:

	Commercial Mortgage Loans	Unfunded Loan Commitments	Total
Balance at December 31, 2019	\$ —	\$ —	\$ —
Cumulative-effect adjustment upon adoption of ASU 2016-13	13,909	1,100	15,009
Provision for credit losses, net	52,070	3,204	55,274
Write-offs charged	—	—	—
Recoveries	—	—	—
Balance at March 31, 2020	\$ 65,979	\$ 4,304	\$ 70,283

The increase in the provision for credit losses during the three months ended March 31, 2020 of \$55.3 million, compared to the January 1, 2020 cumulative-effect adjustment upon adoption of ASU 2016-13 of \$15.0 million, is primarily attributed to the

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significant adverse change in the economic outlook due to the COVID-19 pandemic. In addition, the average risk ratings of our loans increased from 2.9 as of December 31, 2019 to 3.0 as of March 31, 2020.

**Concentration of Credit Risk** — The following tables present the geographies and property types of collateral underlying KREF's commercial mortgage loans as a percentage of the loans' face amounts:

<b>Geography</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
New York	22.3%	22.5%
Illinois	9.4	9.7
Pennsylvania	9.0	9.2
Virginia	7.9	8.2
Massachusetts	7.5	7.7
California	6.8	6.9
Washington	6.7	6.9
Texas	5.6	2.5
Florida	5.3	6.9
Georgia	4.3	4.3
Minnesota	3.7	3.7
New Jersey	3.0	3.1
Colorado	3.0	2.8
Oregon	2.4	2.5
Alabama	1.2	1.2
Other U.S.	1.9	1.9
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

<b>Collateral Property Type</b>	<b>March 31, 2020</b>	<b>December 31, 2019</b>
Multifamily	56.2%	58.3%
Office	28.2	25.5
Retail	4.6	4.7
Hospitality	4.2	4.4
Condo (Residential)	2.8	3.0
Industrial	2.7	2.8
Student Housing	1.3	1.3
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

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**Note 4. Debt Obligations**

The following table summarizes KREF's secured master repurchase agreements and other financing arrangements in place as of March 31, 2020 and December 31, 2019:

Month Issued	March 31, 2020								December 31, 2019			
	Facility					Collateral			Facility			
	Outstanding Face Amount	Carrying Value(A)	Maximum Facility Size	Final Stated Maturity	Weighted Average Funding Cost(B)	Weighted Average Life (Years) (B)	Outstanding Face Amount	Amortized Cost Basis	Carrying Value	Weighted Average Life (Years)(C)	Carrying Value(A)	
<b>Master Repurchase Agreements(D)</b>												
Wells Fargo(E)	Oct 2015	\$ 468,452	\$ 465,504	\$ 1,000,000	Nov 2023	2.5%	2.4	\$ 652,850	\$ 648,616	\$ 640,202	3.8	\$ 464,933
Morgan Stanley(F)	Dec 2016	405,188	403,452	600,000	Dec 2022	2.8	2.3	544,943	541,399	537,693	4.7	392,279
Goldman Sachs(G)	Sep 2016	221,863	220,881	400,000	Oct 2020	3.2	0.6	311,385	311,021	305,483	2.5	223,867
<b>Term Lending Agreement</b>												
KREF Lending V(H)	Jun 2019	896,815	895,983	900,000	Jun 2026	2.7	2.0	1,094,762	1,087,399	1,075,115	4.1	868,816
<b>Warehouse Facility</b>												
HSBC Facility(I)	Mar 2020	45,417	44,614	500,000	Mar 2023	2.4	2.8	64,408	63,510	62,617	4.9	—
<b>Asset Specific Financing</b>												
BMO Facility(J)	Aug 2018	82,267	81,527	300,000	n.a	2.9	3.6	106,074	105,413	100,710	3.7	141,120
<b>Revolving Credit Agreement</b>												
Revolver(K)	Dec 2018	335,000	335,000	335,000	Dec 2023	3.7	3.7	n.a	n.a	n.a	n.a	—
Total / Weighted Average		\$ 2,455,002	\$ 2,446,961	\$ 4,035,000		2.8%	2.3					\$ 2,091,015

(A) Net of \$8.0 million and \$9.5 million unamortized debt issuance costs as of March 31, 2020 and December 31, 2019, respectively.

(B) Average weighted by the outstanding face amount of borrowings inclusive of deferred financing costs.

(C) Average based on the fully extended loan maturity, weighted by the outstanding face amount of the collateral.

(D) Borrowings under these repurchase agreements are collateralized by senior loans, held-for-investment, and bear interest equal to the sum of (i) a floating rate index, equal to one-month LIBOR, or an index approximating LIBOR, and (ii) a margin, based on the collateral. As of March 31, 2020 and December 31, 2019, the percentage of the outstanding face amount of the collateral sold and not borrowed under these repurchase agreements, or average "haircut" weighted by outstanding face amount of collateral, was 27.4% (or 25.7% if KREF had borrowed the maximum amount approved by its repurchase agreement counterparties as of such dates).

(E) The current stated maturity date is November 2021, which does not reflect two, twelve-month facility term extensions available to KREF, which is contingent upon certain covenants and thresholds. As of March 31, 2020, the collateral-based margin was between 1.25% and 2.15%.

(F) In February 2020, the Morgan Stanley repurchase agreement was amended to change the initial maturity to December 2020, with two one-year extension options upon giving written notice and another two one-year extension periods subject to approval by Morgan Stanley. KREF has the option to increase the facility amount to \$750.0 million. As of March 31, 2020, the collateral-based margin was between 1.75% and 1.85%.

(G) The current stated maturity date is October 30, 2020, which does not reflect KREF's option to extend the maturity date to October 31, 2022 by (i) electing to permanently reduce the maximum advance rate for each pledged loan to the lesser of 65% or the advance rate in effect for such loan at October 30, 2020, and (ii) payment of the applicable contractual fee, subject to the satisfaction of certain conditions. As of March 31, 2020, the collateral-based margin was between 1.85% and 2.00%.

(H) In June 2019, KREF Lending V LLC, a wholly-owned indirect subsidiary of KREF, entered into a Master Repurchase and Securities Contract Agreement (the "Term Lending Agreement") with Morgan Stanley Mortgage Capital Holdings LLC ("Administrative Agent"), as administrative agent on behalf of Morgan Stanley Bank, N.A. ("Initial Buyer"), which provides for current and future financings of up to \$900.0 million on a non-mark-to-market basis. The Initial Buyer subsequently syndicated a portion of the facility to multiple financial institutions. As of March 31, 2020, the Initial Buyer held 48.9% of the total commitment under the facility. Borrowings under the Term Lending Agreement are collateralized by certain loans, held for investment, and bear interest equal to one-month LIBOR, plus a 1.9% margin. The Term Lending Agreement has an initial maturity of June 2021, subject to five one-year extension options, which may be exercised by KREF upon the satisfaction of certain customary conditions and thresholds.

(I) In March 2020, KREF Lending VIII LLC, a wholly-owned indirect subsidiary of KREF, entered into a \$500.0 million Loan and Security Agreement with HSBC Bank USA, National Association ("HSBC Facility"). The facility, which matures in March 2023, provides warehouse financing on a non-mark-to-market basis with partial recourse to KREF. As of March 31, 2020, the collateral-based margin was 1.50%.

(J) In August 2018, KREF entered into a \$200.0 million loan financing facility with BMO Harris Bank ("BMO Facility"). The facility provides asset-based financing on a non-mark to market basis with matched-term up to five years with partial recourse to KREF. During May 2019, KREF increased the borrowing capacity to \$300.0 million. As of March 31, 2020, the collateral-based margin was between 1.50% and 1.70%.

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(K) In December 2018, KREF entered into a \$100.0 million corporate revolving credit facility (“Revolver”) administered by Morgan Stanley Senior Funding, Inc. Additional lenders were added in 2019 increasing the borrowing capacity to \$250.0 million and subsequently in February 2020, further increasing the borrowing capacity under the Revolver to \$335.0 million as of March 31, 2020. The current stated maturity of the facility is December 2023. Borrowings under the facility bear interest at a per annum rate equal to the sum of (i) a floating rate index and (ii) a fixed margin. Borrowings under this facility are full recourse to certain guarantor wholly-owned subsidiaries of KREF. As of March 31, 2020, the carrying value excluded \$3.1 million unamortized debt issuance costs presented as “ — Other assets” in KREF’s Condensed Consolidated Balance Sheets.

The preceding table excludes loan participations sold (Note 7).

As of March 31, 2020 and December 31, 2019, KREF had outstanding repurchase agreements and a Term Lending Agreement where the amount at risk with any individual counterparty, or group of related counterparties, exceeded 10.0% of KREF’s stockholders’ equity. The amount at risk under these agreements is the net counterparty exposure, defined as the excess of the carrying amount (or market value, if higher than the carrying amount, for repurchase agreements) of the assets sold under agreement to repurchase, including accrued interest plus any cash or other assets on deposit to secure the repurchase obligation, over the amount of the repurchase liability, adjusted for accrued interest. The following table summarizes certain characteristics of KREF’s repurchase agreements where the amount at risk with any individual counterparty, or group of related counterparties, exceeded 10.0% of KREF’s stockholders’ equity as of March 31, 2020 and December 31, 2019:

	Outstanding Face Amount	Net Counterparty Exposure	Percent of Stockholders’ Equity	Weighted Average Life (Years) <sup>(A)</sup>
<b>March 31, 2020</b>				
Wells Fargo	\$ 468,452	\$ 173,529	16.8%	2.4
Morgan Stanley	405,188	133,989	13.0	2.3
Term Lending Agreement <sup>(B)</sup>	896,815	181,356	17.6	2.0
Total / Weighted Average	<u>\$ 1,770,455</u>	<u>\$ 488,874</u>	<u>47.4%</u>	<u>2.2</u>
<b>December 31, 2019</b>				
Wells Fargo	\$ 468,452	\$ 178,827	15.9%	2.6
Morgan Stanley	394,499	136,764	12.2	2.5
Term Lending Agreement <sup>(B)</sup>	870,051	203,800	18.2	2.1
Total / Weighted Average	<u>\$ 1,733,002</u>	<u>\$ 519,391</u>	<u>46.3%</u>	<u>2.4</u>

(A) Average weighted by the outstanding face amount of borrowings under the secured financing agreement.

(B) There were multiple counterparties to the Term Lending Agreement. Morgan Stanley Bank, N.A. represented 8.6% and 8.9% of the net counterparty exposure as a percent of stockholders’ equity as of March 31, 2020 and December 31, 2019, respectively.

Debt obligations included in the tables above are obligations of KREF’s consolidated subsidiaries, which own the related collateral, and such collateral is generally not available to other creditors of KREF.

While KREF is generally not required to post margin under certain repurchase agreement terms for changes in general capital market conditions such as changes in credit spreads or interest rates, KREF may be required to post margin for changes in conditions to specific loans that serve as collateral for those repurchase agreements. Such changes may include declines in the appraised value of property that secures a loan or a negative change in the borrower’s ability or willingness to repay a loan. To the extent that KREF is required to post margin, KREF’s liquidity could be significantly impacted. Both KREF and its lenders work cooperatively to monitor the performance of the properties and operations related to KREF’s loan investments to mitigate investment-specific credit risks. Additionally, KREF incorporates terms in the loans it originates to further mitigate risks related to loan nonperformance.

### Term Loan Financing

In April 2018, KREF, through its consolidated subsidiaries, entered into a term loan financing agreement (“Term Loan Facility”) with third party lenders for an initial borrowing capacity of \$200.0 million that was subsequently increased to \$1.0 billion in October 2018. The facility provides asset-based financing on a non-mark-to-market basis with matched term up to five years and is non-recourse to KREF. Borrowings under the facility are collateralized by senior loans, held-for-investment, and bear interest equal to one-month LIBOR plus a margin. As of March 31, 2020, the weighted average margin and interest rate on the facility were 1.5% and 2.5%, respectively. As of December 31, 2019, the weighted average margin and interest rate on the facility were 1.5% and 3.2%, respectively. The following tables summarize our borrowings under the Term Loan Facility:



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**March 31, 2020**

<b>Term Loan Facility</b>	<b>Count</b>	<b>Outstanding Face Amount</b>	<b>Amortized Cost</b>	<b>Carrying Value</b>	<b>Wtd. Avg. Yield/Cost<sup>(A)</sup></b>	<b>Guarantee<sup>(B)</sup></b>	<b>Wtd. Avg. Term<sup>(C)</sup></b>
Collateral assets	13	\$ 1,183,614	\$ 1,176,148	\$ 1,161,259	L + 3.1%	n.a.	February 2024
Financing provided	n.a.	924,855	921,368	921,368	L + 1.9%	n.a.	February 2024

**December 31, 2019**

<b>Term Loan Facility</b>	<b>Count</b>	<b>Outstanding Face Amount</b>	<b>Amortized Cost</b>	<b>Carrying Value</b>	<b>Wtd. Avg. Yield/Cost<sup>(A)</sup></b>	<b>Guarantee<sup>(B)</sup></b>	<b>Wtd. Avg. Term<sup>(C)</sup></b>
Collateral assets	12	\$ 1,003,995	\$ 997,081	\$ 997,081	L + 3.0%	n.a.	November 2023
Financing provided	n.a.	798,180	793,872	793,872	L + 1.9%	n.a.	November 2023

(A) Floating rate loans and related liabilities are indexed to one-month LIBOR. KREF's net interest rate exposure is in direct proportion to its interest in the net assets indexed to that rate. In addition to cash coupon, yield/cost includes the amortization of deferred origination/financing costs.

(B) Financing under the Term Loan Facility is non-recourse to KREF.

(C) The weighted-average term is determined using the maximum maturity date of the corresponding loans, assuming all extension options are exercised by the borrower.

**Activity** — For the three months ended March 31, 2020, the activity related to the carrying value of KREF's secured financing agreements were as follows:

	<b>Secured Financing Agreements, Net</b>
<b>Balance as of December 31, 2019</b>	<b>\$ 2,884,887</b>
Principal borrowings	805,967
Principal repayments/sales/deconsolidation	(324,825)
Deferred debt issuance costs	(927)
Amortization of deferred debt issuance costs	3,227
<b>Balance as of March 31, 2020</b>	<b>\$ 3,368,329</b>

**Maturities** — KREF's secured financing agreements, term loan financing and other consolidated debt obligations in place as of March 31, 2020 had current contractual maturities as follows:

<b>Year</b>	<b>Nonrecourse</b>		<b>Recourse<sup>(A)</sup></b>		<b>Total</b>
2020	\$	561,504	\$	159,674	\$ 721,178
2021		436,116		—	436,116
2022		983,579		288,762	1,272,341
2023		359,417		378,496	737,913
2024		174,241		38,068	212,309
	\$	<u>2,514,857</u>	\$	<u>865,000</u>	\$ <u>3,379,857</u>

(A) Except for the Revolver, which is full recourse, amounts borrowed subject to a maximum 25.0% recourse limit. The Revolver expires in December 2023.

**Covenants** — KREF is required to comply with customary loan covenants and event of default provisions related to its secured financing agreements and Revolver, including, but not limited to, negative covenants relating to restrictions on operations with respect to KREF's status as a REIT, and financial covenants. Such financial covenants include an interest income to interest expense ratio covenant (1.5 to 1.0); a minimum consolidated tangible net worth covenant (75.0% of the aggregate cash proceeds of any equity issuances made and any capital contributions received by KREF and certain subsidiaries or up to approximately \$880.2 million depending upon the facility); a cash liquidity covenant (the greater of \$10.0 million or 5.0% of KREF's recourse indebtedness); and a total indebtedness covenant (75.0% of KREF's total assets, net of VIE liabilities and non-

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recourse indebtedness). As of March 31, 2020 and December 31, 2019, KREF was in compliance with its financial debt covenants.

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**Note 5. Collateralized Loan Obligation**

In November 2018, KREF financed a pool of loan participations from our existing loan portfolio through a managed CLO. KREF 2018-FL1 provides KREF with match-term financing on a non-mark-to-market and non-recourse basis. KREF 2018-FL1 has a two-year reinvestment feature that allows principal proceeds of the collateral assets to be reinvested in qualifying replacement assets, subject to the satisfaction of certain conditions set forth in the indenture.

The following tables outline KREF 2018-FL1 collateral assets and respective borrowing as of March 31, 2020 and December 31, 2019:

Collateralized Loan Obligation	March 31, 2020					
	Count	Face Amount	Amortized Cost	Carrying Value	Wtd. Avg. Yield/Cost <sup>(B)</sup>	Wtd. Avg. Term <sup>(C)</sup>
Collateral assets <sup>(A)</sup>	22	\$ 1,000,000	\$ 1,000,000	\$ 990,072	L + 2.8%	November 2023
Financing provided	1	810,000	805,008	805,008	L + 2.2%	June 2036

Collateralized Loan Obligation	December 31, 2019					
	Count	Face Amount	Amortized Cost	Carrying Value	Wtd. Avg. Yield/Cost <sup>(B)</sup>	Wtd. Avg. Term <sup>(C)</sup>
Collateral assets <sup>(A)</sup>	22	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	L + 2.8%	November 2023
Financing provided	1	810,000	803,376	803,376	L + 1.8%	June 2036

- (A) Collateral assets represent 19.5% and 20.2% of the face amount of KREF's commercial mortgage loans as of March 31, 2020 and December 31, 2019, respectively. As of March 31, 2020 and December 31, 2019, 100% of KREF loans financed through the CLO are floating rate loans.
- (B) Yield on collateral assets is based on cash coupon. Financing cost includes amortization of deferred financing costs incurred in connection with the CLO.
- (C) Loan term represents weighted-average final maturity, assuming extension options are exercised by the borrower. Repayments of CLO notes are dependent on timing of related collateral loan asset repayments post reinvestment period. The term of the CLO notes represents the rated final distribution date.

The following table presents the KREF 2018-FL1 Assets and Liabilities included in KREF's Condensed Consolidated Balance Sheets:

<u>Assets</u>	March 31, 2020	December 31, 2019
Commercial mortgage loans, held-for-investment	1,000,000	1,000,000
Less: Allowance for credit losses	(9,928)	—
Commercial mortgage loans, held-for-investment, net	990,072	1,000,000
Accrued interest receivable	3,328	3,280
Other assets	5	5
Total	<u>\$ 993,405</u>	<u>\$ 1,003,285</u>
<u>Liabilities</u>		
Collateralized loan obligation, net	805,008	803,376
Accrued interest payable	906	1,254
Accounts payable, accrued expenses and other liabilities	72	72
Total	<u>\$ 805,986</u>	<u>\$ 804,702</u>

The following table presents the components of net interest income of KREF 2018-FL1 included in KREF's Condensed Consolidated Statements of Income:

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	<b>For the Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Net Interest Income		
Interest income	\$ 11,836	\$ 14,426
Interest expense <sup>(A)</sup>	8,768	9,943
Net interest income	\$ 3,068	\$ 4,483

(A) Includes \$1.6 million and \$0.8 million of deferred financing costs amortization for the three months ended March 31, 2020 and 2019, respectively. KREF's unamortized deferred financing costs related to KREF 2018-FL1 were \$5.0 million and \$8.8 million, as of March 31, 2020 and 2019, respectively.

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**Note 6. Convertible Notes, Net**

In May 2018, the Company issued \$143.75 million of Convertible Notes, which bear interest at a rate of 6.125% per year, payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2018. The Convertible Notes mature on May 15, 2023, unless earlier repurchased or converted. The Convertible Notes' issuance costs of \$5.1 million are amortized through interest expense over the life of the Convertible Notes.

