

# KKR Real Estate Finance Trust Inc.

*4<sup>th</sup> Quarter 2017 Supplemental Information*

February 28, 2018



# Legal Disclosures

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All forward looking statements in this presentation speak only as of February 28, 2018. KREF undertakes no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by law.

All financial information in this presentation is as of December 31, 2017 unless otherwise indicated.

This presentation also includes non-GAAP financial measures, including Core Earnings, Core Earnings per Weighted Average Share, Net Core Earnings and Net Core Earnings per Weighted Average Share. Such non-GAAP financial measures should be considered only as supplemental to, and not as superior to, financial measures prepared in accordance with U.S. GAAP. Please refer to the Appendix of this presentation for a reconciliation of the non-GAAP financial measures included in this presentation to the most directly comparable financial measures prepared in accordance with U.S. GAAP.

# 4Q17 Key Highlights

## Financials

- Net income attributable to common stockholders of \$17.0 million or \$0.32 per share; Net Core Earnings<sup>(1)</sup> of \$17.1 million or \$0.32 per share
- Book value of \$19.73 per share
- Paid 4Q dividend of \$0.37 per share on January 12, 2018, equating to a 7.6% annualized dividend yield<sup>(2)</sup>

## Originations

- Originated \$331.8 million of floating-rate senior loans with a weighted average LTV of 66%<sup>(3)</sup>
- 2017 originations of \$1.5 billion
- Subsequent to quarter end, originated a \$75.5 million floating-rate senior loan with an LTV of 73%<sup>(3)</sup>

## Total Portfolio

- Outstanding total loan portfolio of \$2.1 billion, up 15% from 3Q
- Portfolio weighted average LTV of 67%<sup>(3)</sup>
- 93% floating-rate senior loans
- Senior loans weighted average LTV of 67%<sup>(3)</sup>
- Weighted average risk rating of 2.9 (Average Risk)

## Capitalization

- \$0.9 billion of undrawn capacity on secured financing facilities
- (1) Upsized two term credit facilities by a total of \$250 million and extended maturity dates and (2) terminated \$250 million term credit facility

## Interest Rate Sensitivity

- 93% of the portfolio is floating-rate
- A 50 basis point increase in one-month USD LIBOR would increase net interest income by \$2.8 million or \$0.05 per share over the next twelve months<sup>(4)</sup>

Note: Net income attributable to common stockholders per share and Net Core Earnings per share based on diluted weighted average shares outstanding as of December 31, 2017; book value per share and increase in net interest income per share due to an increase in one-month USD LIBOR based on shares outstanding at December 31, 2017.

(1) See Appendix for definition and reconciliation to financial results prepared in accordance with GAAP.

(2) Based on KREF closing price as of February 28, 2018.

(3) LTV is generally based on the initial loan amount divided by the as-is appraised value as of the date the loan was originated.

(4) Assumes spot one-month USD LIBOR rate of 1.56%.

# 4Q17 Financial Summary

## Income Statement

(\$ in Millions, except per share data)

	4Q17
Net Interest Income	\$19.8
Other Income	\$3.8
Operating Expenses and Other	\$(6.5)
<b>Net Income Attributable to Common Stockholders</b>	<b>\$17.0</b>
Weighted Average Shares Outstanding, Diluted	53,688,027
<b>Net Income Per Share</b>	<b>\$0.32</b>
<b>Net Core Earnings<sup>(1)</sup></b>	<b>\$17.1</b>
<b>Net Core Earnings per Share<sup>(1)</sup></b>	<b>\$0.32</b>
<b>Dividend per Share</b>	<b>\$0.37</b>

## Balance Sheet

(\$ in Millions, except per share data)

	4Q17
Total Portfolio	\$2,083.1
Secured Debt Outstanding Face Amount	\$969.3
Senior Loan Interests <sup>(2)</sup>	\$145.0
Total Leverage	\$1,114.3
Total Stockholders Equity	\$1,059.1
Cash	\$103.1
<b>Debt-to-Equity Ratio<sup>(3)</sup></b>	<b>0.8x</b>
<b>Total Leverage Ratio<sup>(4)</sup></b>	<b>1.0x</b>
Shares Outstanding	53,685,440
<b>Book Value Per Share</b>	<b>\$19.73</b>

(1) See Appendix for definition and reconciliation to financial results prepared in accordance with GAAP.

(2) Includes \$82.0 million of Loan Participations Sold and \$63.0 million of Non-Consolidated Senior Interests, which resulted from non-recourse sales of senior loan interests in loans KREF originated.

(3) Represents (i) total outstanding face amount of secured debt agreements less cash to (ii) total stockholders' equity.

(4) Represents (i) total outstanding face amount of secured debt agreements, loan participations sold and non-consolidated senior interests less cash to (ii) total stockholders' equity.