The initial conversion rate for the Convertible Notes is 43.9386 shares of KREF's common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$22.76 per share of KREF's common stock, which represents a 10% conversion premium over the last reported sale price of \$20.69 per share of KREF's common stock on the New York Stock Exchange on May 15, 2018. The conversion rate is subject to adjustment under certain circumstances. In addition, upon a make-whole fundamental change as defined within the indenture governing the Convertible Notes, the Company will, under certain circumstances, increase the applicable conversion rate for a holder that elects to convert its Notes in connection with such make-whole fundamental change. Prior to February 15, 2023, the Convertible Notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. KREF will satisfy any conversion elections by paying or delivering, as the case may be, cash, shares of KREF's common stock or a combination of cash and shares of KREF's common stock, at its election. KREF has the intent and ability to settle the Convertible Notes in cash and, as a result, the Convertible Notes did not have an impact on our diluted earnings per share.

Upon the issuance of the Convertible Notes, KREF recorded a \$1.8 million discount based on the implied value of the conversion option and an assumed effective interest rate of 6.50%, as well as \$5.1 million of initial issuance costs, inclusive of the \$0.8 million paid to an affiliate of KREF. Inclusive of the amortization of this discount and the issuance costs, KREF's total cost of the May 2018 Convertible Notes issuance is 6.92% per annum.

The following table details our interest expense related to the Convertible Notes:

	<b>For the Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Cash coupon	\$ 2,201	\$ 2,201
Discount and issuance cost amortization	346	342
<b>Total interest expense</b>	<b>2,547</b>	<b>2,543</b>

The following table details the net book value of our Convertible Notes on our Condensed Consolidated Balance Sheets:

	<b>March 31, 2020</b>		<b>December 31, 2019</b>	
Face value	\$	143,750	\$	143,750
Deferred financing costs		(3,205)		(3,460)
Unamortized discount		(1,125)		(1,215)
<b>Net book value</b>	<b>\$</b>	<b>139,420</b>	<b>\$</b>	<b>139,075</b>

Accrued interest payable for the Convertible Notes was \$3.3 million and \$1.1 million as of March 31, 2020 and December 31, 2019, respectively. Refer to Note 2 for additional discussion of our accounting policies for the Convertible Notes.

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**Note 7. Loan Participations Sold**

KREF finances certain loan investments through the syndication of a non-recourse, or limited-recourse, loan participation to unaffiliated third parties. In October 2019, KREF syndicated a \$65.0 million vertical participation in one of its loan investments with a principal balance of \$328.5 million to an unaffiliated third party, at par value. Such syndication did not qualify for "sale" accounting under GAAP and therefore is consolidated in KREF's condensed consolidated financial statements as of March 31, 2020 and December 31, 2019.

The following tables summarize the loan participation sold liabilities that KREF recognized since the corresponding syndications of the respective loan participations were not treated as "sales" as of March 31, 2020 and December 31, 2019:

<b>March 31, 2020</b>							
<b>Loan Participations Sold</b>	<b>Count</b>	<b>Principal Balance</b>	<b>Amortized Cost</b>	<b>Carrying Value</b>	<b>Yield/Cost<sup>(A)</sup></b>	<b>Guarantee</b>	<b>Term</b>
Total loan	1	\$ 329,576	\$ 328,117	\$ 325,724	L + 2.5%	n.a.	July 2024
Vertical loan participation <sup>(B)</sup>	1	65,000	64,972	64,972	L + 2.5%	n.a.	July 2024

<b>December 31, 2019</b>							
<b>Loan Participations Sold</b>	<b>Count</b>	<b>Principal Balance</b>	<b>Amortized Cost</b>	<b>Carrying Value</b>	<b>Yield/Cost<sup>(A)</sup></b>	<b>Guarantee</b>	<b>Term</b>
Total loan	1	\$ 328,500	\$ 326,881	\$ 326,881	L + 2.5%	n.a.	July 2024
Vertical loan participation <sup>(B)</sup>	1	65,000	64,966	64,966	L + 2.5%	n.a.	July 2024

(A) Floating rate loans and related liabilities are indexed to one-month LIBOR. KREF's net interest rate exposure is in direct proportion to its interest in the net assets of the senior loan.

(B) During the three months ended March 31, 2020 and 2019, KREF recorded \$0.7 million and \$0.6 million of interest income and \$0.7 million and \$0.7 million of interest expense, respectively, related to the total loan participations sold.

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**Note 8. Variable Interest Entities**

**Collateralized Loan Obligation** — KREF is the primary beneficiary of a collateralized loan obligation consolidated as a VIE that closed in November 2018 (Note 5). Management considers the CLO Issuers, wholly-owned subsidiaries of KREF, to be the primary beneficiary as the CLO Issuers have the ability to control the most significant activities of the CLO, the obligation to absorb losses, and the right to receive benefits of the CLO through the subordinate interests the CLO Issuers own.

**Equity method investments** — KREF holds two investments in entities that it records using the equity method.

As of March 31, 2020, KREF held a 3.5% interest in RECOP I, an unconsolidated VIE of which KREF is not the primary beneficiary, at its fair value of \$34.2 million. The aggregator vehicle in which KREF invests is controlled and advised by affiliates of the Manager. RECOP I intends to primarily acquire junior tranches of CMBS newly issued by third parties but may also make purchases on the secondary market. KREF will not pay any fees to RECOP I, but KREF bears its pro rata share of RECOP I's expenses. KREF reported its share of the net asset value of RECOP I in its Condensed Consolidated Balance Sheets, presented as "Equity method investments" and its share of net income, presented as "Income from equity method investments" in the Condensed Consolidated Statements of Income.

As of March 31, 2020, the non-voting limited liability company interests issued by the Manager, a VIE, and held by a Taxable REIT Subsidiary ("TRS") of KREF for the benefit of the holder of the SNVPS represented 4.7% of the Manager's outstanding limited liability company interests (Note 9). KREF reported its allocable percentage of the assets and liabilities of the Manager in its Condensed Consolidated Balance Sheets, presented as "Equity method investments" and its share of net income, presented as "Income from equity method investments" in the Condensed Consolidated Statements of Income.

**CMBS** — KREF beneficially owned and directly held CMBS with an unpaid principal balance and fair value of \$34.9 million and \$12.5 million, respectively, as of December 31, 2018. During the three months ended September 30, 2019, KREF sold its remaining directly held CMBS investments, comprised of (i) a controlling beneficial interest in a CMBS trust held and (ii) interest-only bonds, for \$9.8 million, resulting in a net loss of \$2.7 million, which is included in "Other Income - (Loss) gain on sale of investments" in the accompanying Condensed Consolidated Statements of Income. Consequently, KREF deconsolidated the respective CMBS trust upon sale.

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**Note 9. Equity**

**Authorized Capital** — On October 2, 2014, KREF's board of directors authorized KREF to issue up to 350,000,000 shares of stock, at \$0.01 par value per share, consisting of 300,000,000 shares of common stock and 50,000,000 shares of preferred stock, subject to certain restrictions on transfer and ownership of shares. Restrictions placed on the transfer and ownership of shares relate to KREF's REIT qualification requirements.

**Common Stock** — As further described below, since December 2015, KREF issued the following shares of common stock:

Pricing Date	Shares Issued	Net Proceeds
<b>As of December 31, 2015</b>	<b>13,636,416</b>	<b>\$ 272,728</b>
February 2016	2,000,000	40,000
May 2016	3,000,138	57,130
June 2016 <sup>(A)</sup>	21,838	—
August 2016	5,500,000	109,875
<b>As of December 31, 2016</b>	<b>24,158,392</b>	<b>479,733</b>
February 2017	7,386,208	147,662
April 2017	10,379,738	207,595
May 2017- Initial Public Offering	11,787,500	219,356
<b>As of December 31, 2017</b>	<b>53,711,838</b>	<b>1,054,346</b>
August 2018	5,000,000	98,326
November 2018	500,000	9,351
<b>As of December 31, 2018</b>	<b>59,211,838</b>	<b>1,162,023</b>

(A) KREF did not receive any proceeds with respect to 21,838 shares of common stock issued to certain current and former employees of, and non-employee consultants to, KKR and third-party investors in the private placement completed in March 2016, in accordance with KREF's Stockholders Agreement dated as of March 29, 2016.

KREF did not issue additional common stock between January 1, 2019 and March 31, 2020.

In March 2016, KREF obtained \$277.4 million of capital commitments in connection with the completion of a private placement priced at \$20.00 per share. Of these capital commitments, \$190.1 million consisted of approximately \$178.4 million from third parties and approximately \$11.8 million from certain current and former employees of, and non-employee consultants to, KKR. KKR committed a total of \$400.0 million and third parties committed a total of \$248.0 million subsequent to the private placement completion. In connection with the completion of the private placement, KREF formed an advisory board consisting of certain third-party investors. The advisory board possessed certain protective approval rights over KREF's activities outside its ordinary course of business, including certain business combinations and equity issuances. The advisory board dissolved upon KREF's public listing on May 5, 2017.

In February 2017 and April 2017, KREF called a portion of capital from investors in the private placements closed during the year ended December 31, 2016 and issued 7,386,208 and 10,379,738 common shares, at \$20.00 per share, for net proceeds of \$147.7 million and \$207.6 million, respectively.

In connection with the capital commitments described above, third-party investors and certain current and former employees of, and non-employee consultants to, KKR were allocated non-voting limited liability company interests of the Manager. For each \$100.0 million shares of KREF's common stock acquired by investors through the private placement, the investors were allocated non-voting limited liability company interests, representing 6.67% of the Manager's then-outstanding total limited liability company interests. Each investor was allocated its pro rata share of the non-voting limited liability company interests of the Manager based on the investor's shares of KREF's common stock.

In May 2017, KREF completed its initial public offering of 11,787,500 shares of its common stock at a price to the public of \$20.50 per share, which included 1,537,500 shares of common stock issued in connection with the underwriters' exercise in full of their option to purchase additional shares. The value of KREF's common stock prior to its listing on the New York Stock Exchange was based upon its equity value using a combination of net asset value (market) and discounted cash flow (income) approaches.



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In August 2018, KREF completed an underwritten public offering of 5,000,000 shares of its common stock at \$19.90 per share, less applicable transaction costs, resulting in \$98.3 million in net proceeds.

In November 2018, KREF completed an underwritten offering of 4,500,000 shares of its common stock at \$20.00 per share, consisting of 500,000 shares issued and sold by KREF and 4,000,000 shares sold by pre-initial public offering third-party investors, resulting in \$9.4 million in net proceeds to KREF.

As of March 31, 2020 and December 31, 2019, KKR beneficially owned 22,008,616 shares of KREF's common stock, of which 2,008,616 shares were held by KKR on behalf of a third-party investor (Note 1).

During the three months ended March 31, 2020 and 2019, no shares of common stock were issued related to the vesting of restricted stock units. Upon any payment of shares as a result of restricted stock unit vesting, the related tax withholding obligation will generally be satisfied by KREF, reducing the number of shares to be delivered by a number of shares necessary to satisfy the related applicable tax withholding obligation. Refer to Note 10 for further detail.

Of the 59,211,838 common shares KREF issued, there were 55,838,032 common shares outstanding as of March 31, 2020, which includes 137,434 net shares of common stock issued in connection with vested restricted stock units and is net of 3,511,240 common shares repurchased as of March 31, 2020.

**Share Repurchase Program** — On June 14, 2019, KREF's board of directors approved an extension of its existing share repurchase program. The share repurchase program, as extended, permits us to repurchase up to \$100.0 million in shares of KREF's common stock during the period from July 1, 2019 through June 30, 2020. Of this total authorized amount, \$50.0 million may be covered by a pre-set trading plan meeting the requirements of Rule 10b5-1 under the Exchange Act that provides for repurchases of our common stock when the market price per share of our common stock is below book value per share (calculated in accordance with GAAP as of the end of the most recent period for which financial statements are available), and the remaining \$50.0 million may be used for repurchases in the open market, or pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Exchange Act, or in privately negotiated transactions, or otherwise. During the year ended December 31, 2019, KREF repurchased 212,809 shares of common stock under the repurchase program at an average price per share of \$19.25 for a total of \$4.1 million.

During the three months ended March 31, 2020, KREF repurchased 1,648,551 shares of common stock under the repurchase program at an average price per share of \$11.64 for a total of \$19.2 million. In addition, KREF repurchased 262,492 shares of common stock at an average price per share of \$15.24 for a total of \$4.0 million, which settled subsequent to March 31, 2020. Payments for these shares are presented within "Payments to reacquire common stock" on the Condensed Consolidated Statements of Cash Flows. The unsettled shares are presented within "Other assets" on the Condensed Consolidated Balance Sheets.

**At the Market Stock Offering Program** — On February 22, 2019, KREF entered into an equity distribution agreement with certain sales agents, pursuant to which KREF may sell, from time to time, up to an aggregate sales price of \$100.0 million of its common stock pursuant to a continuous offering program (the "ATM"). Sales of KREF's common stock made pursuant to the ATM may be made in negotiated transactions or transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, as amended. The timing and amount of actual sales will depend on a variety of factors including market conditions, the trading price of KREF's common stock, KREF's capital needs, and KREF's determination of the appropriate sources of funding to meet such needs. KREF did not sell any shares of its common stock under the ATM during the three months ended March 31, 2020.

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**Dividends** — During the three months ended March 31, 2020 and 2019, KREF's board of directors declared the following dividends on shares of its common stock and special voting preferred stock:

Declaration Date	Record Date	Payment Date	Amount	
			Per Share	Total
<b>2020</b>				
March 16, 2020	March 31, 2020	April 15, 2020	\$ 0.43	\$ 24,010
				\$ 24,010
<b>2019</b>				
March 18, 2019	March 29, 2019	April 12, 2019	\$ 0.43	\$ 24,761
				\$ 24,761

**Special Voting Preferred Stock** — In March 2016, KREF issued one share of special voting preferred stock to KKR Fund Holdings L.P. ("KKR Fund Holdings") for \$20.00 per share, which KKR Fund Holdings transferred to its subsidiary, KKR REFT Asset Holdings LLC. The holder of the special voting preferred stock has special voting rights related to the election of members to KREF's board of directors until KKR and its affiliates cease to own at least 25.0% of KREF's issued and outstanding common stock (of which 2,008,616 shares were held on behalf of a third-party investor). KKR and its affiliates beneficially owned 22,008,616 shares of KREF's common stock, representing 39.4% and 38.3% of KREF's issued and outstanding common stock as of March 31, 2020 and December 31, 2019, respectively.

**Special Non-Voting Preferred Stock** — In connection with KREF's existing investors' subscription for shares of KREF's common stock in the private placements prior to the initial public offering of KREF's equity on May 5, 2017, those investors were also allocated a class of non-voting limited liability company interest in the Manager ("Non-Voting Manager Units"). In February 2017, KREF issued an investor one share of SNVPS, at \$0.01 per share, in lieu of that investor receiving Non-Voting Manager Units to facilitate compliance by the investor with regulatory requirements applicable to it. The corresponding Non-Voting Manager Units are held by a wholly-owned TRS of KREF ("KREF TRS"). All distributions received by KREF TRS from these Non-Voting Manager Units are passed through to the investor as preferred distributions on its SNVPS, less applicable taxes and withholdings. Except for the Non-Voting Manager Units, an indirect subsidiary of KKR ("KKR Member"), owns and controls the limited liability company interests of the Manager.

Dividends on the SNVPS are payable quarterly, and will accrue whether or not KREF has earnings, there are assets legally available for the payment of those dividends or those dividends have been declared. Any dividend payment made on the SNVPS shall first be credited against the earliest accumulated but unpaid dividend due with respect to the SNVPS. Upon redemption of the SNVPS or liquidation of KREF, the holder of the SNVPS is entitled to payment of \$0.01 per share, together with any accumulated but unpaid preferred distributions, including respective call or put amounts (as defined), before any holder of junior security interests, which includes KREF's common stock. As KREF does not control the circumstances under which the holder of the SNVPS may redeem its interests, management considers the SNVPS as temporary equity (Note 2).

KREF will redeem the SNVPS at the option of the holder. Upon redemption, KREF will pay a price in cash equal to \$0.01 per share of the SNVPS, together with any accumulated but unpaid preferred distributions, including respective call or put amounts (as defined), and the SNVPS will be canceled automatically and cease to be outstanding. Concurrently, upon redemption of the SNVPS, KKR Member will acquire from KREF TRS its respective Non-Voting Manager Units, resulting in a one-time gain, thus substantially eliminating the historical cumulative impact of the SNVPS redemption value adjustments recorded in KREF's permanent equity.

**Earnings (Loss) per Share** — The following table illustrates the computation of basic and diluted earnings (loss) per share for the three months ended March 31, 2020 and 2019:

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	Three Months Ended March 31,	
	2020	2019
<b>Numerator</b>		
Net income (loss) attributable to common stockholders	\$ (35,164)	\$ 24,705
<b>Denominator</b>		
Basic weighted average common shares outstanding	57,346,726	57,387,386
Dilutive restricted stock units	—	89,848
Diluted weighted average common shares outstanding	57,346,726	57,477,234
Net income (loss) attributable to common stockholders, per:		
Basic common share	\$ (0.61)	\$ 0.43
Diluted common share	\$ (0.61)	\$ 0.43

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**Note 10. Stock-based Compensation**

KREF is externally managed by the Manager and does not currently have any employees. However, as of March 31, 2020, the Manager, certain individuals employed by the Manager and affiliates of the Manager, and certain members of KREF's board of directors were compensated, in part, through the issuance of stock-based awards.

As of March 31, 2020, KREF had restricted stock unit ("RSU") awards outstanding under the KKR Real Estate Finance Trust Inc. 2016 Omnibus Incentive Plan that was adopted on February 12, 2016 and amended and restated on November 17, 2016 (the "Incentive Plan") to certain members of KREF's board of directors and employees of the Manager or its affiliates, none of whom are KREF employees. RSUs awarded to employees of the Manager or its affiliates, generally vest over three consecutive one-year periods and awards to certain members of KREF's board of directors vest over a one-year period, pursuant to the terms of the respective award agreements and the terms of the Incentive Plan. RSU awards are not entitled to dividends until KREF issues shares of its common stock, which are issuable on a one-to-one basis upon the RSU award vesting.

The following table summarizes the activity in KREF's outstanding RSUs and the weighted-average grant date fair value per RSU:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per RSU <sup>(A)</sup>
<b>Unvested as of December 31, 2019</b>	641,214	\$ 20.02
Granted	—	—
Vested	—	—
Forfeited/ cancelled	(739)	19.46
<b>Unvested as of March 31, 2020</b>	<b>640,475</b>	<b>\$ 20.02</b>

(A) The grant-date fair value is based upon the last sale price of KREF's common stock at the date of grant.

KREF expects the unvested RSUs outstanding to vest during the following years:

Year	Restricted Stock Units
2020	291,676
2021	232,133
2022	116,666
Total	640,475

Upon adoption of ASU No. 2018-07 in June 2018, KREF recognizes the compensation cost of RSUs awarded to employees of the Manager, or one or more of its affiliates, on a straight-line basis over the awards' term at their grant date fair value, consistent with the RSUs awarded to certain members of KREF's board of directors.

During the three months ended March 31, 2020 and 2019, KREF recognized \$1.6 million and \$1.0 million, respectively, of stock-based compensation expense included in "General and administrative" expense in the Condensed Consolidated Statements of Income. As of March 31, 2020, there was \$9.7 million of total unrecognized stock-based compensation expense related to unvested share-based compensation arrangements. This cost is expected to be recognized over a weighted average period of 1.2 years.

Upon any payment of shares as a result of restricted stock unit vesting, the related tax withholding obligation will generally be satisfied by KREF, reducing the number of shares to be delivered by a number of shares necessary to satisfy the related applicable tax withholding obligation. The amount results in a cash payment related to this tax liability and a corresponding adjustment to additional paid in capital in the Condensed Consolidated Statement of Changes in Stockholders' Equity. No shares were delivered for vested RSUs during the three months ended March 31, 2020.

Refer to Note 12 for additional information regarding the Incentive Plan.

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**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(dollars in tables in thousands, except per share amounts)

**Note 11. Commitments and Contingencies**

As of March 31, 2020, KREF was subject to the following commitments and contingencies:

**Litigation** — From time to time, KREF may be involved in various claims and legal actions arising in the ordinary course of business. KREF establishes an accrued liability for legal proceedings only when those matters present loss contingencies that are both probable and reasonably estimable.

As of March 31, 2020, KREF was not involved in any material legal proceedings regarding claims or legal actions against KREF.

**Indemnifications** — In the normal course of business, KREF enters into contracts that contain a variety of representations and warranties that provide general indemnifications and other indemnities relating to contractual performance. In addition, certain of KREF's subsidiaries have provided certain indemnities relating to environmental and other matters and has provided nonrecourse carve-out guarantees for fraud, willful misconduct and other customary wrongful acts, each in connection with the financing of certain real estate investments that KREF has made. KREF's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against KREF that have not yet occurred. However, KREF expects the risk of material loss to be low.

**Capital Commitments** — As of March 31, 2020, KREF had future funding requirements of \$592.8 million related to its investments in commercial mortgage loans. These future funding commitments primarily relate to construction projects, capital improvements, tenant improvements and leasing commissions. Generally, funding commitments are subject to certain conditions that must be met, such as customary construction draw certifications, minimum credit metrics or executions of new leases before advances are made to the borrower.

In January 2017, KREF committed \$40.0 million to invest in an aggregator vehicle alongside RECOP I. The two-year investment period for RECOP I ended in April 2019. As of March 31, 2020, KREF had a remaining commitment of \$4.3 million to RECOP I.

**Impact of the COVID-19 Pandemic** — Due to the current COVID-19 pandemic in the United States and globally, KREF's operating partners, borrowers and their tenants, the properties securing our investments, and the economy as a whole have been, and will continue to be, adversely impacted. The magnitude and duration of the COVID-19 pandemic and its impact on KREF's borrowers and their tenants, cash flows and future results of operations could be significant and will largely depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic, the success of actions taken to contain or treat the pandemic, and reactions by consumers, companies, governmental entities and capital markets. The prolonged duration and impact of the COVID-19 pandemic could materially disrupt KREF's business operations and impact its financial performance.

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**Note 12. Related Party Transactions**

**Management Agreement** — The Management Agreement between KREF and the Manager is a three-year agreement that provides for automatic one-year renewal periods starting October 8, 2017, subject to certain termination and nonrenewal rights, which in the case of KREF are exercisable by a two-thirds vote by the independent directors of KREF's board of directors. If the independent directors of KREF's board of directors decline to renew the Management Agreement other than for cause, KREF is required to pay the Manager a termination fee equal to three times the total 24-month trailing average annual management fee and incentive compensation earned by the Manager through the most recently completed calendar quarter. For administrative efficiency purposes, the Management Agreement was amended in August 2019 to change the expiration date of each automatic renewal period from October 7th to December 31st.

Pursuant to the Management Agreement, the Manager, as agent to KREF and under the supervision of KREF's board of directors, manages the investments, subject to investment guidelines approved by KREF's board of directors; financing activities; and day-to-day business and affairs of KREF and its subsidiaries.

For its services to KREF, the Manager is entitled to a quarterly management fee equal to the greater of \$62,500 or 0.375% of a weighted average adjusted equity and quarterly incentive compensation equal to 20.0% of the excess of (a) the trailing 12-month adjusted earnings over (b) 7.0% of the trailing 12-month weighted average adjusted equity ("Hurdle Rate"), less incentive compensation KREF already paid to the Manager with respect to the first three calendar quarters of such trailing 12-month period. The quarterly incentive compensation is calculated and paid in arrears with a three months lag.

Adjusted equity generally represents the proceeds received by KREF and its subsidiaries from equity issuances, without duplication and net of offering costs, and core earnings, reduced by distributions, equity repurchases, and incentive compensation paid. Core Earnings generally represent the net income, or loss, attributable to equity interests in KREF and its subsidiaries, without duplication, as well as realized losses not otherwise included in such net income, or loss, excluding non-cash equity compensation expense, incentive compensation, depreciation and amortization and unrealized gains or losses, from and after the effective date to the end of the most recently completed calendar quarter. KREF's board of directors, after majority approval by independent directors, may also exclude one-time events pursuant to changes in GAAP and certain material non-cash income or expense items from adjusted earnings. For purposes of calculating incentive compensation, both adjusted equity and adjusted earnings exclude the effects of equity issued by KREF and its subsidiaries that provides for fixed distributions or other debt characteristics.

KREF is also required to reimburse the Manager or its affiliates for documented costs and expenses incurred by it and its affiliates on behalf of KREF except those specifically required to be borne by the Manager under the Management Agreement. The Manager is responsible for, and KREF does not reimburse the Manager or its affiliates for, the expenses related to investment personnel of the Manager and its affiliates who provide services to KREF. However, KREF does reimburse the Manager for KREF's allocable share of compensation paid to certain of the Manager's non-investment personnel, based on the percentage of time devoted by such personnel to KREF's affairs.

**Incentive Plan** — KREF's compensation committee or board of directors may administer the Incentive Plan, which provides for awards of stock options; stock appreciation rights; restricted stock; RSUs; limited partnership interests of KKR Real Estate Finance Holdings L.P. (the "Operating Partnership"), a wholly owned subsidiary of KREF, that are directly or indirectly convertible into or exchangeable or redeemable for shares of KREF's common stock pursuant to the limited partnership agreement of the Operating Partnership ("OP Interests"); awards payable by (i) delivery of KREF's common stock or other equity interests, or (ii) reference to the value of KREF's common stock or other equity interests, including OP Interests; cash-based awards; or performance compensation awards.

No more than 7.5% of the issued and outstanding shares of common stock on a fully diluted basis, assuming the exercise of all outstanding stock options granted under the Incentive Plan and the conversion of all warrants and convertible securities into shares of common stock, or a total of 4,028,387 shares of common stock, will be available for awards under the Incentive Plan. In addition, (i) the maximum number of shares of common stock subject to awards granted during a single fiscal year to any non-employee director (as defined in the Incentive Plan), taken together with any cash fees paid to such non-employee director during the fiscal year, may not exceed \$1.0 million and (ii) the maximum amount that can be paid to any participant for a single fiscal year during a performance period (or with respect to each single fiscal year if a performance period extends beyond a single fiscal year) pursuant to a performance compensation award denominated in cash will be \$10.0 million.

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No awards may be granted under the Incentive Plan on and after February 12, 2026. The Incentive Plan will continue to apply to awards granted prior to such date. During the three months ended March 31, 2020 and 2019, no awards were granted to KREF's directors and employees of the Manager. As of March 31, 2020, 3,250,478 shares of common stock remained available for awards under the Incentive Plan.

**Due to Affiliates** — The following table contains the amounts presented in KREF's Condensed Consolidated Balance Sheets that it owes to affiliates:

	March 31, 2020	December 31, 2019
Management fees	\$ 4,299	\$ 4,280
Expense reimbursements and other	723	1,637
	<u>\$ 5,022</u>	<u>\$ 5,917</u>

**Affiliates Expenses** — The following table contains the amounts included in KREF's Condensed Consolidated Statements of Income that arose from transactions with the Manager:

	Three Months Ended March 31,	
	2020	2019
Management fees	\$ 4,299	\$ 4,287
Incentive compensation	1,606	953
Expense reimbursements and other <sup>(A)</sup>	299	365
	<u>\$ 6,204</u>	<u>\$ 5,605</u>

(A) KREF presents these amounts in "Operating Expenses — General and administrative" in its Condensed Consolidated Statements of Income. Affiliate expense reimbursements presented in the table above exclude the out-of-pocket amounts paid by the Manager to parties unaffiliated with the Manager on behalf of KREF, and for which KREF reimburses the Manager in cash. For the three months ended March 31, 2020 and 2019, these cash reimbursements totaled \$1.5 million and \$0.5 million, respectively.

In connection with the Term Loan Facility (Note 4), KREF paid KKR Capital Markets ("KCM"), an affiliate of the Manager, a structuring fee equal to 0.75% of the respective committed loan advances, as defined. Such fees are capitalized as deferred financing cost and amortized to interest expense over the life of the facility. During the three months ended March 31, 2020 and 2019, KREF incurred \$0.0 million and \$1.5 million, respectively, in structuring fees in connection with the facility.

In connection with the BMO Facility, and in consideration for structuring and sourcing this arrangement, KREF is obligated to pay KCM a structuring fee equal to 0.35% of the respective committed loan advances under the agreement. Such fees are capitalized as deferred financing cost and amortized to interest expense over the life of the facility. During the three months ended March 31, 2020 and 2019, KREF incurred \$0.0 million and \$0.2 million, respectively, in structuring fees in connection with the facility.

In connection with the CLO issuance, and in consideration for its services as the co-placement agent, KREF incurred and paid KCM a \$0.9 million placement agent fee equal to 0.105% of the CLO proceeds in the fourth quarter of 2018. The fee was capitalized as deferred financing cost and amortized to interest expense over the estimated life of the CLO.

In connection with the Revolver, and in consideration for structuring and sourcing this arrangement, KREF paid KCM a structuring fee equal to 0.75% of the aggregate amount of commitments first made available. The structuring fees are capitalized as deferred financing cost included within Other Assets in the Condensed Consolidated Balance Sheet and amortized to interest expense over the life of the Revolver. During the three months ended March 31, 2020 and 2019, KREF incurred \$0.6 million and \$0.3 million, respectively, in structuring fees in connection with the Revolver.

In connection with the ATM, KCM, in its capacity as one of the sales agents, will receive commissions for the shares of KREF's common stock it sells. This amount is not to exceed, but may be less than, 2.0% of the gross sales price per share. KREF did not sell any shares under the ATM during the three months ended March 31, 2020.

In connection with the HSBC Facility, and in consideration for structuring and sourcing this arrangement, KREF is obligated to pay KCM a structuring fee equal to 0.25% of the respective committed loan advances under the agreement. Such fees are capitalized as deferred financing cost and amortized to interest expense over the lesser of the initial term of the loan or the

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facility. During the three months ended March 31, 2020, KREF incurred and paid KCM \$0.1 million in structuring fees in connection with the facility.



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**Note 13. Fair Value of Financial Instruments**

The carrying values and fair values of KREF's financial assets and liabilities recorded at fair value on a recurring basis, as well as other financial instruments not carried at fair value, as of March 31, 2020 were as follows:

	Principal Balance <sup>(A)</sup>	Amortized Cost <sup>(B)</sup>	Carrying Value <sup>(C)</sup>	Fair Value			
				Level 1	Level 2	Level 3	Total
<b>Assets</b>							
Cash and cash equivalents	\$ 369,867	\$ 369,867	\$ 369,867	\$ 369,867	\$ —	\$ —	\$ 369,867
Commercial mortgage loans, held-for-investment, net <sup>(D)</sup>	5,118,199	5,089,968	5,023,989	—	—	4,956,766	4,956,766
Equity method investments	34,441	34,441	34,441	—	—	34,441	34,441
	<u>\$ 5,522,507</u>	<u>\$ 5,494,276</u>	<u>\$ 5,428,297</u>	<u>\$ 369,867</u>	<u>\$ —</u>	<u>\$ 4,991,207</u>	<u>\$ 5,361,074</u>
<b>Liabilities</b>							
Secured financing agreements, net	\$ 3,379,857	\$ 3,368,329	\$ 3,368,329	\$ —	\$ —	\$ 3,379,857	\$ 3,379,857
Collateralized loan obligation, net	810,000	805,008	805,008	—	—	770,497	770,497
Convertible notes, net	143,750	139,420	139,420	121,956	—	—	121,956
Loan participations sold, net	65,000	64,972	64,972	—	—	64,972	64,972
	<u>\$ 4,398,607</u>	<u>\$ 4,377,729</u>	<u>\$ 4,377,729</u>	<u>\$ 121,956</u>	<u>\$ —</u>	<u>\$ 4,215,326</u>	<u>\$ 4,337,282</u>

(A) The principal balance of commercial mortgage loans excludes premiums and unamortized discounts.

(B) The amortized cost of commercial mortgage loans is net of \$28.2 million unamortized origination discounts and deferred nonrefundable fees. The amortized cost of secured financing agreements is net of \$11.5 million unamortized debt issuance costs. The amortized cost of collateralized loan obligations is net of \$5.0 million unamortized debt issuance costs.

(C) The carrying value of commercial mortgage loans is net of \$66.0 million allowance for credit losses.

(D) Includes \$1.0 billion of CLO loan participations as of March 31, 2020. Includes senior loans for which KREF syndicated a vertical loan participation that did not qualify for sale accounting under GAAP, with a carrying value and a fair value of \$65.0 million as of March 31, 2020.

The carrying values and fair values of KREF's financial assets recorded at fair value on a recurring basis, as well as other financial instruments for which fair value is disclosed, as of December 31, 2019 were as follows:

	Principal Balance <sup>(A)</sup>	Amortized Cost <sup>(B)</sup>	Carrying Value	Fair Value			
				Level 1	Level 2	Level 3	Total
<b>Assets</b>							
Cash and cash equivalents	\$ 67,619	\$ 67,619	\$ 67,619	\$ 67,619	\$ —	\$ —	\$ 67,619
Commercial mortgage loans, held-for-investment, net <sup>(C)</sup>	4,960,698	4,931,042	4,931,042	—	—	4,937,808	4,937,808
Equity method investments	37,469	37,469	37,469	—	—	37,469	37,469
	<u>\$ 5,065,786</u>	<u>\$ 5,036,130</u>	<u>\$ 5,036,130</u>	<u>\$ 67,619</u>	<u>\$ —</u>	<u>\$ 4,975,277</u>	<u>\$ 5,042,896</u>
<b>Liabilities</b>							
Secured financing agreements, net	\$ 2,898,716	\$ 2,884,887	\$ 2,884,887	\$ —	\$ —	\$ 2,898,716	\$ 2,898,716
Collateralized loan obligation, net	810,000	803,376	803,376	—	—	810,867	810,867
Convertible notes, net	143,750	139,075	139,075	150,719	—	—	150,719
Loan participations sold, net	65,000	64,966	64,966	—	—	64,966	64,966
	<u>\$ 3,917,466</u>	<u>\$ 3,892,304</u>	<u>\$ 3,892,304</u>	<u>\$ 150,719</u>	<u>\$ —</u>	<u>\$ 3,774,549</u>	<u>\$ 3,925,268</u>

(A) The principal balance of commercial mortgage loans excludes premiums and unamortized discounts.

(B) The amortized cost of commercial mortgage loans is presented net of \$29.7 million unamortized origination discounts and deferred nonrefundable fees. The amortized cost of secured financing agreements is presented net of \$13.8 million unamortized debt issuance costs. The amortized cost of collateralized loan obligations is presented net of \$6.6 million unamortized debt issuance costs.

(C) Includes \$1.0 billion of CLO loan participations as of December 31, 2019. Includes senior loans for which KREF syndicated a vertical loan participation that did not qualify for sale accounting under GAAP, with a carrying value and a fair value of \$65.0 million as of December 31, 2019.

During the three months ended March 31, 2020, KREF received a distribution of \$0.9 million and recorded a loss of \$2.2

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million related to its investment in RECOP I, which includes a \$3.0 million unrealized mark-to-market loss.

The following table contains the Level 3 inputs used to value assets and liabilities on a recurring and nonrecurring basis or where KREF discloses fair value as of March 31, 2020:

	Fair Value	Valuation Methodologies	Unobservable Inputs <sup>(A)</sup>	Weighted Average <sup>(B)</sup>	Range
<b>Assets<sup>(C)</sup></b>					
Commercial mortgage loans, held-for-investment <sup>(D)</sup>	\$4,956,766	Discounted cash flow	Discount rate	4.8%	3.7% - 12.7%
			Loan-to-value ratio	N/A	N/A
	<u>\$4,956,766</u>				
<b>Liabilities<sup>(E)</sup></b>					
Collateralized loan obligation, net	\$770,497	Discounted cash flow	Yield	3.7%	2.8% - 9.0%
	<u>\$770,497</u>				

(A) An increase (decrease) in the valuation input results in a decrease (increase) in value.

(B) Represents the average of the input value, weighted by the unpaid principal balance of the financial instrument.

(C) KREF carries a \$34.2 million investment in an aggregator vehicle alongside RECOP I (Note 8) at its pro rata share of the aggregator's net asset value, which management believes approximates fair value.

(D) Commercial mortgage loans are generally valued using a discounted cash flow model using discount rate derived from relevant market indices and/or estimates of the underlying property's value.

(E) Does not include \$65.0 million of vertical loan syndication which was syndicated at par value and included in "Loan participation sold, net" in the accompanying Condensed Consolidated Balance Sheet.

***Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

Certain assets not measured at fair value on an ongoing basis but subject to fair value adjustments only in certain circumstances, such as when there is evidence of impairment, are measured at fair value on a nonrecurring basis. For commercial mortgage loans held-for-sale, KREF applies the lower of cost or fair value accounting and may be required, from time to time, to record a nonrecurring fair value adjustment. For commercial mortgage loans held-for-investment and preferred interest in joint venture held-to-maturity, KREF applies the amortized cost method of accounting, but may be required, from time to time, to record a nonrecurring fair value adjustment in the form of a valuation provision or impairment. KREF did not report any significant financial assets or liabilities at fair value on a nonrecurring basis as of March 31, 2020 or December 31, 2019.

***Assets and Liabilities for Which Fair Value is Only Disclosed***

KREF does not carry its secured financing agreements at fair value as management did not elect the fair value option for these liabilities. As of March 31, 2020, the fair value of KREF's financing facilities approximated their respective outstanding principal balances.

**Note 14. Income Taxes**

KREF has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with its taxable year ended December 31, 2014. A REIT is generally not subject to U.S. federal and state income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains. A REIT will also be subject to a nondeductible excise tax to the extent certain percentages of its taxable income are not distributed within specified dates. While KREF currently expects to distribute at least 90% of its net taxable income for the taxable year ending December 31, 2020, KREF will continue to evaluate its capital and liquidity needs in light of the significant uncertainties created by the COVID-19 pandemic, including the potential for a continued and prolonged adverse impact on economic and market conditions.

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KREF consolidates subsidiaries that incur U.S. federal, state and local income taxes, based on the tax jurisdiction in which each subsidiary operates. During each of the three months ended March 31, 2020 and 2019, KREF recorded a current income tax provision (benefit) of \$0.1 million and \$0.0 million respectively, related to operations of its taxable REIT subsidiaries and various other state and local taxes. There were no deferred tax assets or liabilities as of March 31, 2020 and December 31, 2019.

As of March 31, 2020, tax years 2016 through 2019 remain subject to examination by taxing authorities.

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**Note 15. Subsequent Events**

The following events occurred subsequent to March 31, 2020:

***Investing Activities***

*Funding of Previously Closed Loans*

KREF funded approximately \$27.0 million for previously closed loans.

*Loan Repayments*

KREF received approximately \$42.0 million from loan repayments.

***Financing Activities***

KREF net repaid \$25.4 million under its financing agreements, including (i) Revolver repayment of \$100.0 million and (ii) \$60.0 million of proceeds from the Term Loan Financing Facility.

***Corporate Activities***

*Stock Repurchase*

In April 2020, KREF repurchased 389,086 shares of its common stock at an average price per share of \$14.92 for a total of \$5.8 million, (inclusive of 262,492 shares with March trade dates that settled in April 2020 - Note 9).

Year-to-date as of April 28, 2020, KREF repurchased 2,037,637 shares of common stock at an average price of \$12.27 for a total of \$25.0 million.