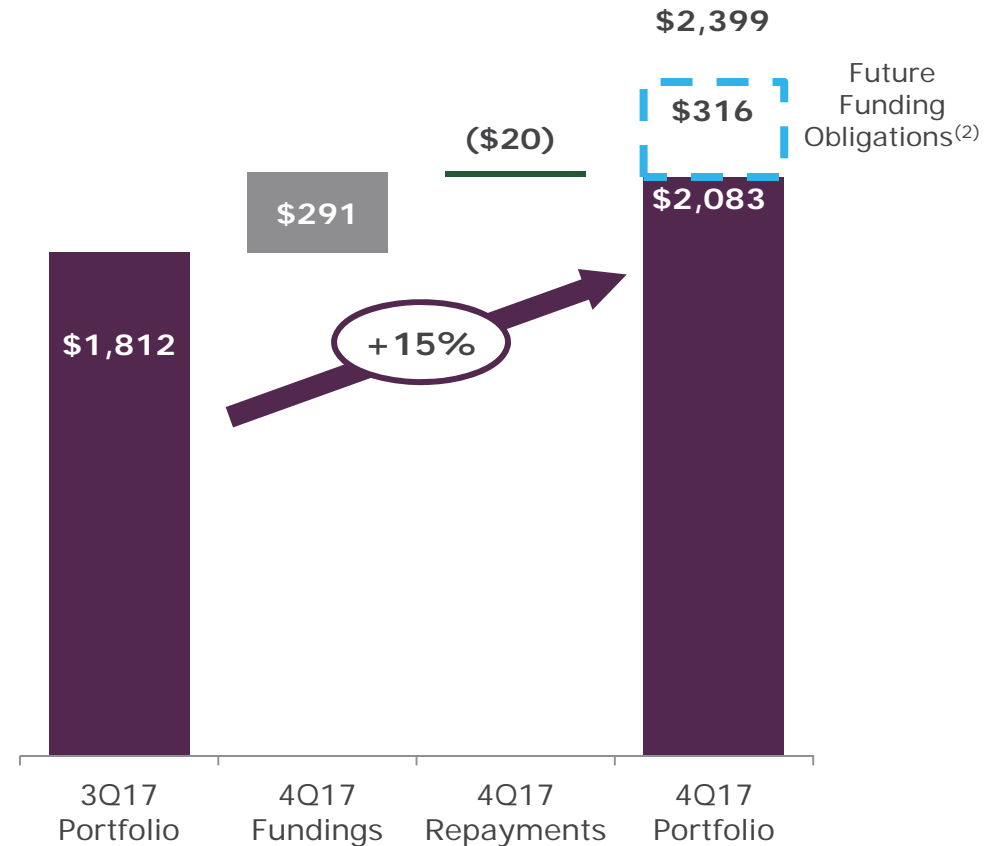
# 4Q17 Loan Originations

## Summary of 4Q17 Originations

2	New loans originated
\$332mm	Committed to new loans
100%	Senior loans
100%	Floating-rate loans
66%	Weighted average LTV
L+4.0%	Weighted average coupon
11.8%	Weighted average underwritten IRR <sup>(1)</sup>

## Outstanding Portfolio

(\$ in Millions)



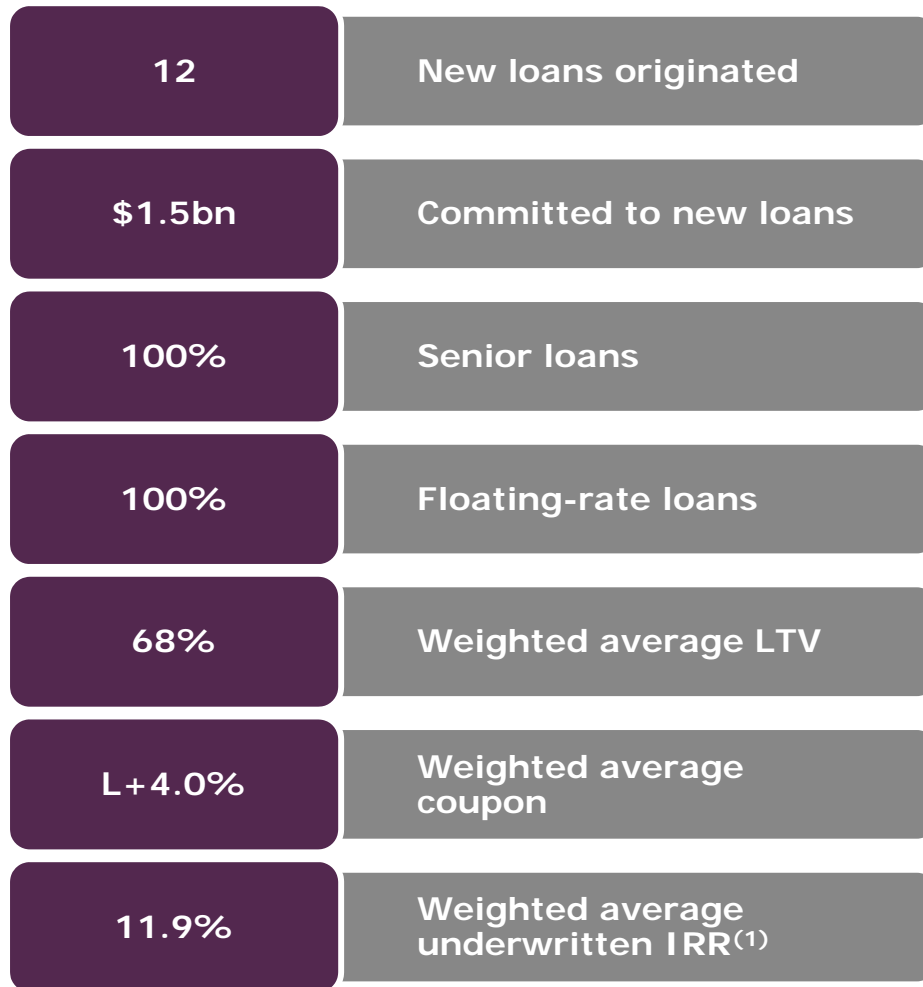
(1) See Appendix for definition.

(2) Future funding obligations are generally contingent upon certain events and may not result in investment by us.