*Dividends*

In April 2020, KREF paid \$24.0 million in dividends on its common stock, or \$0.43 per share, with respect to the first quarter of 2020, to stockholders of record on March 31, 2020.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q. The historical consolidated financial data below reflects the historical results and financial position of KREF. In addition, this discussion and analysis contains forward-looking statements and involves numerous risks and uncertainties, including those described under Part I, Item 1A. "Risk Factors" in the Form 10-K and under "Cautionary Note Regarding Forward-Looking Statements," and Part II, Item 1A. "Risk Factors" in this Form 10-Q. Actual results may differ materially from those contained in any forward-looking statements.*

### **Overview**

#### ***Our Company and Our Investment Strategy***

We are a real estate finance company that focuses primarily on originating and acquiring senior loans secured by commercial real estate ("CRE") assets. We are a Maryland corporation that was formed and commenced operations on October 2, 2014, and we have elected to qualify as a REIT for U.S. federal income tax purposes. Our investment strategy is to originate or acquire senior loans collateralized by institutional-quality CRE assets that are owned and operated by experienced and well-capitalized sponsors and located in liquid markets with strong underlying fundamentals. The assets in which we invest include senior loans, mezzanine loans, preferred equity and commercial mortgage-backed securities ("CMBS") and other real estate-related securities. Our investment allocation strategy is influenced by prevailing market conditions at the time we invest, including interest rate, economic and credit market conditions. In addition, we may invest in assets other than our target assets in the future, in each case subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exclusion from registration under the Investment Company Act. Our investment objective is capital preservation and generating attractive risk-adjusted returns for our stockholders over the long term, primarily through dividends.

#### ***Our Manager***

We are externally managed by our Manager, KKR Real Estate Finance Manager LLC, an indirect subsidiary of KKR & Co. Inc. KKR is a leading global investment firm with an over 40-year history of leadership, innovation, and investment excellence and has committed \$400.0 million in equity capital to us. KKR manages multiple alternative asset classes, including private equity, real estate, energy, infrastructure and credit, with strategic manager partnerships that manage hedge funds. Our Manager manages our investments and our day-to-day business and affairs in conformity with our investment guidelines and other policies that are approved and monitored by our board of directors. Our Manager is responsible for, among other matters, (i) the selection, origination or purchase and sale of our portfolio investments, (ii) our financing activities and (iii) providing us with investment advisory services. Our Manager is also responsible for our day-to-day operations and performs (or causes to be performed) such services and activities relating to our investments and business and affairs as may be appropriate. Our investment decisions are approved by an investment committee of our Manager that is comprised of senior investment professionals of KKR, including senior investment professionals of KKR's global real estate group. For a summary of certain terms of the management agreement, see Note 12 to our condensed consolidated financial statements included in this Form 10-Q.

## Key Financial Measures and Indicators

As a real estate finance company, we believe the key financial measures and indicators for our business are earnings per share, dividends declared, Core Earnings and book value per share.

### *Earnings (Loss) Per Share and Dividends Declared*

The following table sets forth the calculation of basic and diluted net income (loss) per share and dividends declared per share (amounts in thousands, except share and per share data):

	Three Months Ended	
	March 31, 2020	December 31, 2019
Net income <sup>(A)</sup>	\$ (35,164)	\$ 24,789
Weighted-average number of shares of common stock outstanding		
Basic	57,346,726	57,486,583
Diluted	57,346,726	57,595,424
Net income per share, basic	\$ (0.61)	\$ 0.43
Net income per share, diluted	\$ (0.61)	\$ 0.43
Dividends declared per share	\$ 0.43	\$ 0.43

(A) Represents net income attributable to common stockholders.

### *Core Earnings*

We use Core Earnings to evaluate our performance excluding the effects of certain transactions and GAAP adjustments we believe are not necessarily indicative of our current loan activity and operations. Core Earnings is a measure that is not prepared in accordance with GAAP. We define Core Earnings for reporting purposes as net income (loss) attributable to our stockholders or, without duplication, owners of our subsidiaries, computed in accordance with GAAP, including realized losses not otherwise included in GAAP net income (loss) and excluding (i) non-cash equity compensation expense, (ii) depreciation and amortization, (iii) any unrealized gains or losses or other similar non-cash items that are included in net income for the applicable reporting period, regardless of whether such items are included in other comprehensive income or loss, or in net income, and (iv) one-time events pursuant to changes in GAAP and certain material non-cash income or expense items after discussions between our Manager and our board of directors and after approval by a majority of our independent directors. The exclusion of depreciation and amortization from the calculation of Core Earnings only applies to debt investments related to real estate to the extent we foreclose upon the property or properties underlying such debt investments.

We believe providing Core Earnings on a supplemental basis to our net income as determined in accordance with GAAP is helpful to stockholders in assessing the overall performance of our business. Although pursuant to the Management Agreement with our Manager, we calculate the incentive compensation and base management fees due to our Manager using Core Earnings before incentive compensation, beginning with the first quarter of 2020, we revised our definition of Core Earnings for reporting purposes to be net of incentive compensation, since we believe this is a more meaningful presentation of the economic performance of our common stock.

Core Earnings should not be considered as a substitute for GAAP net income. We caution readers that our methodology for calculating Core Earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and as a result, our reported Core Earnings may not be comparable to similar measures presented by other REITs.

We also use Core Earnings (before incentive compensation payable to our Manager) to determine the management and incentive compensation we pay our Manager. For its services to KREF, our Manager is entitled to a quarterly management fee equal to the greater of \$62,500 or 0.375% of a weighted average adjusted equity and quarterly incentive compensation equal to 20.0% of the excess of (a) the trailing 12-month Core Earnings over (b) 7.0% of the trailing 12-month weighted average adjusted equity ("Hurdle Rate"), less incentive compensation KREF already paid to the Manager with respect to the first three calendar quarters of such trailing 12-month period. The quarterly incentive compensation is calculated and paid in arrears with a three-month lag.

The following table provides a reconciliation of GAAP net income attributable to common stockholders to Core Earnings (amounts in thousands, except share and per share data):

	Three Months Ended	
	March 31, 2020	December 31, 2019
<b>Net Income (Loss) Attributable to Common Stockholders</b>	\$ (35,164)	\$ 24,789
<b>Adjustments</b>		
Non-cash equity compensation expense	1,607	1,017
Unrealized (gains) or losses <sup>(A)</sup>	3,444	(407)
Provision for credit losses, net	55,274	—
Non-cash convertible notes discount amortization	90	91
<b>Core Earnings</b>	<b>25,251</b>	<b>25,490</b>
<b>Weighted average number of shares of common stock outstanding</b>		
Basic	57,346,726	57,486,583
Diluted <sup>(B)</sup>	57,432,611	57,595,424
<b>Core Earnings per Diluted Weighted Average Share</b>	<b>\$ 0.44</b>	<b>\$ 0.44</b>

(A) Includes \$0.4 million non-cash redemption value adjustment of our Special Non-Voting Preferred Stock and \$3.0 million of unrealized mark-to-market adjustment to our RECOPI's underlying CMBS investments for the three months ended March 31, 2020. Includes \$(0.4) million non-cash redemption value adjustment of our Special Non-Voting Preferred Stock for the three months ended December 31, 2019.

(B) Includes 85,885 and 108,841 dilutive restricted stock units for the three months ended March 31, 2020 and December 31, 2019, respectively.

### **Book Value per Share**

We believe that book value per share is helpful to stockholders in evaluating the growth of our company as we have scaled our equity capital base and continue to invest in our target assets. The following table calculates our book value per share of common stock (amounts in thousands, except share and per share data):

	March 31, 2020	December 31, 2019
KKR Real Estate Finance Trust Inc. stockholders' equity	\$ 1,030,198	\$ 1,122,018
Shares of common stock issued and outstanding at period end	55,838,032	57,486,583
Book value per share of common stock	\$ 18.45	\$ 19.52

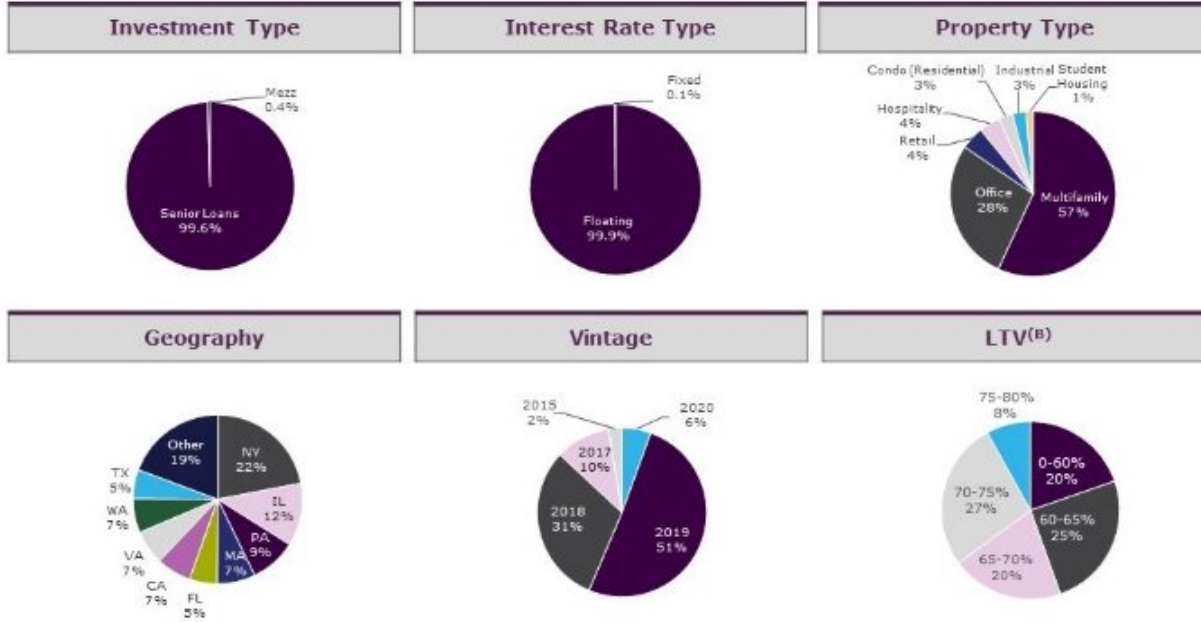
Book value per share as of March 31, 2020 includes the impact of \$70.3 million, or \$1.22 per common share, allowance for credit losses upon adoption of ASU No. 2016-13, Financial Instruments-Credit Losses. See Note 2 - Summary of Significant Accounting Policies, to our condensed consolidated financial statements included in this Form 10-Q, for detailed discussion of allowance for credit losses. In addition, book value per share includes impact of a \$0.4 million, or \$0.01 per common share, non-cash redemption value adjustment to our redeemable Special Non-Voting Preferred Stock ("SNVPS"), resulting in a cumulative (since issuance of the SNVPS) decrease of \$2.1 million, or \$0.04 per common share to our book value ("SNVPS Cumulative Impact") as of March 31, 2020. Upon redemption of the SNVPS, our book value will increase as a result of a one-time gain, thus substantially eliminating the SNVPS Cumulative Impact on our book value. See Note 9 — Equity, to our condensed consolidated financial statements included in this Form 10-Q, for detailed discussion of the SNVPS.

During the second quarter of 2020, we expect to recognize an increase of approximately \$0.2 million to the redemption value of our SNVPS and a corresponding decrease to our book value. The non-cash redemption value adjustment will decrease our second quarter of 2020 Net Income Attributable to Common Stockholders (in accordance with GAAP) and will be added back to Core Earnings.

**Our Portfolio**

We have established a 5,232.5 million portfolio of diversified investments, consisting primarily of performing senior loans as of March 31, 2020.

As we continue to scale our loan portfolio, we expect that our originations will continue to be heavily weighted toward floating-rate loans. As of March 31, 2020, 99.9% of our loans by total loan exposure earned a floating rate of interest and 98% of our portfolio is subject to a LIBOR floor of 0.95% or higher and 78% of our portfolio is subject to a LIBOR floor of 1.5% or higher. We expect the majority of our future investment activity to focus on originating floating-rate senior loans that we finance with our repurchase and other financing facilities, with a secondary focus on originating floating-rate loans for which we syndicate a senior position and retain a subordinated interest for our portfolio. As of March 31, 2020, our portfolio experienced no impairments and did not contain any legacy assets that were originated prior to October 2014. As of March 31, 2020, all of our investments were located in the United States. The following charts illustrate the diversification and composition of our loan portfolio, based on type of investment, interest rate, underlying property type, geographic location, vintage and LTV as of March 31, 2020<sup>(A)</sup>:



The charts above are based on total assets. Total assets reflect the principal amount of our senior and mezzanine loans.

- (A) Excludes CMBS B-Piece investments held through RECOP I, an equity method investment.
- (B) LTV is generally based on the initial loan amount divided by the as-is appraised value as of the date the loan was originated or by the current principal amount as of the date of the most recent as-is appraised value.



The following table details our quarterly loan activity (dollars in thousands):

	Three Months Ended			
	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
Loan originations	\$ 352,500	\$ 764,089	\$ 484,000	\$ 1,649,600
Loan fundings <sup>(A)</sup>	\$ 337,055	\$ 619,748	\$ 471,634	\$ 1,474,022
Loan repayments/syndications <sup>(B)</sup>	(179,553)	(765,418)	(193,470)	(272,025)
Net fundings	157,502	(145,670)	278,164	1,201,997
Non-consolidated senior interest	—	—	—	(142,800)
Total activity	\$ 157,502	\$ (145,670)	\$ 278,164	\$ 1,059,197

(A) Includes initial funding of new loans and additional fundings made under existing loans. Excludes fundings on loan participations sold.

(B) Includes \$65.0 million of proceeds from pari passu loan syndication for the three months ended June 30, 2019, which was fully repaid during the three months ended December 31, 2019, and includes \$65.0 million of proceeds from syndication of vertical participation during the three months ended December 31, 2019. Both syndications did not qualify for sale accounting for GAAP purposes.

The following table details overall statistics for our loan portfolio as of March 31, 2020 (dollars in thousands):

	Total Loan Exposure <sup>(A)</sup>			
	Balance Sheet Portfolio	Total Loan Portfolio	Floating Rate Loans	Fixed Rate Loans
Number of loans	40	40	39	1
Principal balance	\$ 5,118,199	\$ 5,196,799	\$ 5,191,299	\$ 5,500
Amortized cost	\$ 5,089,968	\$ 5,168,568	\$ 5,163,068	\$ 5,500
Unfunded loan commitments <sup>(B)</sup>	\$ 592,828	\$ 592,828	\$ 592,828	\$ —
Weighted-average cash coupon <sup>(C)</sup>	4.9%	4.8%	L + 3.0%	11.0%
Weighted-average all-in yield <sup>(C)</sup>	5.2%	5.1%	L + 3.3%	11.0%
Weighted-average maximum maturity (years) <sup>(D)</sup>	3.9	3.9	3.9	5.3
LTV <sup>(E)</sup>	66%	66%	66%	77%

(A) In certain instances, we finance our loans through the non-recourse sale of a senior interest that is not included in our condensed consolidated financial statements. Total loan exposure includes the entire loan we originated and financed.

(B) Unfunded commitments will primarily be funded to finance property improvements or lease-related expenditures by the borrowers. These future commitments will be funded over the term of each loan, subject in certain cases to an expiration date.

(C) As of March 31, 2020, 100.0% of floating rate loans by principal balance are indexed to one-month USD LIBOR. In addition to cash coupon, all-in yield includes the amortization of deferred origination fees, loan origination costs and purchase discounts. Cash coupon and all-in yield for the total portfolio assume applicable floating benchmark rates as of March 31, 2020. L = the greater of one-month USD LIBOR; spot rate of 0.99%, and the applicable contractual LIBOR floor, included in portfolio-wide averages represented as fixed rates. Does not factor in prepayment fee income that might be earned upon prepayment.

(D) Maximum maturity assumes all extension options are exercised by the borrower; however, our loans may be repaid prior to such date. As of March 31, 2020, based on total loan exposure, 67.4% of our loans were subject to yield maintenance or other prepayment restrictions and 32.6% were open to repayment by the borrower without penalty.

(E) Loan-to-value ratio ("LTV") is generally based on the initial loan amount divided by the as-is appraised value as of the date the loan was originated or by the current principal amount as of the date of the most recent as-is appraised value.

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The table below sets forth additional information relating to our portfolio as of March 31, 2020 (dollars in millions):

Investment(H)	Investment Date	Committed Principal Amount	Current Principal Amount	Net Equity(B)	Location	Property Type	Coupon(C)(D)	Max Remaining Term (Years)(C)(E)	Loan Per SQFT / Unit / Key	LTV(C)(F)
<b>Senior Loans(A)</b>										
1 Senior Loan	5/22/2019	\$ 386.0	\$ 367.6	\$ 91.4	Brooklyn, NY	Multifamily	L + 2.7%	4.2	\$428,966 / unit	51%
2 Senior Loan	6/28/2019	340.0	320.3	68.3	Chicago, IL	Multifamily	L + 2.8	6.3	\$400,426 / unit	75
3 Senior Loan	6/28/2019	273.5	264.6	65.5	Arlington, VA	Multifamily	L + 2.5	4.3	\$238,357 / unit	70
4 Senior Loan	12/20/2018	234.5	190.2	32.6	New York, NY	Multifamily	L + 3.6	3.8	\$970,296 / unit	71
5 Senior Loan	5/23/2018	227.3	204.9	38.0	Boston, MA	Office	L + 2.4	3.2	\$442 / sqft	68
6 Senior Loan	2/6/2020	226.5	164.4	32.4	Plano, TX	Office	L + 2.7	4.9	\$177 / sqft	64
7 Senior Loan	5/31/2019	216.5	200.8	34.5	Various	Multifamily	L + 3.5	4.2	\$187,693 / unit	74
8 Senior Loan	11/13/2017	194.4	187.8	33.2	Minneapolis, MN	Office	L + 3.8	2.7	\$176 / sqft	63
9 Senior Loan	6/6/2019	186.0	179.5	35.2	Chicago, IL	Multifamily	L + 2.7	4.2	\$364,837 / unit	74
10 Senior Loan	8/13/2019	185.0	154.4	59.4	Denver, CO	Multifamily	L + 2.8	4.4	\$259,986 / unit	64
11 Senior Loan	11/15/2019	183.3	151.0	34.3	Irvine, CA	Office	L + 2.9	4.6	\$248 / sqft	66
12 Senior Loan	4/11/2019	182.6	153.3	37.9	Philadelphia, PA	Office	L + 2.6	4.1	\$217 / sqft	65
13 Senior Loan	12/20/2019	175.5	47.3	12.3	Washington, D.C.	Office	L + 3.4	4.8	\$286 / sqft	58
14 Senior Loan	9/13/2018	172.0	168.0	29.6	Seattle, WA	Office	L + 3.8	3.5	\$490 / sqft	62
15 Senior Loan	7/15/2019	170.0	126.1	20.8	Chicago, IL	Office	L + 3.3	4.4	\$121 / sqft	59
16 Senior Loan	6/19/2018	165.0	157.3	40.6	Philadelphia, PA	Office	L + 2.5	3.3	\$162 / sqft	71
17 Senior Loan	12/5/2018	163.0	148.0	23.0	New York, NY	Multifamily	L + 2.6	3.7	\$556,391 / unit	67
18 Senior Loan	10/23/2017	150.0	150.0	35.7	North Bergen, NJ	Multifamily	L + 3.2	2.6	\$468,750 / unit	57
19 Senior Loan	11/9/2018	150.0	140.0	27.2	Fort Lauderdale, FL	Hospitality	L + 2.9	3.7	\$404,624 / key	62
20 Senior Loan	12/19/2019	147.0	102.2	25.0	Various	Retail	L + 2.6	5.4	\$76 / sqft	55
21 Senior Loan	8/4/2017	143.4	143.4	46.4	New York, NY	Condo (Residential)	L + 4.7	1.5	\$1,817 / sqft (I)	53
22 Senior Loan	3/29/2019	138.0	137.0	24.3	Boston, MA	Multifamily	L + 2.7	4.0	\$351,282 / unit	63
23 Senior Loan	11/7/2018	135.0	131.6	28.6	West Palm Beach, FL	Multifamily	L + 2.9	3.6	\$162,040 / unit	73
24 Senior Loan	10/26/2015	125.0	125.0	49.8	Portland, OR	Retail	L + 5.5	0.6	\$115 / sqft	61
25 Senior Loan	2/3/2020	106.0	106.0	41.4	San Diego, CA	Multifamily	L + 3.3	4.9	\$458,874 / unit	71
26 Senior Loan	10/15/2019	93.4	69.4	16.9	State College, PA	Student Housing	L + 2.7	4.6	\$54,620 / bed	64
27 Senior Loan	9/7/2018	92.3	92.3	16.7	Seattle, WA	Multifamily	L + 2.6	3.4	\$515,571 / unit	76
28 Senior Loan	12/11/2019	91.0	90.0	18.1	Los Angeles, CA	Multifamily	L + 2.8	2.8	\$416,667 / unit	72
29 Senior Loan	3/29/2018	86.0	86.0	14.4	New York, NY	Multifamily	L + 2.6	3.0	\$462,366 / unit	48
30 Senior Loan	3/20/2018	80.7	80.7	14.7	Seattle, WA	Office	L + 3.6	3.0	\$473 / sqft	61
31 Senior Loan	10/30/2018	77.0	77.0	12.8	Philadelphia, PA	Multifamily	L + 2.7	3.6	\$150,980 / unit	73
32 Senior Loan	1/18/2019	76.0	76.0	15.6	Brooklyn, NY	Hospitality	L + 2.9	3.9	\$387,755 / key	69
33 Senior Loan	7/21/2017	75.1	66.3	12.2	Queens, NY	Industrial	L + 3.0	2.3	\$116 / sqft	64
34 Senior Loan	7/24/2018	74.5	72.1	15.5	Atlanta, GA	Industrial	L + 2.7	3.4	\$66 / sqft	74
35 Senior Loan	12/23/2019	73.9	72.5	11.9	Herndon, VA	Multifamily	L + 2.5	4.8	\$246,512 / unit	72
36 Senior Loan	9/12/2019	67.5	67.5	12.3	Austin, TX	Multifamily	L + 2.5	4.5	\$190,678 / unit	75
37 Senior Loan	8/9/2019	61.5	61.5	11.2	Atlanta, GA	Multifamily	L + 3.0	4.4	\$170,833 / unit	74
38 Senior Loan	10/9/2018	45.0	42.0	7.9	Queens, NY	Multifamily	L + 2.8	3.6	\$333,333 / unit	70
<b>Total/Weighted Average Senior Loans Unlevered</b>		<b>\$ 5,769.3</b>	<b>\$ 5,174.0</b>	<b>\$ 1,147.4</b>			<b>L + 3.0%</b>	<b>3.9</b>		<b>66%</b>
<b>Mezzanine Loans</b>										
1 Mezzanine	6/8/2015	5.5	5.5	5.5	Various	Retail	11.0	5.3	\$46 / sqft	72
2 Mezzanine	1/27/2020	20.0	17.3	17.2	Westbury, NY	Multifamily	L + 9.0	4.3	\$452,875 / unit	66
<b>Total/Weighted Average Mezzanine Loans Unlevered</b>		<b>\$ 25.5</b>	<b>\$ 22.8</b>	<b>\$ 22.7</b>			<b>11.0</b>	<b>4.6</b>		<b>67%</b>
<b>CMBS B-Pieces</b>										
1 RECOP I(G)	2/13/2017	40.0	35.7	35.7	Various	Various	4.7	9.2		58
<b>Total/Weighted Average CMBS B-Pieces Unlevered</b>		<b>\$ 40.0</b>	<b>\$ 35.7</b>	<b>\$ 35.7</b>			<b>4.7%</b>	<b>9.2</b>		<b>58%</b>

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- \* Numbers presented may not foot due to rounding.
- (A) Our total portfolio represents the current principal amount on senior and mezzanine loans and net equity in RECOP I, which holds CMBS B-Piece investments.
- (B) Net equity reflects (i) the amortized cost basis of our loans, net of borrowings; and (ii) the cost basis of our investment in RECOP I.
- (C) Weighted average is weighted by current principal amount for our senior and mezzanine loans and by net equity for our RECOP I CMBS B-Pieces.
- (D) L = the greater of one-month USD LIBOR, spot rate of 0.99%, and the applicable contractual LIBOR floor, included in portfolio-wide averages represented as fixed rates.
- (E) Max remaining term (years) assumes all extension options are exercised, if applicable.
- (F) For senior loans, LTV is based on the initial loan amount divided by the as-is appraised value as of the date the loan was originated or by the current principal amount as of the date of the most recent as-is appraised value; for Senior Loan 4, LTV is based on the initial loan amount divided by the appraised bulk sale value assuming a condo-conversion and no renovation; for Senior Loan 21, LTV is based on the current principal amount divided by the adjusted appraised gross sellout value net of sales cost; for mezzanine loans, LTV is based on the current balance of the whole loan divided by the as-is appraised value as of the date the loan was originated; for RECOP I CMBS B-Pieces, LTV is based on the weighted average LTV of the underlying loan pool at issuance.
- (G) Represents our investment in an aggregator vehicle alongside RECOP I that invests in CMBS B-Pieces. Committed principal represents our total commitment to the aggregator vehicle whereas current principal represents the current funded amount.
- (H) Senior loans include senior mortgages and similar credit quality investments, including junior participations in our originated senior loans for which we have syndicated the senior participations and retained the junior participations for our portfolio and excludes vertical loan participations.
- (I) For Senior Loan 21, Loan per SQFT of \$1,817 is based on the allocated loan amount of the residential units. Excluding the value of the retail and parking components of the collateral, the Loan per SQFT is \$2,039 based on allocating the full amount of the loan to only the residential units.

## **Portfolio Surveillance and Credit Quality**

### *Senior and Mezzanine Loans*

Our Manager actively manages our portfolio and assesses the risk of any loan impairment by quarterly evaluating the performance of the underlying property, the valuation of comparable assets as well as the financial wherewithal of the associated borrower. Our loan documents generally give us the right to receive regular property, borrower and guarantor financial statements; approve annual budgets and tenant leases; and enforce loan covenants and remedies. In addition, our Manager evaluates the macroeconomic environment, prevailing real estate fundamentals and micro-market dynamics where the underlying property is located. Through site inspections, local market experts and various data sources, as part of its risk assessment, our Manager monitors criteria such as new supply and tenant demand, market occupancy and rental rate trends, and capitalization rates and valuation trends.

In addition to ongoing asset management, our Manager performs a quarterly review of our portfolio whereby each loan is assigned a risk rating of 1 through 5, from lowest risk to highest risk. Our Manager is responsible for reviewing, assigning and updating the risk ratings for each loan on a quarterly basis. The risk ratings are based on many factors, including, but not limited to, underlying real estate performance and asset value, values of comparable properties, durability and quality of property cash flows, sponsor experience and financial wherewithal, and the existence of a risk-mitigating loan structure. Additional key considerations include LTVs, debt service coverage ratios, real estate and credit market dynamics, and risk of default or principal loss. Based on a five-point scale, our loans are rated "1" through "5," from less risk to greater risk, which ratings are defined as follows:

1—Very Low Risk—The underlying property performance has surpassed underwritten expectations, and the sponsor's business plan is generally complete. The property demonstrates stabilized occupancy and/or rental rates resulting in strong current cash flow and/or a very low LTV (<65%). At the level of performance, it is very likely that the underlying loan can be refinanced easily in the period's prevailing capital market conditions.

2—Low Risk—The underlying property performance has matched or exceeded underwritten expectations, and the sponsor's business plan may be ahead of schedule or has achieved some or many of the major milestones from a risk mitigation perspective. The property has achieved improving occupancy at market rents, resulting in sufficient current cash flow and/or a low LTV (65%-70%). Operating trends are favorable, and the underlying loan can be refinanced in today's prevailing capital market conditions. The sponsor/manager is well capitalized or has demonstrated a history of success in owning or operating similar real estate.

3—Average Risk—The underlying property performance is in-line with underwritten expectations, or the sponsor may be in the early stages of executing its business plan. Current cash flow supports debt service payments, or there is an ample interest reserve or loan structure in place to provide the sponsor time to execute the value-improvement plan. The property exhibits a moderate LTV (<75%). Loan structure appropriately mitigates additional risks. The sponsor/manager has a stable credit history and experience owning or operating similar real estate.

4—High Risk/Potential for Loss: A loan that has a risk of realizing a principal loss. The underlying property performance is behind underwritten expectations, or the sponsor is behind schedule in executing its business plan. The underlying market fundamentals may have deteriorated, comparable property valuations may be declining or property occupancy has been volatile, resulting in current cash flow that may not support debt service payments. The loan

exhibits a high LTV (>80%), and the loan covenants are unlikely to fully mitigate some risks. Interest payments may come from an interest reserve or sponsor equity.

5—Impaired/Loss Likely: A loan that has a very high risk of realizing a principal loss or has otherwise incurred a principal loss. The underlying property performance is significantly behind underwritten expectations, the sponsor has failed to execute its business plan and/or the sponsor has missed interest payments. The market fundamentals have deteriorated, or property performance has unexpectedly declined or valuations for comparable properties have declined meaningfully since loan origination. Current cash flow does not support debt service payments. With the current capital structure, the sponsor might not be incentivized to protect its equity without a restructuring of the loan. The loan exhibits a very high LTV (>90%), and default may be imminent.

(dollars in thousands)		March 31, 2020			
Risk Rating	Number of Loans	Net Book Value	Total Loan Exposure <sup>(A)(B)</sup>	Total Loan Exposure %	
1	2	\$ 157,360	\$ 158,074	3.0%	
2	3	288,303	291,268	5.6	
3	28	3,855,849	4,001,127	77.0	
4	7	722,477	746,330	14.4	
5	—	—	—	—	
	40	\$ 5,023,989	\$ 5,196,799	100.0%	

(dollars in thousands)		December 31, 2019			
Risk Rating	Number of Loans	Net Book Value	Total Loan Exposure <sup>(A)(B)</sup>	Total Loan Exposure %	
1	1	\$ 85,730	\$ 86,000	1.7%	
2	5	450,827	451,858	9.0	
3	33	4,394,485	4,501,440	89.3	
4	—	—	—	—	
5	—	—	—	—	
	39	\$ 4,931,042	\$ 5,039,298	100.0%	

(A) Excludes \$65.0 million vertical loan syndication as of March 31, 2020 and December 31, 2019, respectively.

(B) In certain instances, we finance our loans through the non-recourse sale of a senior interest that is not included in our condensed consolidated financial statements. Total loan exposure includes the entire loan we originated and financed, including \$143.6 million of such non-consolidated interests as of March 31, 2020 and December 31, 2019, respectively.

As of March 31, 2020, the average risk rating of KREF's portfolio was 3.0 (Average Risk), weighted by total loan exposure, as compared to 2.9 (Average Risk) as of December 31, 2019.

#### CMBS B-Piece Investments

Our Manager has processes and procedures in place to monitor and assess the credit quality of our CMBS B-Piece investments and promote the regular and active management of these investments. This includes reviewing the performance of the real estate assets underlying the loans that collateralize the investments and determining the impact of such performance on the credit and return profile of the investments. Our Manager holds monthly surveillance calls with the special servicer of our CMBS B-Piece investments to monitor the performance of our portfolio and discuss issues associated with the loans underlying our CMBS B-Piece investments. At each meeting, our Manager is provided with a due diligence submission for each loan underlying our CMBS B-Piece investments, which includes both property- and loan-level information. These meetings assist our Manager in monitoring our portfolio, identifying any potential loan issues, determining if a re-underwriting of any loan is warranted and examining the timing and severity of any potential losses or impairments.

Valuations for our CMBS B-Piece investments are prepared using inputs from an independent valuation firm and confirmed by our Manager via quotes from two or more broker-dealers that actively make markets in CMBS. As part of the quarterly valuation process, our Manager also reviews pricing indications for comparable CMBS and monitors the credit metrics of the loans that collateralize our CMBS B-Piece investments.

During the three months ended September 30, 2019, we sold our remaining directly held CMBS investments. Consequently, we deconsolidated the respective CMBS trust. Our current CMBS exposure is through RECOP I, an equity method investment.

## Portfolio Financing

Our portfolio financing arrangements include master repurchase agreements, term loan financing, term lending agreement, collateralized loan obligations, warehouse facility, asset specific financing, loan participations sold and non-consolidated senior interests.

The Company continues to expand and diversify its financing sources, especially those sources that provide non-mark-to-market financing, reducing our exposure to market volatility. Our non-mark-to-market financing as of March 31, 2020 represented 73% of our portfolio financing based on outstanding principal balance, primarily as a result of our term lending agreement, warehouse facility, asset based financing, term loan facility and collateralized loan obligations.

The following table summarizes our portfolio financing (dollars in thousands):

	Portfolio Financing Outstanding Principal Balance <sup>(A)</sup>	
	March 31, 2020	December 31, 2019
Master repurchase agreements	\$ 1,095,503	\$ 1,088,217
Term loan financing	924,855	798,180
Term lending agreement	896,815	870,051
Collateralized loan obligations	810,000	810,000
Warehouse facility	45,417	—
Asset specific financing	82,267	142,268
Non-consolidated senior interests	143,600	143,600
Total portfolio financing	<u>\$ 3,998,457</u>	<u>\$ 3,852,316</u>

(A) Excludes \$65.0 million of vertical loan participations sold as of March 31, 2020 and December 31, 2019, respectively. Such participations did not qualify for sale accounting under GAAP and therefore were consolidated in our Condensed Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019, respectively.

## Financing Agreements

The following table details our financing agreements (dollars in thousands):

	March 31, 2020				
	Maximum Facility Size <sup>(A)</sup>	Collateral Assets <sup>(B)</sup>	Borrowings		
			Potential <sup>(C)</sup>	Outstanding	Available
<b>Master Repurchase Agreements</b>					
Wells Fargo	\$ 1,000,000	\$ 652,850	\$ 470,887	\$ 468,452	\$ 2,435
Morgan Stanley	600,000	544,943	408,707	405,188	3,519
Goldman Sachs	400,000	311,385	222,785	221,863	922
<b>Term Loan Facility</b>	<b>1,000,000</b>	<b>1,183,614</b>	<b>991,014</b>	<b>924,855</b>	<b>66,159</b>
<b>Term Lending Agreement</b>					
KREF Lending V	900,000	1,094,762	898,420	896,815	1,605
<b>Warehouse Facility</b>					
HSBC	500,000	64,408	48,307	45,417	2,890
<b>Asset Specific Financing</b>					
BMO Facility	300,000	106,074	84,859	82,267	2,592
Revolver	335,000	—	335,000	335,000	—
	<u>\$ 5,035,000</u>	<u>\$ 3,958,036</u>	<u>\$ 3,459,979</u>	<u>\$ 3,379,857</u>	<u>\$ 80,122</u>

(A) Maximum facility size represents the largest amount of borrowings available under a given facility once sufficient collateral assets have been approved by the lender and pledged by us.

(B) Represents the principal balance of the collateral assets.

(C) Potential borrowings represents the total amount we could draw under each facility based on collateral already approved and pledged. When undrawn, these amounts are available to us under the terms of each credit facility.

*Master Repurchase Agreements*

We utilize master repurchase facilities to finance the origination of senior loans. After a mortgage asset is identified by us, the lender agrees to advance a certain percentage of the face value of the mortgage to us in exchange for a secured interest in the mortgage.

Repurchase agreements effectively allow us to borrow against loans, participations and securities that we own in an amount generally equal to (i) the market value of such loans, participations and/or securities multiplied by (ii) the applicable advance rate. Under these agreements, we sell our loans, participations and securities to a counterparty and agree to repurchase the same loans and securities from the counterparty at a price equal to the original sales price plus an interest factor. The transaction is treated as a secured loan from the financial institution for GAAP purposes. During the term of a repurchase agreement, we receive the principal and interest on the related loans, participations and securities and pay interest to the lender under the master repurchase agreement. At any point in time, the amounts and the cost of our repurchase borrowings will be based upon the assets being financed—higher risk assets will result in lower advance rates (i.e., levels of leverage) at higher borrowing costs and vice versa. In addition, these facilities include various financial covenants and limited recourse guarantees, including those described below.

Each of our existing master repurchase facilities includes "credit mark-to-market" features. "Credit mark-to-market" provisions in repurchase facilities are designed to keep the lenders' credit exposure generally constant as a percentage of the underlying collateral value of the assets pledged as security to them. If the credit underlying collateral value decreases, the gross amount of leverage available to us will be reduced as our assets are marked-to-market, which would reduce our liquidity. The lender under the applicable repurchase facility sets the valuation and any revaluation of the collateral assets in its sole, good faith discretion. As a contractual matter, the lender has the right to reset the value of the assets at any time based on then-current market conditions, but the market convention is to reassess valuations on a monthly, quarterly and annual basis using the financial information delivered pursuant to the facility documentation regarding the real property, borrower and guarantor under such underlying loans. Generally, if the lender determines (subject to certain conditions) that the market value of the collateral in a repurchase transaction has decreased by more than a defined minimum amount, the lender may require us to provide additional collateral or lead to margin calls that may require us to repay all or a portion of the funds advanced. We closely monitor our liquidity and intend to maintain sufficient liquidity on our balance sheet in order to meet any margin calls in the event of any significant decreases in asset values. As of March 31, 2020 and December 31, 2019, the weighted average haircut under our repurchase agreements was 27.4% (or 25.7% if we had borrowed the maximum amount approved by its repurchase agreement counterparties as of such dates). In addition, our existing master repurchase facilities are not entirely term-matched financings and may mature before our CRE debt investments that represent underlying collateral to those financings. As we negotiate renewals and extensions of these liabilities, we may experience lower advance rates and higher pricing under the renewed or extended agreements.

*Term Loan Financing*

In connection with our efforts to diversify our financing sources, further expand our non-mark-to-market borrowing base and reduce our exposure to market volatility, we entered into a term loan financing agreement in April 2018 with third party lenders for an initial borrowing capacity of \$200.0 million that was increased to \$1,000.0 million in October 2018 ("Term Loan Facility"). The facility provides us with asset-based financing on a non-mark-to-market basis with matched term up to five years and is non-recourse to the Company. Borrowings under the facility are collateralized by senior loans, held-for-investment, and bear interest equal to one-month LIBOR plus a margin. As of March 31, 2020, the weighted average margin and interest rate on the facility were 1.5% and 2.5%, respectively.

The following table summarizes our borrowings under the Term Loan Facility (dollars in thousands):

Term Loan Facility	March 31, 2020						
	Count	Outstanding Face Amount	Amortized Cost	Carrying Value	Wtd. Avg. Yield/Cost <sup>(A)</sup>	Guarantee <sup>(B)</sup>	Wtd. Avg. Term <sup>(C)</sup>
Collateral assets	13	\$ 1,183,614	\$ 1,176,148	\$ 1,161,259	L + 3.1%	n.a.	February 2024
Financing provided	n.a.	924,855	921,368	921,368	L + 1.9%	n.a.	February 2024

(A) Floating rate loans and related liabilities are indexed to one-month LIBOR. The Company's net interest rate exposure is in direct proportion to its interest in the net assets indexed to that rate. In addition to cash coupon, yield/cost includes the amortization of deferred origination/financing costs.

(B) Financing under the Term Loan Facility is non-recourse to the Company.

(C) The weighted-average term is determined using the maximum maturity date of the corresponding loans, assuming all extension options are exercised by the borrower.