# 2017 Loan Originations

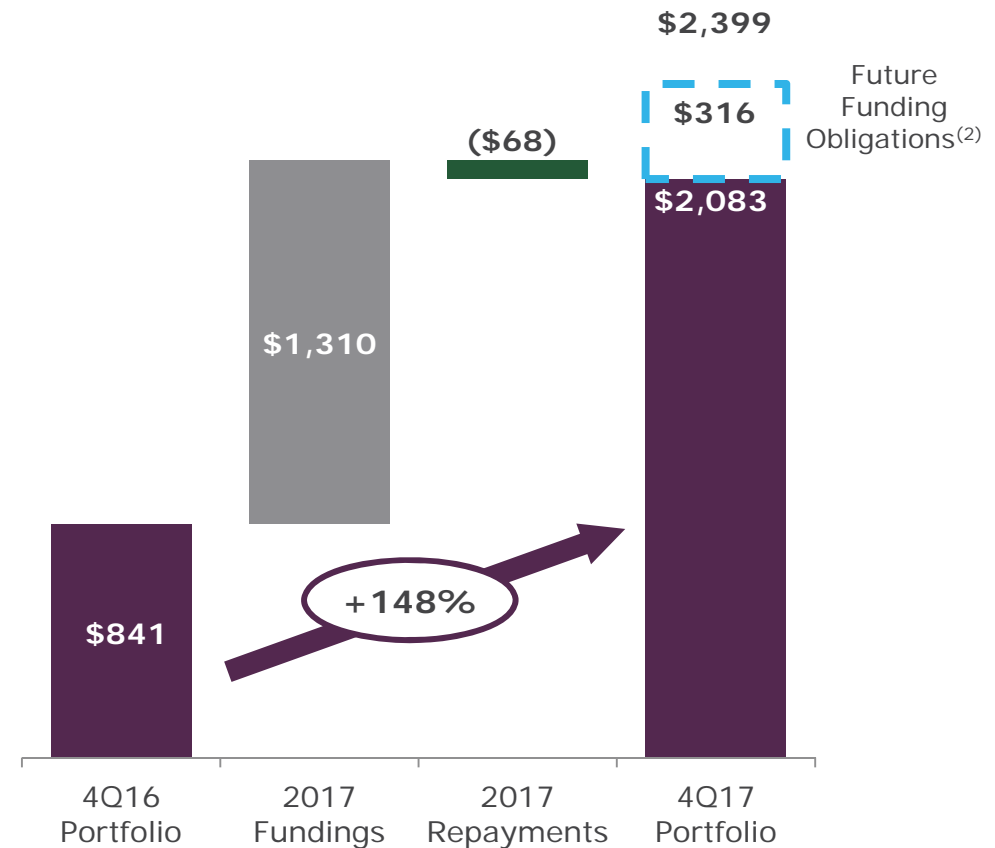
- Originated \$1.5 billion of floating-rate senior loans in 2017, up 175% from prior year

## Summary of 2017 Originations



## Outstanding Portfolio

(\$ in Millions)



(1) See Appendix for definition.

(2) Future funding obligations are generally contingent upon certain events and may not result in investment by us.

# 4Q17 Loan Originations – Case Studies

Investment	New Jersey Multifamily	Minneapolis Office
Loan Type	Floating-Rate Senior Loan	Floating-Rate Senior Loan
Loan Size	\$150 million	\$182 million
Location	North Bergen, NJ	Minneapolis, MN
Collateral	320 unit Class A luxury apartment building	Two Class A office buildings totaling 1.1mm SF
Loan Purpose	Acquisition	Refinance
LTV <sup>(1)</sup>	57%	75%
Investment Date	October 2017	November 2017

## Asset Photos<sup>(2)</sup>



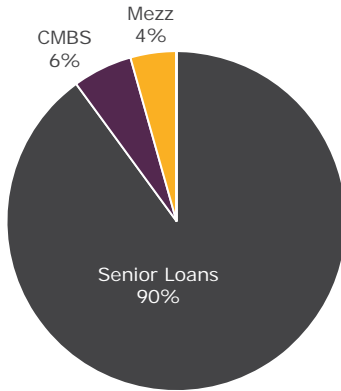
(1) LTV based on initial loan amount divided by the as-is appraised value as of the date the loan was originated.

(2) Asset photo for New Jersey Multifamily loan represents rendering, not actual property photo.

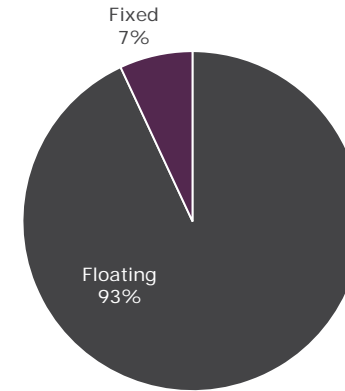
# 4Q17 KREF Portfolio by the Numbers

- \$2.1 billion portfolio comprised of 33 investments
- Portfolio weighted average LTV of 67%<sup>(1)</sup>