*Term Lending Agreement*

In June 2019, we entered into a Master Repurchase and Securities Contract Agreement (the "Term Lending Agreement") with Morgan Stanley Mortgage Capital Holdings LLC ("Administrative Agent"), as administrative agent on behalf of Morgan Stanley Bank, N.A. ("Initial Buyer"), which provides for current and future financings of up to \$900.0 million on a non-mark-to-market basis. The Initial Buyer subsequently syndicated a portion of the facility to multiple financial institutions. As of March 31, 2020, the Initial Buyer held 48.9% of the total commitment under the facility. Borrowings under the Term Lending Agreement are collateralized by certain loans, held for investment, and bear interest equal to one-month LIBOR, plus a 1.9% margin. Total outstanding borrowings under the Term Lending Agreement as of March 31, 2020 totaled \$896.8 million. The Term Lending Agreement has an initial maturity of June 2021, subject to five one-year extension options, which may be exercised by us upon the satisfaction of certain customary conditions and thresholds.

*Warehouse Facility*

In March 2020, we entered into a \$500.0 million Loan and Security Agreement with HSBC Bank USA, National Association ("HSBC Facility"). The facility, which matures in March 2023, provides warehouse financing on a non-mark-to-market basis with partial recourse to us. Borrowings under the facility are collateralized by certain loans, held for investment, and bear interest equal to one-month LIBOR, plus a margin. As of March 31, 2020, the collateral-based margin was 1.50%.

*Asset Specific Financing*

In August 2018, we entered into a \$200.0 million loan financing facility with BMO Harris Bank (the "BMO Facility"). In May 2019, KREF increased the borrowing capacity to \$300.0 million. The facility provides asset-based financing on a non-mark-to-market basis with matched-term up to five years with partial recourse to the Company. As of March 31, 2020, there was \$82.3 million outstanding on this facility.

*Revolving Credit Agreement*

In December 2018, the Company entered into a \$100.0 million corporate revolving credit facility ("Revolver") administered by Morgan Stanley Senior Funding, Inc. In 2019, the borrowing capacity under the Revolver was increased to \$250.0 million. In February 2020, the borrowing capacity was further increased to \$335.0 million. We may use our Revolver as a source of financing, which is designed to provide short-term liquidity to purchase or de-lever loans, pay operating expenses and borrow amounts for general corporate purposes. Borrowings under the Revolver bear interest at a per annum rate equal to the sum of (i) a floating rate index and (ii) a fixed margin. As of March 31, 2020, there was \$335.0 million outstanding on this facility.

*Collateralized Loan Obligations*

In November 2018, the Company financed a pool of loan participations from our existing loan portfolio through a managed collateralized loan obligation ("CLO" or "KREF 2018-FL1"). The CLO provides the Company with match-term financing on a non-mark-to-market and non-recourse basis. The CLO has a two-year reinvestment feature that allows principal proceeds of the collateral assets to be reinvested in qualifying replacement assets, subject to the satisfaction of certain conditions set forth in the indenture.

The following table outlines KREF 2018-FL1 collateral assets and respective borrowing (dollars in thousands):

Collateralized Loan Obligation	March 31, 2020					
	Count	Face Amount	Amortized Cost	Carrying Value	Wtd. Avg. Yield/Cost <sup>(B)</sup>	Wtd. Avg. Term <sup>(C)</sup>
Collateral assets <sup>(A)</sup>	22	\$ 1,000,000	\$ 1,000,000	\$ 990,072	L + 2.8%	November 2023
Financing provided	1	810,000	805,008	805,008	L + 2.2%	June 2036

(A) Collateral assets represent 19.5% of the face amount of the Company's senior loans as of March 31, 2020. As of March 31, 2020, 100% of the Company's loans financed through the CLO are floating rate loans.

(B) Yield on collateral assets is based on cash coupon. Financing cost includes amortization of deferred financing costs incurred in connection with the CLO.

(C) Loan term represents weighted-average final maturity, assuming extension options are exercised by the borrower. Repayments of CLO notes are dependent on timing of related collateral loan asset repayments post reinvestment period. The term of the CLO notes represents the rated final distribution date.

*Loan Participations Sold*

In connection with our investments in CRE loans, we finance certain investments through the syndication of a non-recourse, or limited-recourse, loan participation to an unaffiliated third party. Our presentation of the senior loan and related financing involved in the syndication depends upon whether GAAP recognized the transaction as a sale, though such differences in presentation do not generally impact our net stockholders' equity or net income aside from timing differences in the recognition of certain transaction costs.

To the extent that GAAP recognizes a sale resulting from the syndication, we derecognize the participation in the senior/whole loan that we sold and continue to carry the retained portion of the loan as an investment. While we do not generally expect to recognize a material gain or loss on these sales, we would realize a gain or loss in an amount equal to the difference between the net proceeds received from the third party purchaser and our carrying value of the loan participation we sold at time of sale. Furthermore, we recognize interest income only on the portion of the senior loan that we retain as a result of the sale.

To the extent that GAAP does not recognize a sale resulting from the syndication, we do not derecognize the participation in the senior/whole loan that we sold. Instead, we recognize a loan participation sold liability in an amount equal to the principal of the loan participation syndicated less any unamortized discounts or financing costs resulting from the syndication. We continue to recognize interest income on the entire senior loan, including the interest attributable to the loan participation sold, as well as interest expense on the loan participation sold liability.

The following table details our loan participations sold (dollars in thousands):

Loan Participations Sold	March 31, 2020						
	Count	Principal Balance	Amortized Cost	Carrying Value	Yield/Cost <sup>(A)</sup>	Guarantee	Term
Total loan	1	\$ 329,576	\$ 328,117	\$ 325,724	L + 2.5%	n.a.	July 2024
Vertical loan participation <sup>(B)</sup>	1	65,000	64,972	64,972	L + 2.5%	n.a.	July 2024

(A) Our floating rate loans and related liabilities were indexed to one-month LIBOR. Our net interest rate exposure is in direct proportion to our net assets.

(B) During the three months ended March 31, 2020, KREF recorded \$0.7 million of interest income and \$0.7 million of interest expense, respectively, related to the total loan participations sold.

### *Non-Consolidated Senior Interests*

In certain instances, we finance our loans through the non-recourse sale of a senior loan interest that is not included in our condensed consolidated financial statements. These non-consolidated senior interests provide structural leverage for our net investments on a non-mark-to-market, matched-term basis, which are reflected in the form of mezzanine loans or other subordinate interests on our balance sheets and in our statements of income.

The following table details the subordinate interests retained on our balance sheet and the related non-consolidated senior interests (dollars in thousands):

Non-Consolidated Senior Interests	March 31, 2020					
	Count	Principal Balance	Carrying Value	Yield/Cost <sup>(A)</sup>	Guarantee	Term
Total loan	1	\$ 179,500	n.a.	L + 2.7%	n.a.	June 2024
Senior participation	1	143,600	n.a.	L + 1.6%	n.a.	June 2024
Subordinate interests retained		35,900				

(A) Our floating rate loans and related liabilities were indexed to one-month LIBOR. Our net interest rate exposure is in direct proportion to our net assets.

### *Convertible Notes*

We may issue convertible debt to take advantage of favorable market conditions. In May 2018, we issued \$143.75 million of 6.125% Convertible Notes due on May 15, 2023. The Convertible Notes bear interest at a rate of 6.125% per year, payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2018. The Convertible Notes mature on May 15, 2023, unless earlier repurchased or converted. Refer to Notes 2 and 6 to our condensed consolidated financial statements for additional discussion of our Convertible Notes.



### Borrowing Activities

The following tables provide additional information regarding our borrowings (dollars in thousands):

	Outstanding Face Amount at March 31, 2020	Three Months Ended March 31, 2020		
		Average Daily Amount Outstanding <sup>(A)</sup>	Maximum Amount Outstanding	Weighted Average Daily Interest Rate
Wells Fargo	\$ 468,452	\$ 468,452	\$ 468,452	3.0%
Morgan Stanley	405,188	402,457	405,188	3.3
Goldman Sachs	221,863	223,135	225,266	3.5
Term Loan Facility	924,855	858,787	946,783	3.0
KREF Lending V	896,815	887,995	896,815	3.4
Warehouse Facility	45,417	45,417	45,417	2.3
BMO Facility	82,267	104,026	142,267	3.2
Revolver	335,000	100,110	335,000	3.4
Total/Weighted Average	\$ 3,379,857			3.2%

(A) Represents the average for the period the facility was outstanding.

	Average Daily Amount Outstanding <sup>(A)</sup>	
	Three Months Ended	
	March 31, 2020	December 31, 2019
Wells Fargo	\$ 468,452	\$ 416,481
Morgan Stanley	402,457	364,194
Goldman Sachs	223,135	263,905
Term Loan Facility	858,787	772,236
KREF Lending V	887,995	871,785
Warehouse Facility	45,417	—
BMO Facility	104,026	142,267
Revolver	100,110	138,696

(A) Represents the average for the period the debt was outstanding.

**Covenants**—Each of our repurchase facilities, Term Lending Agreement, Warehouse Facility and our Revolver contain customary terms and conditions, including, but not limited to, negative covenants relating to restrictions on our operations with respect to our status as a REIT, and financial covenants, such as:

- an interest income to interest expense ratio covenant (1.5 to 1.0);
- a minimum consolidated tangible net worth covenant (75.0% of the aggregate net cash proceeds of any equity issuances made and any capital contributions received by us and KKR Real Estate Finance Holdings L.P. (our "Operating Partnership") or up to approximately \$880.2 million, depending on the agreement;
- a cash liquidity covenant (the greater of \$10.0 million or 5.0% of our recourse indebtedness);
- a total indebtedness covenant (75.0% of our total assets, net of VIE liabilities);

As of March 31, 2020, we were in compliance with the covenants of our financing facilities.

**Guarantees**—In connection with each master repurchase agreement, our Operating Partnership has entered into a limited guarantee in favor of each lender, under which our Operating Partnership guarantees the obligations of the borrower under the respective master repurchase agreement (i) in the case of certain defaults, up to a maximum liability of 25.0% of the then-outstanding repurchase price of the eligible loans, participations or securities, as applicable, or (ii) up to a maximum liability of 100.0% in the case of certain "bad boy" defaults. The borrower in each case is a special purpose subsidiary of the Company.

In connection with our Term Lending Agreement, our Operating Partnership entered into a guarantee in favor of Morgan Stanley Mortgage Capital Holdings LLC, in its capacity as the Administrative Agent, under which our Operating Partnership

guarantees the obligations of the KREF Lending V LLC under the agreement. The guarantee includes; in the case of certain defaults, up to a maximum liability of 25.0% of the then outstanding aggregate repurchase price under the agreement, and liability to indemnify the Administrative Agent against losses related to "bad boy" acts. In addition, the guarantee includes certain full recourses in the case of bankruptcy of the KREF Lending V LLC.

In connection with our BMO Facility, our Operating Partnership entered into a guarantee in favor of BMO Harris Bank, N.A., in its capacity as the Administrative Agent and Lender, under which our Operating Partnership guarantees the obligations of the Company's borrower entity, under the agreement. The guarantee includes; in the case of certain defaults, up to a maximum liability of 25.0% of the then current outstanding payment obligations under the agreement, and liability to indemnify the Administrative Agent and Lender against losses related to "bad boy" acts. In addition, the guarantee includes certain full recourse insolvency-related trigger events.

With respect to our Revolver, amounts borrowed are full recourse to certain guarantor wholly-owned subsidiaries of the Company.

In connection with our HSBC Warehouse Facility, our Operating Partnership entered into a guarantee in favor of HSBC Bank USA, National Association, in its capacity as the Administrative Agent and Lender, under which our Operating Partnership guarantees the obligations of the Company's borrower entity, under the agreement. The guarantee includes; in the case of certain defaults, up to a maximum liability of 25.0% of the then current outstanding payment obligations under the agreement, and liability to indemnify the Administrative Agent and Lender against losses related to "bad boy" acts. In addition, the guarantee includes certain full recourse insolvency-related trigger events.

## Results of Operations

The following table summarizes the changes in our results of operations for the three months ended March 31, 2020 and 2019 (dollars in thousands, except per share data):

	For the Three Months Ended March 31,		Increase (Decrease)	
	2020	2019	Dollars	Percentage
<b>Net Interest Income</b>				
Interest income	\$ 71,079	\$ 64,751	\$ 6,328	9.8 %
Interest expense	39,082	34,842	4,240	12.2
Total net interest income	31,997	29,909	2,088	7.0
<b>Other Income</b>				
Income (loss) from equity method investments	(1,901)	1,125	(3,026)	(269.0)
Change in net assets related to CMBS consolidated variable interest entities	—	342	(342)	(100.0)
Other income	360	482	(122)	(25.3)
Total other income (loss)	(1,541)	1,949	(3,490)	(179.1)
<b>Operating Expenses</b>				
General and administrative	3,767	2,361	1,406	59.6
Provision for credit losses, net	55,274	—	55,274	100.0
Management fees to affiliate	4,299	4,287	12	0.3
Incentive compensation to affiliate	1,606	953	653	68.5
Total operating expenses	64,946	7,601	57,345	754.4
<b>Income (Loss) Before Income Taxes, Preferred Dividends and Redemption Value Adjustment</b>	<b>(34,490)</b>	<b>24,257</b>	<b>(58,747)</b>	<b>(242.2)</b>
Income tax expense	82	9	73	811.1
<b>Net Income (Loss)</b>	<b>(34,572)</b>	<b>24,248</b>	<b>(58,820)</b>	<b>(242.6)</b>
<b>Preferred Stock Dividends and Redemption Value Adjustment</b>	<b>592</b>	<b>(457)</b>	<b>1,049</b>	<b>(229.5)</b>
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ (35,164)</b>	<b>\$ 24,705</b>	<b>\$ (59,869)</b>	<b>(242.3)%</b>
<b>Net Income (Loss) Per Share of Common Stock</b>				
Basic	\$ (0.61)	\$ 0.43	\$ (1.04)	(241.9)%
Diluted	\$ (0.61)	\$ 0.43	\$ (1.04)	(241.9)%
Dividends Declared per Share of Common Stock	\$ 0.43	\$ 0.43	\$ —	— %

### Three Months Ended March 31, 2020 Compared to Three months Ended March 31, 2019

#### Net Interest Income

Net interest income increased by \$2.1 million during the three months ended March 31, 2020, compared to the three months ended March 31, 2019. This increase was primarily due to the increase in our interest income as the weighted-average principal balance of our loan portfolio increased by \$1.2 billion for the three months ended March 31, 2020, compared to the three months ended March 31, 2019, as a result of continuing capital deployment. The increase in interest income was partially offset by an increase in interest expense incurred from additional borrowings on our financing facilities to fund loan originations and higher leverage. The weighted-principal balance of our borrowings increased by \$1.1 billion for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. In addition, we benefited from in-the-money LIBOR floors in our loans during the three months ended March 31, 2020 as 78% of our loan portfolio is subject to a LIBOR floor of 1.5% or higher.

In addition, we recognized \$4.5 million of deferred loan fees and origination discounts accreted into interest income (inclusive of \$0.5 million of accelerated deferred loan fees) during the three months ended March 31, 2020, as compared to \$6.4 million

(inclusive of \$3.4 million of accelerated deferred loan and prepayment fees) during the three months ended March 31, 2019. In addition, during the three months ended March 31, 2020, we recognized non-recurring exit fee income of \$2.8 million.

We also recognized \$5.4 million of deferred financing costs amortization into interest expense (inclusive of \$0.3 million of accelerated deferred financing costs) during the three months ended March 31, 2020, as compared to \$4.0 million (inclusive of \$1.0 million of accelerated deferred financing costs) during the three months ended March 31, 2019.

#### *Other Income*

Total other income decreased by \$3.5 million during the three months ended March 31, 2020, as compared to the three months ended March 31, 2019. This decrease was primarily due to a \$2.2 million loss, which includes a \$3.0 million unrealized mark-to-market loss, from our RECOP I equity method investment during the three months ended March 31, 2020, as compared to a \$0.9 million income during the three months ended March 31, 2019.

#### *Operating Expenses*

Total operating expenses increased by \$57.3 million during the three months ended March 31, 2020, as compared to the three months ended March 31, 2019. This increase was primarily due to (i) a \$55.3 million provision for credit losses in connection with adopting ASU 2016-03 on January 1, 2020, (ii) a \$0.6 million increase in non-cash stock-based compensation expense, (iii) a \$0.7 million increase in Manager incentive compensation, and (iv) \$0.5 million in dead deal costs related to deals canceled as a result of the COVID-19 impact accrued for the three months ended March 31, 2020.

The increase in the provision for credit losses during the three months ended March 31, 2020 of \$55.3 million, compared to the January 1, 2020 cumulative-effect adjustment upon adoption of ASU 2016-13 of \$15.0 million, is primarily attributed to the significant adverse change in the economic outlook due to the COVID-19 pandemic. In addition, the average risk ratings of our loans increased from 2.9 as of December 31, 2019 to 3.0 as of March 31, 2020.

The following table provides additional information regarding total operating expenses (dollars in thousands):

	<b>Three Months Ended</b>				
	<b>March 31, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>
Professional services	\$ 764	\$ 765	\$ 711	\$ 839	\$ 546
Operating and other costs	1,396	894	953	899	824
Stock-based compensation	1,607	1,017	1,040	1,043	991
Total general and administrative expenses	3,767	2,676	2,704	2,781	2,361
Provision for credit losses, net	55,274	—	—	—	—
Management fees to affiliate	4,299	4,280	4,280	4,288	4,287
Incentive compensation to affiliate	1,606	1,174	—	1,145	953
Total operating expenses	<u>\$ 64,946</u>	<u>\$ 8,130</u>	<u>\$ 6,984</u>	<u>\$ 8,214</u>	<u>\$ 7,601</u>

#### *COVID-19 Impact*

The significant and wide-ranging response of international, federal, state and local public health and governmental authorities to the COVID-19 pandemic in regions across the United States and the world, including the imposition of quarantines, “stay-at-home” orders and similar mandates for many individuals to substantially restrict daily activities and for many businesses to curtail or cease normal operations, and the volatile economic, business and financial market conditions resulting therefrom, are expected to negatively impact our business, financial performance and operating results in the second quarter and in later periods of 2020. Although we are uncertain of the potential full magnitude or duration of the business and economic impacts from the unprecedented public health efforts to contain and combat the spread of COVID-19, we will likely experience material deterioration in our financial performance and operating results, revenues, cash flow and/or profitability in one or more periods in 2020 (in addition to the second quarter) compared to the corresponding prior-year periods and compared to our expectations at the beginning of our 2020 fiscal year. Further discussion of the potential impacts on our business from the COVID-19 pandemic is provided below in the section entitled “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

## Liquidity and Capital Resources

### Overview

Our primary liquidity needs include: our ongoing commitments to repay the principal and interest on our borrowings and pay other financing costs; financing our assets; meeting future funding obligations; making distributions to our stockholders; funding our operations, which includes making payments to our Manager in accordance with the management agreement; and other general business needs.

Our primary sources of liquidity and capital sources have been derived from net proceeds from equity issuances, net advances from our secured financing agreements, inclusive of our revolver, net proceeds from collateralized loan obligations, net proceeds from issuance of convertible notes and cash flows from operations. We may seek additional sources of liquidity from syndicated financing, other borrowings (including borrowings not related to a specific investment) and future offerings of equity and debt securities. In addition, we may apply our existing cash and cash equivalents and cash flows from operations to any liquidity needs.

We are continuing to monitor the COVID-19 pandemic and its impact on our operating partners, financing sources, borrowers and their tenants, and the economy as a whole. The magnitude and duration of the COVID-19 pandemic, and its impact on our operations and liquidity, are uncertain and continue to evolve in the United States and globally. If the pandemic continues on its current trajectory, such impacts are expected to become material. To the extent that our operating partners, financing sources, borrower's and their tenants continue to be impacted by the COVID-19 pandemic, or by the other risks disclosed in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K, it would have a material adverse effect on our liquidity and capital resources.

In March 2020, we drew down the full amount of our Revolver to increase our cash position and maximize flexibility in light of the uncertainty surrounding the impact of COVID-19. Refer to Note 4, Debt Obligations of the Notes to our Condensed Consolidated Financial Statements. As of March 31, 2020, our cash and cash equivalents were \$369.9 million.