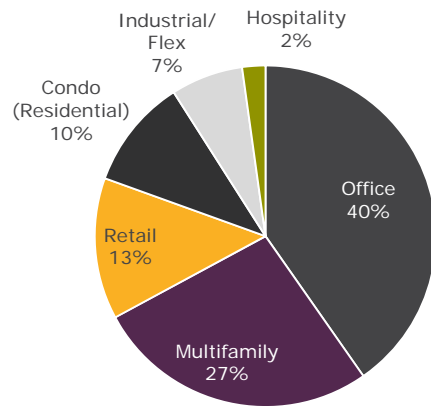
## Investment Type<sup>(2)</sup>



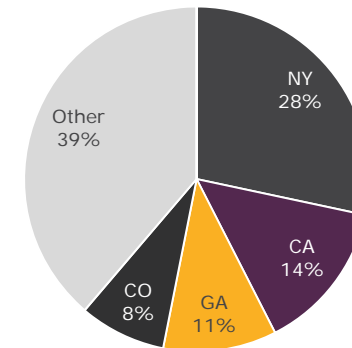
## Interest Rate Type



## Property Type<sup>(3)</sup>



## Geography<sup>(3)</sup>



Note: The charts above are based on total assets. Total assets reflect (i) the principal amount of our senior and mezzanine loans and (ii) the cost basis of our CMBS B-Pieces, net of VIE liabilities. In accordance with GAAP, we carry our CMBS B-Pieces at fair value, which we valued above our cost basis as of December 31, 2017.

(1) LTV is generally based on the initial loan amount divided by the as-is appraised value as of the date the loan was originated. See page 12 for additional details.

(2) Senior loans include senior mortgages and similar credit quality loans, including related contiguous junior participations in senior loans where KREF has financed a loan with structural leverage through the non-recourse sale of a corresponding first mortgage.

(3) Excludes CMBS B-Pieces.



# 4Q17 Financing Overview

- Upsized Goldman Sachs term credit facility by \$150 million and extended maturity to 2022 on a fully-extended basis
- Upsized Morgan Stanley term credit facility by \$100 million<sup>(1)</sup> and extended maturity to 2021 on a fully-extended basis
- Terminated JPMorgan term credit facility
- Total financing capacity of \$1.8 billion with \$856 million of undrawn capacity

## Summary of Outstanding Financing

(\$ in Millions)

	Maximum Capacity	Outstanding Face Amount	Weighted Average Coupon
<b>Term Credit Facilities</b>	\$1,750	\$969	L+2.07%
<b>Corporate Revolving Facility</b>	\$75	--	--
<b>Total Secured Debt</b>	<b>\$1,825</b>	<b>\$969</b>	
<b>Senior Loan Interests<sup>(2)</sup></b>	\$145	\$145	L+1.9%
<b>Total Leverage</b>	<b>\$1,970</b>	<b>\$1,114</b>	

**Debt-to-Equity Ratio of 0.8x<sup>(3)</sup>**

**Total Leverage Ratio of 1.0x<sup>(4)</sup>**

(1) Subject to customary conditions, KREF is permitted to request the facility be further increased by an additional \$150 million.

(2) Includes \$82.0 million of Loan Participations Sold and \$63.0 million of Non-Consolidated Senior Interests, which result from non-recourse sales of senior loan interests in loans KREF originated.

(3) Represents (i) total outstanding face amount of secured debt agreements less cash to (ii) total stockholders' equity.

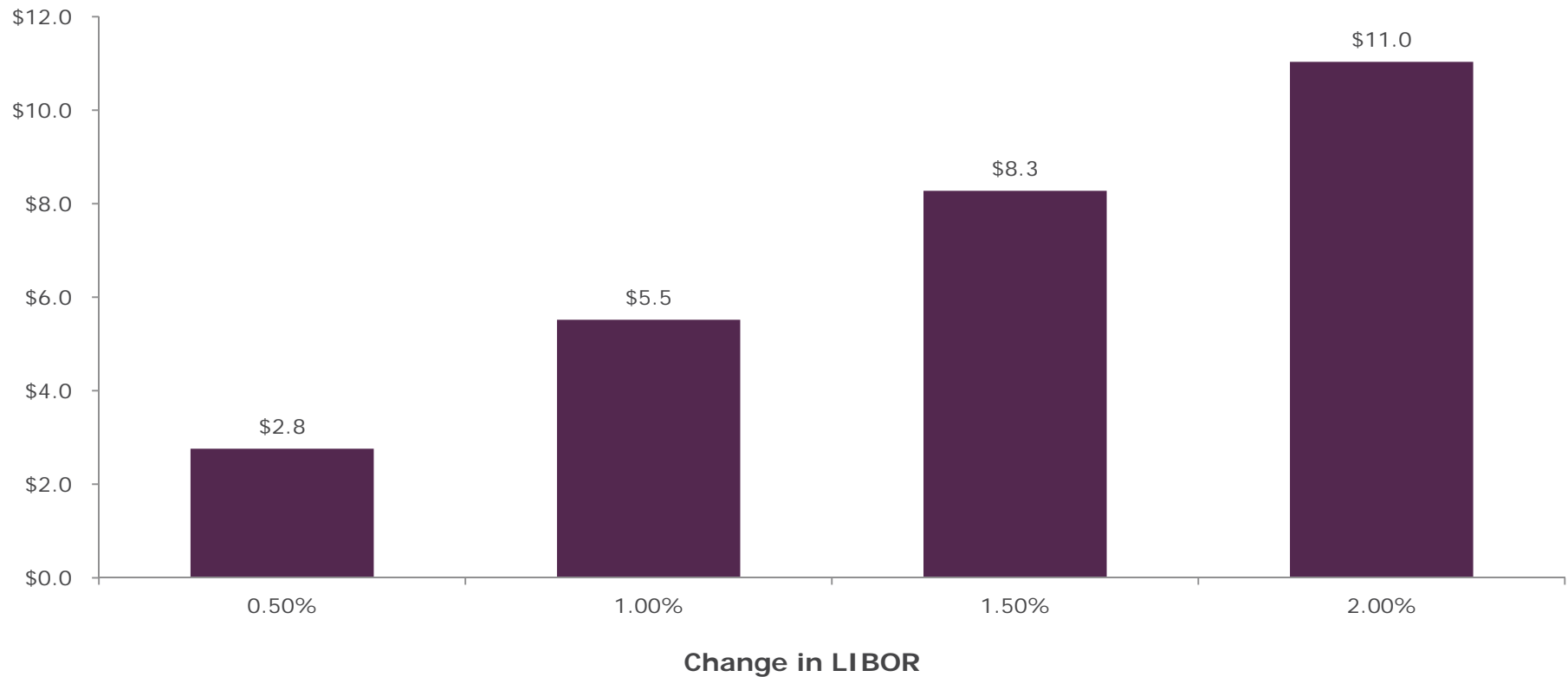
(4) Represents (i) total outstanding face amount of secured debt agreements, loan participations sold and non-consolidated senior interests less cash to (ii) total stockholders' equity.

# Interest Rate Sensitivity

- KREF benefits in a rising rate environment
- 93% of the portfolio is indexed to one-month USD LIBOR
- A 50 basis point increase in one-month USD LIBOR would increase net interest income by \$2.8 million or \$0.05 per share over the next 12 months<sup>(1)(2)</sup>

**Net Interest Income Sensitivity to LIBOR Increases<sup>(1)(2)</sup>**

(\$ in Millions)



(1) As of December 31, 2017, assumes loans are drawn up to maximum approved advance rate based on current principal amount; per share amount assumes 53,685,440 shares outstanding.

(2) Assumes spot one-month USD LIBOR rate of 1.56%.

# Appendix

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# Portfolio Details

(\$ in millions)												
#	Investment	Location	Property Type	Investment Date	Committed Principal Amount	Current Principal Amount	Net Equity <sup>(2)</sup>	Future Funding <sup>(3)</sup>	Coupon <sup>(4)(5)</sup>	Max Remaining Term (Yrs) <sup>(4)(6)</sup>	LTV <sup>(4)(7)</sup>	
<b>Senior Loans<sup>(1)</sup></b>												
1	Senior Loan	New York, NY	Condo (Resi)	8/4/2017	\$239.2	\$205.5	\$112.2	\$0.0	L + 4.8%	2.6	69%	
2	Senior Loan	Minneapolis, MN	Office	11/13/2017	181.8	133.7	132.4	48.1	L + 3.8%	4.9	75%	
3	Senior Loan	Portland, OR	Retail	10/26/2015	177.0	119.8	43.8	57.2	L + 5.5%	2.8	61%	
4	Senior Loan	San Diego, CA	Office	9/9/2016	168.0	146.8	43.1	21.2	L + 4.2%	3.8	71%	
5	Senior Loan	Irvine, CA	Office	4/11/2017	162.1	131.0	33.3	31.1	L + 3.9%	4.3	62%	
6	Senior Loan	North Bergen, NJ	Multifamily	10/23/2017	150.0	135.6	134.2	14.4	L + 4.3%	4.8	57%	
7	Senior Loan	Brooklyn, NY	Retail	9/27/2016	138.6	121.4	39.5	17.2	L + 5.0%	3.8	59%	
8	Senior Loan	Brooklyn, NY	Office	3/30/2017	132.3	100.9	27.0	31.4	L + 4.4%	4.3	68%	
9	Senior Loan	Atlanta, GA	Office	8/15/2017	119.0	95.3	13.2	5.8	L + 3.0%	4.7	66%	
10	Senior Loan	Honolulu, HI	Multifamily	8/23/2017	105.0	100.0	24.3	5.0	L + 4.0%	4.7	66%	
11	Senior Loan	Crystal City, VA	Office	9/14/2016	103.5	80.6	26.2	22.9	L + 4.5%	3.8	59%	
12	Senior Loan	Denver, CO	Multifamily	2/28/2017	85.9	78.7	15.6	0.0	L + 3.8%	4.2	75%	
13	Senior Loan	Denver, CO	Multifamily	8/4/2017	81.0	81.0	19.7	0.0	L + 4.0%	4.6	73%	
14	Senior Loan	Austin, TX	Multifamily	2/15/2017	79.2	61.2	16.4	18.0	L + 4.2%	4.2	71%	
15	Senior Loan	Queens, NY	Industrial	7/21/2017	75.1	61.3	14.8	13.8	L + 3.7%	4.6	72%	
16	Senior Loan	New York, NY	Multifamily	10/7/2016	74.5	67.9	18.8	6.6	L + 4.4%	3.8	68%	
17	Senior Loan	Atlanta, GA	Industrial	12/17/2015	73.0	67.5	18.1	5.5	L + 4.0%	3.0	73%	
18	Senior Loan	Atlanta, GA	Office	5/12/2017	61.9	46.0	13.9	15.9	L + 4.0%	4.4	71%	
19	Senior Loan	Nashville, TN	Office	5/19/2016	55.0	52.8	13.3	2.2	L + 4.3%	4.0	70%	
<b>Total / Weighted Average</b>					<b>\$2,262.0</b>	<b>\$1,886.9</b>	<b>\$759.9</b>	<b>\$316.3</b>	<b>L + 4.2%</b>	<b>4.0</b>	<b>67%</b>	
<b>Mezzanine Loans</b>												
1	Mezzanine Loan	Clearwater, FL	Hospitality	1/22/2015	\$35.0	\$35.0	\$33.3	\$0.0	L + 9.8%	2.1	73%	
2	Mezzanine Loan	Chicago, IL	Retail	6/23/2015	16.5	16.5	16.4	0.0	L + 9.2%	2.5	82%	
3 - 8	Fixed Rate Mezzanine Loans	Various	Various	Various	26.2	26.2	24.9	0.0	10.6%	7.4	77%	
<b>Total / Weighted Average</b>					<b>\$77.7</b>	<b>\$77.7</b>	<b>\$74.6</b>	<b>0.0</b>	<b>11.0%</b>	<b>4.0</b>	<b>76%</b>	
<b>CMBS</b>												
<b>Total / Weighted Average</b>					<b>\$349.2</b>	<b>\$323.2</b>	<b>\$118.5</b>	<b>\$26.0</b>	<b>4.3%</b>	<b>8.1</b>	<b>64%</b>	
<b>Portfolio Total / Weighted Average</b>					<b>\$2,688.9</b>	<b>\$2,287.8</b>	<b>\$953.0</b>	<b>\$316.3</b>	<b>5.9%</b>	<b>4.2</b>	<b>67%</b>	