To facilitate future offerings of equity, debt and other securities, we have in place an effective shelf registration statement (the "Shelf") with the SEC. The amount of securities that may be issued pursuant to this Shelf is not to exceed \$750.0 million. The securities covered by this Shelf include: (i) common stock, (ii) preferred stock, (iii) depository shares, (iv) debt securities, (v) warrants, (vi) subscription rights, (vii) and purchase contracts, and (viii) units. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering material, at the time of any offering. In February 2019, we entered into an equity distribution agreement with certain sales agents, pursuant to which we may sell, from time to time, up to an aggregate sales price of \$100.0 million of our common stock, pursuant to a continuous offering program (the "ATM"), under the shelf. Sales of our common stock made pursuant to the ATM may be made in negotiated transactions or transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act. We did not sell any shares of our common stock under the ATM to date.

See Notes 4, 5, 6 and 9 to our condensed consolidated financial statements for additional details regarding our secured financing agreements, collateralized loan obligations, convertible notes and stock activity.

### Debt-to-Equity Ratio and Total Leverage Ratio

The following table presents our debt-to-equity ratio and total leverage ratio:

	March 31, 2020	December 31, 2019
Debt-to-equity ratio <sup>(A)</sup>	2.2x	1.9x
Total leverage ratio <sup>(B)</sup>	4.0x	3.5x

(A) Represents (i) total outstanding debt agreements (excluding non-recourse term loan facility) and convertible notes, less cash to (ii) total permanent equity, in each case, at period end.

(B) Represents (i) total outstanding debt agreements, convertible notes, loan participations sold (excluding vertical loan syndications), non-consolidated senior interests and collateralized loan obligation, less cash to (ii) total stockholders' equity, in each case, at period end.

### Sources of Liquidity

Our primary sources of liquidity include cash and cash equivalents and available borrowings under our secured financing agreements, inclusive of our Revolver. Amounts available under these sources as of the date presented are summarized in the following table (dollars in thousands):

	March 31, 2020	December 31, 2019
Cash and cash equivalents	\$ 369,867	\$ 67,619
Available borrowings under master repurchase agreements	6,876	6,174
Available borrowings under term loan financing facility	66,159	41,364
Available borrowings under term lending agreement	1,605	15,922
Available borrowings under warehouse facility	2,890	—
Available borrowings under asset specific financing	2,592	2,592
Available borrowings under revolving credit agreements	—	250,000
	<u>\$ 449,989</u>	<u>\$ 383,671</u>

In addition to our primary sources of liquidity, we have access to further liquidity through our ATM program and public offerings of debt and equity securities. Our existing loan portfolio also provides us with liquidity as loans are repaid or sold, in whole or in part, and the proceeds from repayment become available for us to invest.

### Cash Flows

The following table sets forth changes in cash and cash equivalents for the three months ended March 31, 2020 and 2019 (dollars in thousands):

	For the Three Months Ended March 31,	
	2020	2019
Cash Flows From Operating Activities	\$ 27,376	\$ 25,611
Cash Flows From Investing Activities	(154,593)	236,506
Cash Flows From Financing Activities	429,465	(120,208)
Net Increase in Cash, Cash Equivalents, and Restricted Cash	<u>\$ 302,248</u>	<u>\$ 141,909</u>

### Cash Flows from Operating Activities

Our cash flows from operating activities were primarily driven by our net interest income, which is driven by the income generated by our investments less financing costs. In addition, we received a \$2.8 million non-recurring exit fee during the three months ended March 31, 2020. The following table sets forth interest received by, and paid for, our investments for the three months ended March 31, 2020 and 2019 (dollars in thousands):

	For the Three Months Ended March 31,	
	2020	2019
<b>Interest Received:</b>		
Senior and mezzanine loans	\$ 62,142	\$ 59,690
CMBS B-Pieces	—	485
	62,142	60,175
<b>Interest Paid:</b>		
Borrowings secured by senior loans	33,376	30,834
Net interest collections	<u>\$ 28,766</u>	<u>\$ 29,341</u>

Our net interest collections were partially offset by cash used to pay management and incentive fees, as follows (dollars in thousands):

	For the Three Months Ended March 31,	
	2020	2019
Management Fees to affiliate	\$ 4,280	\$ 4,331
Incentive Fees to affiliate	1,606	953
Net decrease in cash and cash equivalents	\$ 5,886	\$ 5,284

#### *Cash Flows from Investing Activities*

Our cash flows from investing activities were primarily driven by cash outflows to fund new loan originations and our commitments under existing loan investments, partially offset by cash inflows from the sale/syndication and principal repayments on our loan investments. During the three months ended March 31, 2020, we funded \$334.1 million of CRE loans and received \$179.6 million from the repayments of CRE loans.

During the three months ended March 31, 2019, we funded \$323.5 million of senior and mezzanine loans and received \$561.8 million of principal repayments on certain loans. We also made a net investment in CMBS, held through an equity method investment, of \$1.8 million.

#### *Cash Flows from Financing Activities*

Our cash flows from financing activities were primarily driven by proceeds from borrowings under our financing agreements of \$806.0 million during the three months ended March 31, 2020, which were partially offset by (i) principal repayments of \$324.8 million on borrowings under our financing agreements, (ii) the payment of \$25.0 million in dividends, and (iii) the payment of \$23.3 million for our share repurchases.

During the three months ended March 31, 2019, our cash flows from financing activities were primarily driven by principal repayments of \$424.7 million on borrowings under our financing agreements and the payment of \$25.2 million in dividends, partially offset by proceeds from borrowings under our financing arrangements of \$335.7 million.

## Contractual Obligations and Commitments

The following table presents our contractual obligations and commitments (including interest payments) as of March 31, 2020 (dollars in thousands):

	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
<b>Recourse Obligations:</b>					
<u>Master Repurchase Facilities<sup>(A)</sup></u>					
Wells Fargo	\$ 485,893	\$ 10,487	\$ 475,406	\$ —	\$ —
Morgan Stanley	412,119	412,119	—	—	—
Goldman Sachs	225,704	225,704	—	—	—
<u>Term Lending Agreement<sup>(A)</sup></u>					
KREF Lending V	926,078	23,683	902,395	—	—
<u>Warehouse Facility</u>					
HSBC	48,383	1,015	47,368	—	—
<u>Asset Specific Financing</u>					
BMO Facility	86,392	62,220	24,172	—	—
Total secured financing agreements	2,184,569	735,228	1,449,341	—	—
Convertible Notes	171,631	8,927	17,829	144,875	—
Future funding obligations <sup>(B)</sup>	592,828	245,425	293,740	53,663	—
RECOP I commitment <sup>(C)</sup>	4,324	4,324	—	—	—
Revolver <sup>(D)</sup>	344,288	344,288	—	—	—
Total recourse obligations	3,297,640	1,338,192	1,760,910	198,538	—
<b>Non-Recourse Obligations:</b>					
Collateralized Loan Obligations	898,783	17,747	35,445	845,591	—
Term Loan Financing	1,003,026	103,202	743,397	156,427	—
Total	\$ 5,199,449	\$ 1,459,141	\$ 2,539,752	\$ 1,200,556	\$ —

- (A) The allocation of repurchase facilities and Term Lending Agreement is based on the current maturity date of each individual borrowing under these facilities. The amounts include the related future interest payment obligations, which are estimated by assuming the amounts outstanding under these facilities and the interest rates in effect as of March 31, 2020 will remain constant into the future. This is only an estimate, as actual amounts borrowed and rates may vary over time. Amounts borrowed are subject to a maximum 25.0% recourse limit.
- (B) We have future funding obligations related to our investments in senior loans. These future funding obligations primarily relate to construction projects, capital improvements, tenant improvements and leasing commissions. Generally, funding obligations are subject to certain conditions that must be met, such as customary construction draw certifications, minimum debt service coverage ratios, minimal debt yield tests, or executions of new leases before advances are made to the borrower. As such, the allocation of our future funding obligations is based on the earlier of the expected funding or commitment expiration date.
- (C) Amounts committed to invest in an aggregator vehicle alongside RECOP I, which had a two-year investment period which ended in April 2019.
- (D) Any amounts borrowed are full recourse to certain subsidiaries of KREF. Includes principal and assumes interest outstanding over a one-year period. Amounts are estimated based on the amount outstanding under the Revolver and the interest rate in effect as of March 31, 2020. This is only an estimate as actual amounts borrowed, the timing of repayments and interest rates may vary over time. The Revolver matures in December 2023.

We are required to pay our Manager a base management fee, an incentive fee and reimbursements for certain expenses pursuant to our management agreement. The table above does not include the amounts payable to our Manager under our management agreement as they are not fixed and determinable. See Note 12 to our condensed consolidated financial statements included in this Form 10-Q for additional terms and details of the fees payable under our management agreement.

As a REIT, we generally must distribute substantially all of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, to stockholders in the form of dividends to comply with the REIT provisions of the Code. Our taxable income does not necessarily equal our net income as calculated in accordance with GAAP, or our Core Earnings as described above under " — Key Financial Measures and Indicators — Core Earnings."

## Recent Market Conditions

Due to the current COVID-19 pandemic in the United States and globally, our operating partners, borrowers and their tenants, the properties securing our investments, and the economy as a whole have been, and will continue to be, adversely impacted. The magnitude and duration of the COVID-19 pandemic and its impact on our borrowers and their tenants, cash flows and future results of operations could be significant and will largely depend on future developments, which are highly uncertain and



cannot be predicted, including new information which may emerge concerning the severity of the COVID-19 pandemic, the success of actions taken to contain or treat the pandemic, and reactions by consumers, companies, governmental entities and capital markets. The prolonged duration and impact of the COVID-19 pandemic could materially disrupt our business operations and impact our financial performance.

The COVID-19 pandemic has resulted in significant disruptions in financial markets, business shutdowns and uncertainty about how the U.S. and global economy will perform over the next several months. Possible future declines in rental rates and expectations of future rental concessions, including free rent to renew tenants early, to retain tenants who are up for renewal or to attract new tenants, or rent abatements for tenants severely impacted by the COVID-19 pandemic may result in decreases in cash flows to our borrowers and potentially in defaults in paying debt service on outstanding indebtedness, which could adversely impact our results of operations and financial performance. Impending declines in economic conditions could negatively impact real estate and real estate capital markets and result in lower occupancy, lower rental rates and declining values in our portfolio, which could adversely impact the value of our investments, making it more difficult for us to make distributions or meet our financing obligations.

### **Subsequent Events**

Our subsequent events are detailed in Note 15 to our condensed consolidated financial statements

## Off-Balance Sheet Arrangements

As described in Note 8 to our condensed consolidated financial statements, we have off-balance sheet arrangements related to VIEs that we account for using the equity method of accounting and in which we hold an economic interest or have a capital commitment. Our maximum risk of loss associated with our interests in these VIEs is limited to the carrying value of our investment in the entity and any unfunded capital commitments. As of March 31, 2020, we held \$34.4 million of interests in such entities, which does not include a remaining commitment of \$4.3 million to RECOP I that we are required to fund if called.

## Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires our Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates. Other than the changes to our "Allowance for Credit Losses" below, there have been no material changes to our Critical Accounting Policies described in our Annual Report on Form 10-K.

### *Allowance for Credit Losses*

We originate and purchase CRE debt and related instruments generally to be held as long-term investments at amortized cost. We adopted ASU No. 2016-13, Financial Instruments-Credit Losses, and subsequent amendments ("ASU 2016-13"), which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss or CECL model. CECL amends the previous credit loss model to reflect our current estimate of all expected credit losses, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information.

In connection with our adoption of ASU No. 2016-13 on January 1, 2020, we implemented new processes including the utilization of loan loss forecasting models, updates to our reserve policy documentation, changes to our internal reporting processes and related internal controls. We have implemented loan loss forecasting models for estimating expected life-time credit losses, at the individual loan level, for our commercial mortgage loan portfolio. The CECL forecasting methods used by us include (i) a probability of default and loss given default method using underlying third-party CMBS/CRE loan database with historical loan losses from 1998 to 2019, and (ii) probability weighted expected cash flow method, depending on the type of loan and the availability of relevant historical market loan loss data. We might use other acceptable alternative approaches in the future depending on, among other factors, the type of loan, underlying collateral, and availability of relevant historical market loan loss data.

We estimate our CECL expected credit losses for our loan portfolio, including unfunded loan commitments, at the individual loan level. Significant inputs to our forecasting methods include (i) key loan-specific inputs such as loan-to-value ("LTV"), vintage year, loan-term, underlying property type, occupancy, geographic location, and expected timing and amount of future loan fundings, (ii) performance against the underwritten business plan and our internal loan risk rating and (iii) a macro-economic forecast. In certain instances, we consider relevant loan-specific qualitative factors to certain loans to estimate its CECL expected credit losses.

We consider loan investments that are both (i) expected to be substantially repaid through the operation or sale of the underlying collateral, and (ii) for which the borrower is experiencing financial difficulty, to be "collateral-dependent" loans. For such loans that we determine that foreclosure of the collateral is probable, we measure the expected losses based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. For collateral-dependent loans that we determine foreclosure is not probable, we apply a practical expedient to estimate expected losses using the difference between the collateral's fair value (less costs to sell the asset if repayment is expected through the sale of the collateral) and the amortized cost basis of the loan.

We consider the individual loan internal risk rating as the primary credit quality indicator underlying the CECL assessment. We perform a quarterly review of our loan portfolio on at the individual loan level to determine the internal risk rating for each of our loans by assessing the risk factors of each loan, including, without limitation, LTV, debt yield, property type, geographic

and local market dynamics, physical condition, cash flow volatility, leasing and tenant profile, loan structure and exit plan, and project sponsorship. Considering these factors, we rate our loans based on a five-point scale, "1" through "5", from less risk to greater risk, which ratings are defined as follows:

1-Very Low Risk-The underlying property performance has surpassed underwritten expectations, and the sponsor's business plan is generally complete. The property demonstrates stabilized occupancy and/or rental rates resulting in strong current cash flow and/or a very low loan-to-value ratio (<65%). At the level of performance, it is very likely that the underlying loan can be refinanced easily in the period's prevailing capital market conditions.

2-Low Risk-The underlying property performance has matched or exceeded underwritten expectations, and the sponsor's business plan may be ahead of schedule or has achieved some or many of the major milestones from a risk mitigation perspective. The property has achieved improving occupancy at market rents, resulting in sufficient current cash flow and/or a low loan-to-value ratio (65%-70%). Operating trends are favorable, and the underlying loan can be refinanced in today's prevailing capital market conditions. The sponsor/manager is well capitalized or has demonstrated a history of success in owning or operating similar real estate.

3-Average Risk-The underlying property performance is in-line with underwritten expectations, or the sponsor may be in the early stages of executing its business plan. Current cash flow supports debt service payments, or there is an ample interest reserve or loan structure in place to provide the sponsor time to execute the value-improvement plan. The property exhibits a moderate loan-to-value ratio (<75%). Loan structure appropriately mitigates additional risks. The sponsor/manager has a stable credit history and experience owning or operating similar real estate.

4-High Risk/Potential for Loss: A loan that has a risk of realizing a principal loss. The underlying property performance is behind underwritten expectations, or the sponsor is behind schedule in executing its business plan. The underlying market fundamentals may have deteriorated, comparable property valuations may be declining or property occupancy has been volatile, resulting in current cash flow that may not support debt service payments. The loan exhibits a high loan-to-value ratio (>80%), and the loan covenants are unlikely to fully mitigate some risks. Interest payments may come from an interest reserve or sponsor equity.

5-Impaired/Loss Likely: A loan that has a very high risk of realizing a principal loss or has otherwise incurred a principal loss. The underlying property performance is significantly behind underwritten expectations, the sponsor has failed to execute its business plan and/or the sponsor has missed interest payments. The market fundamentals have deteriorated, or property performance has unexpectedly declined or valuations for comparable properties have declined meaningfully since loan origination. Current cash flow does not support debt service payments. With the current capital structure, the sponsor might not be incentivized to protect its equity without a restructuring of the loan. The loan exhibits a very high loan-to-value ratio (>90%), and default may be imminent.

Refer to Note 2 to our condensed consolidated financial statements for the description of our significant accounting policies.

## **Recently Adopted Accounting Standard**

### ***Credit Losses***

On January 1, 2020, we adopted ASU No. 2016-13, Financial Instruments-Credit Losses, and subsequent amendments, which replaces the incurred loss methodology with an expected loss model known as the Current Expected Credit Loss or CECL model. CECL amends the previous credit loss model to reflect a reporting entity's current estimate of all expected credit losses, not only based on historical experience and current conditions, but also by including reasonable and supportable forecasts incorporating forward-looking information. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, and off-balance sheet credit exposures such as unfunded loan commitments. The allowance for credit losses required under ASU 2016-13 is deducted from the respective loans' amortized cost basis on our condensed consolidated balance sheets. The allowance for credit losses attributed to unfunded loan commitments is included in "Accounts payable, accrued expenses and other liabilities" in our condensed consolidated balance sheets. The guidance also requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

Based on our loan portfolio at January 1, 2020, the pre COVID-19 economic environment and the respective expectations for future economic conditions at the time, we recorded a cumulative-effect adjustment to our accumulated deficit as of January 1, 2020 of \$15.0 million, or \$0.26 per common share, of which \$1.1 million, or \$0.02 per common share, is attributable to unfunded loan commitments. In addition, we recorded an incremental CECL allowance for credit losses for the three months ended March 31, 2020 of \$55.3 million, or \$0.96 per common share, resulting in a cumulative quarter-to-date CECL impact of \$70.3 million or \$1.22 per common share.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment rates and market value, while at the same time seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns. While risks are inherent in any business enterprise, we seek to quantify and justify risks in light of available returns and to maintain capital levels consistent with the risks we undertake.

#### **Credit Risk**

Our investments are subject to credit risk, including the risk of default. The performance and value of our investments depend upon the sponsors' ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, our Manager reviews our investment portfolio and is in regular contact with the sponsors, monitoring performance of the collateral and enforcing our rights as necessary.

#### **Credit Yield Risk**

Credit yields measure the return demanded on financial instruments by the lending market based on their risk of default. Increasing supply of credit-sensitive financial instruments and reduced demand will generally cause the market to require a higher yield on such financial instruments, resulting in a lower price for the financial instruments we hold.

#### **Interest Rate Risk**

Generally, the composition of our investments is such that rising interest rates will increase our net income, while declining interest rates will decrease our net income. Our net interest income currently benefits from in-the-money LIBOR floors in our loan portfolio, which benefit is expected to initially decrease as LIBOR increases. There can be no assurance that we will continue to utilize LIBOR floors. As of March 31, 2020, one-month USD LIBOR was 0.99%, as compared to 1.76% as of December 31, 2019. There can be no assurance of how our net income may be affected in future quarters, which will depend on, among other things, the interest rate environment and our then-current portfolio. As of March 31, 2020, 99.2% of our investments by total assets earned a floating rate of interest indexed to one-month USD LIBOR. The remaining 0.8% of our investments earned a fixed rate of interest. If interest rates were to decline, the value of these fixed-rate investments may increase and if interest rates were to increase, the value of these fixed-rate investments may fall; however, the interest income generated by these fixed-rate investments would not be affected by market interest rates. The interest rates we pay under our current financing facilities are floating rate. Accordingly, our interest expense will generally increase as interest rates increase and decrease as interest rates decrease.

As noted above, our interest income generally decreases as LIBOR decreases; in certain circumstances, however, LIBOR floors relating to our loan portfolio may offset some of the impact from declining rates. As of March 31, 2020, 98% of our loan portfolio is subject to a LIBOR floor of 0.95% or higher and 78% of our loan portfolio is subject to a LIBOR floor of 1.5% or higher. Due to these LIBOR floors, a 25 basis point and 50 basis point decrease in LIBOR would increase our expected cash flows by approximately \$9.6 million and \$19.3 million for the twelve months following March 31, 2020. Conversely, a 25 basis point and 50 basis point increase in LIBOR would decrease our expected cash flows by approximately \$7.6 million and \$14.9 million for the same period.