## 4Q17 Outstanding Portfolio<sup>(8)</sup>

**\$2,083.1**

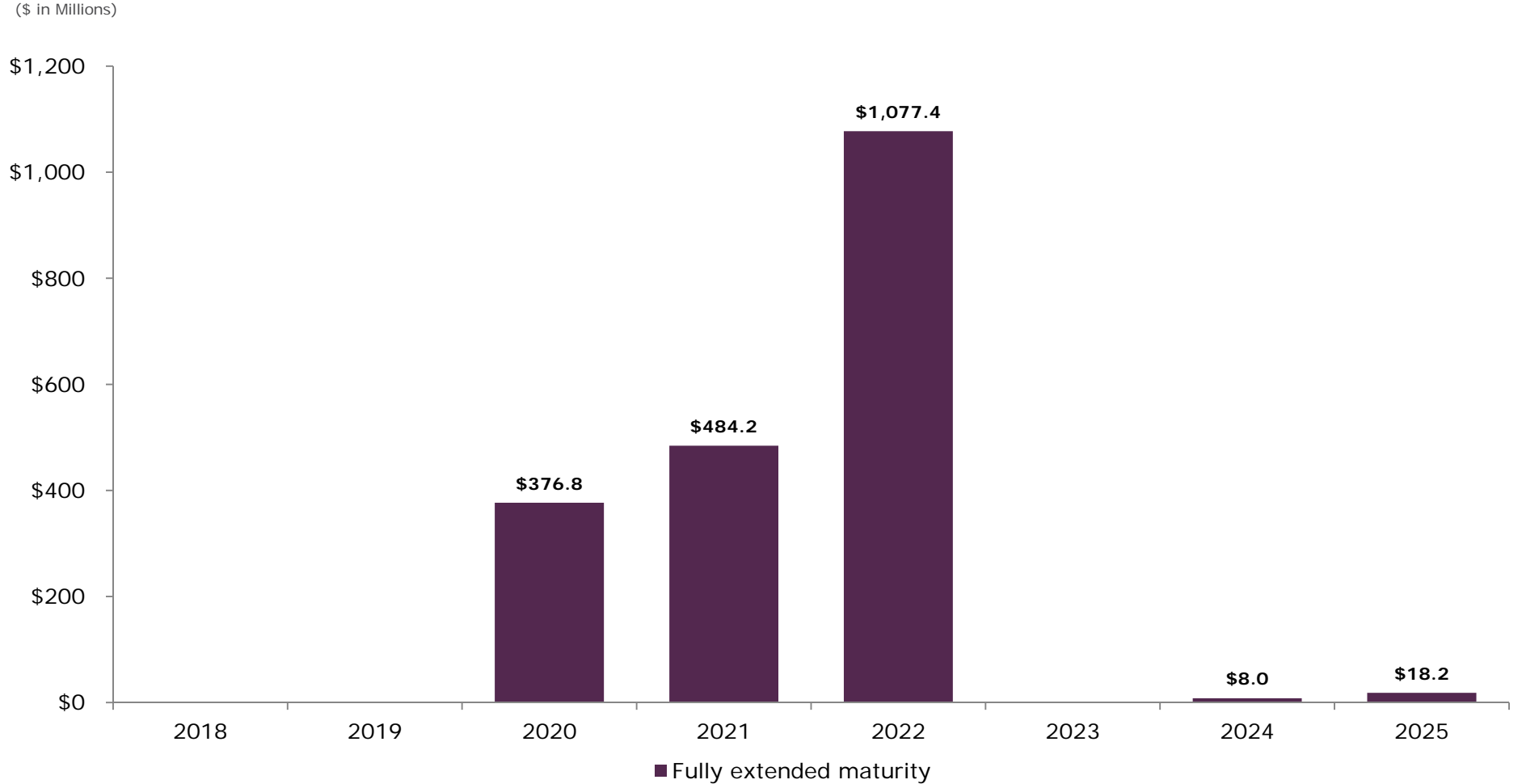
- Senior loans include senior mortgages and similar credit quality investments, including junior participations in our originated senior loans for which we have syndicated the senior participations and retained the junior participations for our portfolio.
- Net equity reflects (i) the amortized cost basis of our loans, net of borrowings and a 5% noncontrolling interest in the entity that holds certain of our mezzanine loans; (ii) the cost basis of our CMBS B-Pieces, net of VIE liabilities; and (iii) the cost basis of our investment in RECOP.
- Represents Committed Principal Amount less Current Principal Amount on Senior Loans with the exception of Loan #12, for which the future funding commitment is held by the syndicated senior participation; there is no future funding on mezzanine loans or CMBS with the exception of \$26 million of remaining commitment to RECOP.
- Weighted averages are weighted by current principal amount for senior loans and mezzanine loans; weighted averages are weighted by net equity for CMBS B-Pieces; weighted average coupon calculation includes one-month USD LIBOR for floating-rate Mezzanine Loans.
- L = one-month USD LIBOR rate; spot one-month USD LIBOR rate of 1.56% included in mezzanine loan and portfolio-wide averages represented as fixed rates.
- Max remaining term (years) assumes all extension options are exercised, if applicable.
- For senior and mezzanine loans, loan-to-value ratio ("LTV") is based on the initial loan amount divided by the as-is appraised value as of the date the loan was originated; for Senior Loan 1, LTV is based on the total initial loan amount of \$239.2 million divided by the appraised net sell-out value of \$345.4 million; for Mezzanine Loan 1, LTV is based on the total loan amount divided by the as-is appraised value at March 17, 2017; for CMBS B-Pieces, LTV is based on the weighted average LTV of the underlying loan pool at issuance.
- Represents Current Principal Amount of Senior Loans and Mezzanine Loans and Net Equity Amount for CMBS.



# Fully Extended Loan Maturities

- Fully extended weighted average loan maturity of 4.0 years<sup>(1)</sup>

## Fully Extended Loan Maturities<sup>(1)</sup>



(1) Excludes CMBS; includes non-consolidated senior interests.

# Consolidated Balance Sheets

(in thousands - except share and per share data)

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Cash and cash equivalents	\$ 103,120	\$ 96,189
Restricted cash and cash equivalents	400	157
Commercial mortgage loans, held-for-investment, net	1,888,510	674,596
Commercial mortgage loans, held-for-sale, net	-	26,230
Preferred interest in joint venture, held-to-maturity	-	36,445
Equity method investments	14,390	-
Accrued interest receivable	8,423	2,974
Other assets	7,239	2,728
Commercial mortgage loans held in variable interest entities, at fair value	5,372,811	5,426,084
<b>Total Assets</b>	<b>7,394,893</b>	<b>6,265,403</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Secured financing agreements, net	964,800	439,144
Loan participations sold, net	81,472	-
Accounts payable, accrued expenses and other liabilities	2,465	2,297
Dividends payable	19,981	-
Accrued interest payable	1,623	593
Due to affiliates	4,442	1,728
Variable interest entity liabilities, at fair value	5,256,926	5,313,574
<b>Total Liabilities</b>	<b>6,331,709</b>	<b>5,757,336</b>
<b>Commitments and Contingencies</b>		
<b>Temporary Equity</b>		
Redeemable noncontrolling interests in equity of consolidated joint venture	3,090	3,030
Redeemable preferred stock	949	-
<b>Permanent Equity</b>		
Preferred stock, 50,000,000 authorized (1 share with par value of \$0.01 issued and outstanding as of December 31, 2017 and December 31, 2016, respectively, and 125 shares with stated value of \$1,000.00 issued and outstanding as of December 31, 2016)	-	125
Common stock, 300,000,000 authorized (53,685,440 and 24,158,392 shares with par value of \$0.01 issued and outstanding as of December 31, 2017 and December 31, 2016, respectively)	537	242
Additional paid-in capital	1,052,851	479,417
Retained earnings	6,280	17,914
Repurchased stock, 26,398 shares repurchased as of December 31, 2017	(523)	-
<b>Total KKR Real Estate Finance Trust Inc. stockholders' equity</b>	<b>1,059,145</b>	<b>497,698</b>
Noncontrolling interests in equity of consolidated joint venture	-	7,339
<b>Total Permanent Equity</b>	<b>1,059,145</b>	<b>505,037</b>
<b>Total Liabilities and Equity</b>	<b>\$ 7,394,893</b>	<b>\$ 6,265,403</b>

# Consolidated Statements of Income

(in thousands - except share and per share data)	For the Three Months Ended		For the Year Ended		
	Dec 31, 2017	Dec 31, 2016	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015
<b>Net Interest Income</b>					
Interest income	\$ 28,385	\$ 11,775	\$ 83,145	\$ 32,659	\$ 12,536
Interest expense	8,632	3,456	21,224	7,432	554
Total net interest income	19,753	8,319	61,921	25,227	11,982
<b>Other Income</b>					
Realized gain on sale of investments	-	285	-	285	1,155
Change in net assets related to consolidated variable interest entities	3,035	5,501	15,845	15,461	8,868
Income from equity method investments	414	-	875	-	-
Other income	352	79	968	222	305
Total other income (loss)	3,801	5,865	17,688	15,968	10,328
<b>Operating Expenses</b>					
General and administrative	1,682	522	4,936	2,270	1,994
Management fees to affiliate	3,979	1,846	13,492	5,934	2,620
Incentive compensation to affiliate	-	-	-	365	131
Total operating expenses	5,661	2,368	18,428	8,569	4,745
<b>Income (Loss) Before Income Taxes, Noncontrolling Interests and Preferred Dividends</b>	<b>17,893</b>	<b>11,816</b>	<b>61,181</b>	<b>32,626</b>	<b>17,565</b>
Income tax expense	714	140	1,102	354	393
<b>Net Income (Loss)</b>	<b>17,179</b>	<b>11,676</b>	<b>60,709</b>	<b>32,272</b>	<b>17,172</b>
<b>Redeemable Noncontrolling Interests in Income (Loss) of Consolidated Joint Venture</b>	<b>82</b>	<b>54</b>	<b>216</b>	<b>302</b>	<b>272</b>
<b>Noncontrolling Interests in Income (Loss) of Consolidated Joint Venture</b>	<b>-</b>	<b>212</b>	<b>801</b>	<b>813</b>	<b>137</b>
<b>Net Income (Loss) Attributable to KKR Real Estate Finance Trust Inc. and Subsidiaries</b>	<b>17,097</b>	<b>11,410</b>	<b>59,062</b>	<b>31,157</b>	<b>16,763</b>
<b>Preferred Stock Dividends</b>	<b>63</b>	<b>4</b>	<b>244</b>	<b>16</b>	<b>15</b>
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ 17,034</b>	<b>\$ 11,406</b>	<b>\$ 58,818</b>	<b>\$ 31,141</b>	<b>\$ 16,748</b>
<b>Net Income (Loss) Per Share of Common Stock, Basic and Diluted</b>	<b>\$ 0.32</b>	<b>\$ 0.47</b>	<b>\$ 1.30</b>	<b>\$ 1.61</b>	<b>\$ 1.95</b>
Weighted Average Number of Shares of Common Stock Outstanding, Basic	53,685,440	24,158,392	45,320,358	19,299,597	8,605,876
Weighted Average Number of Shares of Common Stock Outstanding, Diluted	53,688,027	24,158,392	45,321,360	19,299,597	8,605,876