#### *LIBOR Transition*

LIBOR is expected to be discontinued after 2021. As of March 31, 2020, 99.9% of our loans by principal balance earned a floating rate of interest indexed to LIBOR, and 100.0% of our outstanding financing arrangements (excluding convertible notes) bear interest indexed to LIBOR. All of these arrangements provide procedures for determining an alternative base rate in the event that LIBOR is discontinued. Regardless, there can be no assurances as to what alternative base rates may be and whether such base rate will be more or less favorable than LIBOR and any other unforeseen impacts of the potential discontinuation of LIBOR. We intend to monitor the developments with respect to the potential phasing out of LIBOR after 2021 and work with our lenders and borrowers to minimize the impact of any LIBOR transition on our financial condition and results of operations, but can provide no assurances regarding the impact of the discontinuation of LIBOR.

#### **Prepayment Risk**

Prepayment risk is the risk that principal will be repaid at an earlier date than anticipated, potentially causing the return on certain investments to be less than expected. As we receive prepayments of principal on our assets, any premiums paid on such assets are amortized against interest income. In general, an increase in prepayment rates accelerates the amortization of

purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest income earned on the assets. Additionally, we may not be able to reinvest the principal repaid at the same or higher yield of the original investment.

### **Financing Risk**

We finance our target assets using our repurchase facilities, our Term Lending Agreement, our Term Loan Financing, Asset Based Financing, collateralized loan obligations and through syndicating senior participations in our originated senior loans. Over time, as market conditions change, we may use other forms of leverage in addition to these methods of financing. Weakness or volatility in the financial markets, the CRE and mortgage markets or the economy generally could adversely affect one or more of our lenders or potential lenders and could cause one or more of our lenders or potential lenders to be unwilling or unable to provide us with financing, or to decrease the amount of our available financing through a market to market, or to increase the costs of that financing.

### **Real Estate Risk**

The market values of commercial mortgage assets are subject to volatility and may be adversely affected 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; 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 us to suffer losses.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that the information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurances of achieving the desired controls.

Our management, with the participation of our Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2020. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2020, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

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

No changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) of the Exchange Act) occurred during the quarter ended March 31, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The section entitled “Litigation” appearing in Note 11 of our condensed consolidated financial statements included in this Form 10-Q is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

For information regarding factors that could affect the Company’s business, results of operations, financial condition and liquidity, see the information under Part I, Item 1A. “Risk Factors” in the Form 10-K, which is accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov).

In light of the rapid, worldwide spread of a novel strain of coronavirus (“COVID-19”) and the resulting global economic disruption and uncertainty which occurred subsequent to the filing of our Form 10-K, the Company is supplementing the risk factors discussed in our Form 10-K with the following risk factors, which should be read in conjunction with the risk factors contained in our Form 10-K.

#### Risks Related to COVID-19

In December 2019, a novel coronavirus disease was reported and in January 2020, the World Health Organization (“WHO”) declared COVID-19 a Public Health Emergency of International Concern. On February 28, 2020, the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries, and on March 11, 2020, the WHO characterized COVID-19 as a pandemic.

The scale and scope of the COVID-19 pandemic may heighten the potential adverse effects on our business, financial performance, operating results, cash flows and/or financial condition described in the risk factors in our Form 10-K for the quarterly periods and full fiscal year of 2020, which may be material and affect us in ways we cannot foresee at this time. Although it is impossible to predict with certainty the potential full magnitude of the business and economic ramifications, COVID-19 has impacted, and may further impact, our business in various ways, including but not limited to:

- the inability of our borrowers’ tenants to pay rent on their leases or our borrowers’ inability to re-lease space that becomes vacant, which inability, if extreme, could cause our borrowers to default on their loans and could cause us to: (i) no longer be able to pay dividends at our current rates or at all in order to preserve liquidity and (ii) be unable to meet our debt obligations to lenders or satisfy our debt covenants, which could cause us to have to sell our investments or refinance debt on unattractive terms;
- a severe disruption and instability in the global financial markets or deteriorations in credit and financing conditions may affect our ability to access capital necessary to fund our investments at attractive interest rates, or at all, and may adversely affect the valuation of financial assets and liabilities, any of which could affect have a material adverse effect on our business, financial condition, results of operations and cash flows;
- uncertainties created by the COVID-19 pandemic may make it difficult to estimate provisions for loan losses;
- deterioration in the performance of the properties securing our investments that may cause deterioration in the performance of our investments and, potentially, principal losses to us;
- difficulty or delays in redeploying the proceeds from repayments of our existing investments;
- provisions in our current and future financing agreements may require us to provide additional collateral or pay down debt;
- economic and market conditions affecting the value of our financial instruments and the value of particular assets and liabilities; and
- fluctuations in equity market prices, interest rates and credit spreads limiting our ability to raise or deploy capital on a timely basis and affecting our overall liquidity.

In addition, the COVID-19 pandemic may adversely impact our business and financial condition in other areas, including:



- an inability to operate or review potential investments in affected areas as a result of quarantines, restrictions on travel, “shelter in place” rules, restrictions on types of businesses that may continue to operate and/or restrictions on types of construction projects that may continue;
- delays in responsiveness by borrowers and other third parties in other matters arising in the ordinary course of business due to their prioritization of matters relating to COVID-19;
- some of our borrowers and/or their tenants operate in industries that are materially impacted by COVID-19, including but not limited to healthcare, travel, entertainment, hospitality, senior living and retail industries. Such persons are facing operational and financial hardships resulting from the spread of COVID-19 and related governmental measures, such as the closure of stores, restrictions on travel, quarantines or stay-at-home orders. If the disruptions caused by COVID-19 continue and the restrictions put in place are not lifted, the businesses of borrowers and/or their could suffer materially or become insolvent, which would adversely affect our business;
- an extended period of remote working by our Manager’s and/or its affiliate’s employees could strain our technology resources and introduce operational risks, including heightened cybersecurity risk. Remote working environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic; and
- COVID-19 presents a significant threat to our Manager’s and/or its affiliate’s employees’ well-being and morale, and we may experience potential loss of productivity or a delay in the roll out of certain strategic plans.

Because the properties securing our loan portfolio are located in the United States, COVID-19 will impact such loans and operating results of our borrowers to the extent that its continued spread within the United States reduces occupancy, increases the cost of operation, results in limited hours or necessitates the closure of such properties. In addition, governmental measures, such as quarantines, states of emergencies, restrictions on travel, stay-at-home orders, and other measures taken to curb the spread of the COVID-19 may negatively impact the ability of our borrowers to continue to obtain necessary goods and services or provide adequate staffing, which may also adversely affect our loans and operating results.

Some of our borrowers operate in industries that are being adversely affected by the disruption to business caused by this global outbreak. Our borrowers’ tenants have been, and may in the future be, required to suspend operations at the properties securing our loan portfolio for what could be an extended period of time. For example, with respect to retail properties in our loan portfolio, individual non-essential stores have been, and may continue to be, closed for an extended period of time or only open certain hours of the day. Certain office and industrial properties in our loan portfolio have been negatively impacted by similar impacts on the businesses of our borrowers and their tenants and may continue to be impacted by tenant bankruptcies and defaults. Multifamily properties in our loan portfolio have been impacted by declining household incomes and wealth, which may result in delinquencies or vacancies.

Given the ongoing nature of the outbreak, at this time we cannot reasonably estimate the magnitude of the ultimate impact that COVID-19 will have on our business, financial performance and operating results. We believe COVID-19’s adverse impact on our business, financial performance and operating results will in part be significantly driven by a number of factors that we are unable to predict or control, including, for example: the severity and duration of the pandemic; the pandemic’s impact on the U.S. and global economies; the timing, scope and effectiveness of additional governmental responses to the pandemic; the timing and speed of economic recovery, including the availability of a treatment or vaccination for COVID-19; and the negative impact on our financing sources, vendors and other business partners that may indirectly adversely affect us.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Issuer Purchases of Equity Securities

In May 2018, our board of directors approved a \$100.0 million share repurchase program, effective June 12, 2018, which was scheduled to expire on June 30, 2019. On June 17, 2019, we announced that our board of directors approved an extension of the program. The share repurchase program, as extended, permits us to repurchase up to \$100.0 million of our common stock during the period from July 1, 2019 through June 30, 2020. Of this total authorized amount, \$50.0 million may be covered by a pre-set trading plan meeting the requirements of Rule 10b5-1 under the Exchange Act that provides for repurchases of our common stock when the market price per share of our common stock is below book value per share (calculated in accordance with GAAP as of the end of the most recent period for which financial statements are available), and the remaining \$50.0 million may be used for repurchases in the open market, or pursuant to pre-set trading plans meeting the requirements of Rule 10b5-1 under the Exchange Act, or in privately negotiated transactions, or otherwise.

The following table sets forth information regarding purchases of shares of our common stock by us or on our behalf during the three months ended March 31, 2020:

Period Beginning	Period Ending	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Amounts paid for shares purchased as part of publicly announced program	Approximate dollar value of shares that may yet be purchased under the program <sup>(A)(B)</sup>
January 1, 2020	January 31, 2020	—	\$ —	—	\$ —	\$ 100,000,000
February 1, 2020	February 29, 2020	—	—	—	—	100,000,000
March 1, 2020	March 31, 2020	1,648,551	11.64	1,648,551	19,195,000	80,805,000
Total/Average		<u>1,648,551</u>	<u>\$ 11.64</u>		<u>\$ 19,195,000</u>	

(A) Includes \$30.8 million reserved for repurchases at prices below the then book value per share under pre-set trading plans meeting the requirements of Rule 10b5-1 under the Exchange Act as of March 31, 2020.

(B) In April 2020, we repurchased 389,086 shares of its common stock at an average price per share of \$14.92 for a total of \$5.8 million, (See Note 15 - Subsequent Events to our condensed consolidated financial statements).

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
10.1	<a href="#">Fifth Amendment to Master Repurchase Agreement, dated February 21, 2020, between Morgan Stanley Bank, N.A. and KREF Lending IV LLC and KKR Real Estate Finance Holdings L.P.</a>
31.1	<a href="#">Certificate of Matthew A. Salem, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2	<a href="#">Certificate of Mostafa Nagaty, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1	<a href="#">Certificate of Matthew A. Salem, Chief Executive Officer, pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</a>
32.2	<a href="#">Certificate of Mostafa Nagaty, Chief Financial Officer, pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</a>
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File, formatted in Inline XBRL and contained in Exhibit 101.

Certain agreements and other documents filed as exhibits to this Form 10-Q contain representations and warranties that the parties thereto made to each other. These representations and warranties have been made solely for the benefit of the other parties to such agreements and may have been qualified by certain information that has been disclosed to the other parties to such agreements and other documents and that may not be reflected in such agreements and other documents. In addition, these representations and warranties may be intended as a way of allocating risks among parties if the statements contained therein prove to be incorrect, rather than as actual statements of fact. Accordingly, there can be no reliance on any such representations and warranties as characterizations of the actual state of facts. Moreover, information concerning the subject matter of any such representations and warranties may have changed since the date of such agreements and other documents.

**SIGNATURES**

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

**KKR REAL ESTATE FINANCE TRUST INC.**

Date: April 28, 2020

By: /s/ Matthew A. Salem

Name: Matthew A. Salem

Title: Chief Executive Officer

(Principal Executive Officer)

Date: April 28, 2020

By: /s/ Mostafa Nagaty

Name: Mostafa Nagaty

Title: Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)

**FIFTH AMENDMENT TO MASTER REPURCHASE AGREEMENT**

THIS FIFTH AMENDMENT TO MASTER REPURCHASE AGREEMENT (this "Amendment"), dated February 21, 2020, by and among MORGAN STANLEY BANK, N.A. ("Buyer"), KREF LENDING IV LLC ("Seller") and KKR REAL ESTATE FINANCE HOLDINGS L.P. ("Guarantor") amends that certain Master Repurchase and Securities Contract Agreement, dated December 6, 2016, by and between Buyer and Seller, as modified by that certain Omnibus Amendment, dated as of November 10, 2017 by and among Guarantor, Seller and Buyer, as further modified by that certain First Amendment to Repurchase Agreement, dated as of December 31, 2018 by and between Buyer and Seller, as further modified by that certain Second Amendment to Repurchase Agreement, dated March 14, 2019 by and between Buyer and Seller, and as further modified by that certain Third Amendment to Master Repurchase Agreement dated June 7, 2019 by and among Guarantor, Seller and Buyer, and as further modified by that certain Fourth Amendment to Master Repurchase Agreement, dated December 4, 2019 by and among Guarantor, Seller and Buyer (as the same has been or may be further amended, modified and/or restated from time to time, the "Repurchase Agreement") and the other Transaction Documents as provided herein.

**RECITALS**

WHEREAS, the parties hereto desire to make certain amendments to the Repurchase Agreement and the other Transaction Documents as provided herein.

NOW, THEREFORE, for good and valuable consideration, the parties hereto agree as follows:

1. Amendment to the Repurchase Agreement.

- (a) The definition of "Extension Period" is hereby added to Section 2, as follows:

"Extension Period" shall have the meaning specified in Section 9(a).

- (b) The definition of "Facility Termination Date" in Section 2 of the Repurchase Agreement is hereby amended and restated in its entirety as follows:

"Facility Termination Date" shall mean December 6, 2020, as such date may be extended in accordance with Section 9(a) and Section 9(b) of this Agreement.

- (c) The following is hereby inserted as Section 9(a) of the Repurchase Agreement:

Seller shall have two successive options to extend the then current Facility Termination Date each for an additional one (1) year period (each, an "Extension Period") by written notice delivered to Buyer (i) with respect to the first such Extension Period, no later than thirty (30) days before December 6, 2020, and

(ii) with respect to the second Extension Period, no later than thirty (30) days before December 6, 2021. Each such Extension Period shall be automatically effective without any further action by Buyer so long as (x) no Event of Default shall exist on the then current Facility Termination Date and (y) Seller shall have paid the Extension Fee to Buyer on or before the then-current Facility Termination Date.

(d) Section 9(b) of the Repurchase Agreement is hereby deleted and the following is inserted in lieu thereof:

In addition to the Extension Periods described in Section 9(a) above, Seller may request two additional Extension Periods by written notice delivered to Buyer no earlier than one hundred (120) days and no later than thirty (30) days prior to the then-current Facility Termination Date (after giving effect to the expiration of both Extension Periods as set forth in Section 9(a) above). Each such request may be approved or denied in Buyer's sole discretion (on the same terms or such different terms as may be determined by Buyer at such time in its sole discretion), and in any case shall be approved only if (i) no Default, Event of Default or Margin Deficit Default shall exist on the date of Seller's request to extend or on the then-current Facility Termination Date, (ii) all representations and warranties in this Agreement shall be true, correct, complete and accurate in all respects as of the then-current Facility Termination Date (except such representations which by their terms speak as of a specified date and subject to any exceptions disclosed to Buyer in an Exception Report prior to such date and approved by Buyer and subject to any exceptions disclosed to Buyer in writing for matters or events occurring subsequent to such date which are not prohibited and do not constitute a default under this Agreement), and (iii) on or before the then-current Facility Termination Date, Seller shall have paid the Extension Fee to Buyer. Buyer shall notify Seller within ten (10) days of receipt of Seller's request for an extension whether Buyer approves or denies such extension.

2. Defined Terms. Capitalized terms used but not defined herein shall have the meanings set forth in the Repurchase Agreement.

3. Ratification and Authority.

(a) Seller hereby represents and warrants that (i) Seller has the power and authority to enter into this Amendment and to perform its obligations under the Repurchase Agreement as amended hereby and the other Transaction Documents, (ii) Seller has by proper action duly authorized the execution and delivery of this Amendment and (iii) this Amendment has been duly executed and delivered by Seller and constitutes Seller's legal, valid and binding obligations, enforceable in accordance with its terms, subject to bankruptcy, insolvency and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

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(b) Seller hereby (i) unconditionally ratifies and confirms, renews and reaffirms all of its obligations under the Repurchase Agreement and each of the other Transaction Documents, (ii) acknowledges and agrees that such obligations remain in full force and effect, binding on and enforceable against it in accordance with the terms of the Repurchase Agreement as amended hereby and the other Transaction Documents, in each case, subject to bankruptcy, insolvency and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles and (iii) represents, warrants and covenants that it is not in default under the Repurchase Agreement or any of the other Transaction Documents beyond any applicable notice and cure periods, and there are no defenses, offsets or counterclaims against Seller's obligations under the Repurchase Agreement or the other Transaction Documents.

(c) Guarantor, by its signature below, hereby (i) unconditionally approves and consents to the execution by Seller of this Amendment and the modifications to the Transaction Documents effected thereby, (ii) unconditionally ratifies, confirms, renews, and reaffirms all of its obligations under the Guaranty, (iii) acknowledges and agrees that its obligations under the Guaranty remain in full force and effect, binding on and enforceable against it in accordance with its terms subject to bankruptcy, insolvency and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles and (iv) represents, warrants and covenants that it is not in default under the Guaranty beyond any applicable notice and cure periods, and there are no defenses, offsets or counterclaims against its obligations under the Guaranty. Guarantor hereby represents and warrants that it has the power and authority to enter into this Amendment and has by proper action duly authorized the execution and delivery of this Amendment by Guarantor.

4. Continuing Effect. Except as expressly amended by this Amendment, the Repurchase Agreement, the Guaranty and the other Transaction Documents remain in full force and effect in accordance with their respective terms.

5. References in Transaction Documents. All references to the Repurchase Agreement in any Transaction Document, or in any other document executed or delivered in connection therewith shall, from and after the execution and delivery of this Amendment, be deemed a reference to the Repurchase Agreement as amended hereby, unless the context expressly requires otherwise.

6. Governing Law. This Amendment shall be governed by and construed and interpreted in accordance with the laws of the State of New York.

7. Counterparts. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this

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Amendment in Portable Document Format (PDF) or by facsimile transmission shall be effective as delivery of a manually executed original counterpart thereof.

[Signatures appear on the next page.]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered in their names as of the date first above written.

**BUYER:**

**MORGAN STANLEY BANK, N.A.,**  
a national banking association

By: /s/ Anthony Preisano  
Name: Anthony Preisano  
Title: Authorized Signatory

[Signatures continue on the next page.]

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**SELLER:**

**KREF LENDING IV LLC,**  
a Delaware limited liability company

By: /s/ Patrick Mattson  
Name: Patrick Mattson  
Title: Authorized Signatory

**GUARANTOR:**

**KKR REAL ESTATE FINANCE HOLDINGS L.P.,**  
a Delaware limited partnership

By: **KKR REAL ESTATE FINANCE TRUST INC.,** its general partner

By: /s/ Patrick Mattson  
Name: Patrick Mattson  
Title: Authorized Signatory

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## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Matthew A. Salem, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 of KKR Real Estate Finance Trust Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financing reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financing reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Matthew A. Salem

**Matthew A. Salem**  
**Chief Executive Officer**  
**(Principal Executive Officer)**  
April 28, 2020

## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Mostafa Nagaty, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 of KKR Real Estate Finance Trust Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financing reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Mostafa Nagaty

**Mostafa Nagaty**  
**Chief Financial Officer**  
**(Principal Financial Officer)**  
April 28, 2020

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

In connection with the Quarterly Report on Form 10-Q of KKR Real Estate Finance Trust Inc. (the “Company”) for the quarterly period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matthew A. Salem, Co-Chief Executive Officer and Co-President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Matthew A. Salem

**Matthew A. Salem**

**Chief Executive Officer**

**(Principal Executive Officer)**

April 28, 2020

*\* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.*