# Reconciliation of GAAP Net Income to Core Earnings and Net Core Earnings

	4Q17	3Q17
<i>(\$ in thousands, except share and per share data)</i>		
<b>Net Income Attributable to Common Stockholders</b>	<b>\$17,034</b>	<b>\$17,339</b>
<i>Adjustments</i>		
Non-cash equity compensation expense	25	25
Incentive compensation to affiliate	-	-
Depreciation and amortization	-	-
Unrealized (gains) or losses	79	(887)
<b>Core Earnings<sup>(1)</sup></b>	<b>\$17,138</b>	<b>\$16,477</b>
Weighted Average Shares Outstanding, Diluted	53,688,027	53,697,041
<b>Core Earnings per Weighted Average Share<sup>(1)</sup></b>	<b>\$0.32</b>	<b>\$0.31</b>
<b>Core Earnings</b>		
Core Earnings <sup>(1)</sup>	\$17,138	\$16,477
Less: Incentive compensation to affiliate	-	-
<b>Net Core Earnings<sup>(1)</sup></b>	<b>\$17,138</b>	<b>\$16,477</b>
Weighted Average Shares Outstanding, Diluted	53,688,027	53,697,041
<b>Net Core Earnings per Weighted Average Share<sup>(1)</sup></b>	<b>\$0.32</b>	<b>\$0.31</b>

(1) See Appendix page 17 for definitions. Excludes \$1.1 million and \$1.3 million, or \$0.02 and \$0.02 per diluted weighted average share outstanding of net original issue discount on CMBS B-pieces accreted as a component of taxable income during 4Q17 and 3Q17, respectively.



# Key Definitions

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- **"Core Earnings" and "Net Core Earnings":** Used by the Company to evaluate the Company's performance excluding the effects of certain transactions and GAAP adjustments the Company believes are not necessarily indicative of the current loan activity and operations. The Company also uses Core Earnings to determine the management and incentive fees it pays to its Manager. Core Earnings and Net Core Earnings are measures that are not prepared in accordance with GAAP. The Company defines Core Earnings as net income (loss) attributable to stockholders or, without duplication, owners of the Company's 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) the incentive compensation payable to the Company's Manager, (iii) depreciation and amortization, (iv) 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 (v) one-time events pursuant to changes in GAAP and certain material non-cash income or expense items after discussions between the Company's Manager and board of directors (and after approval by a majority of the 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 the Company forecloses upon the property or properties underlying such debt investments. Net Core Earnings is Core Earnings less incentive compensation payable to the Company's Manager.

The Company believes providing Core Earnings and Net Core Earnings on a supplemental basis to net income as determined in accordance with GAAP is helpful to stockholders in assessing the overall performance of the Company's business. Core Earnings and Net Core Earnings should not be considered as substitutes for GAAP net income. The Company's methodology for calculating Core Earnings and Net Core Earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and as a result, the Company's Core Earnings and Net Core Earnings may not be comparable to similar measures presented by other REITs.

- **"IRR":** IRR is the annualized effective compounded return rate that accounts for the time-value of money and represents the rate of return on an investment over a holding period expressed as a percentage of the investment. It is the discount rate that makes the net present value of all cash outflows (the costs of investment) equal to the net present value of cash inflows (returns on investment). It is derived from the negative and positive cash flows resulting from or produced by each transaction (or for a transaction involving more than one investment, cash flows resulting from or produced by each of the investments), whether positive, such as investment returns, or negative, such as transaction expenses or other costs of investment, taking into account the dates on which such cash flows occurred or are expected to occur, and compounding interest accordingly. The weighted average underwritten IRR for the investments shown reflects the returns underwritten by KKR Real Estate Finance Manager LLC, the Company's external manager, taking into account certain assumptions around leverage up to no more than the maximum approved advance rate, and calculated on a weighted average basis assuming no dispositions, early prepayments or defaults but assuming that extension options are exercised and that the cost of borrowings remains constant over the remaining term. With respect to certain loans included in the weighted average underwritten IRR shown, the calculation assumes certain estimates with respect to the timing and magnitude of the initial and future fundings for the total loan commitment and associated loan repayments, and assumes no defaults. With respect to certain loans included in the weighted average underwritten IRR shown, the calculation assumes the one-month spot USD LIBOR as of the date the loan was originated. There can be no assurance that the actual weighted average IRRs will equal the weighted average underwritten IRRs shown.