

# KKR Real Estate Finance Trust Inc.

## *Investor Presentation*

December 2018



# Legal Disclosures

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All forward looking statements in this presentation speak only as of December 7, 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 September 30, 2018, 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.



# Overview of KKR Real Estate Finance Trust Inc. (KREF)

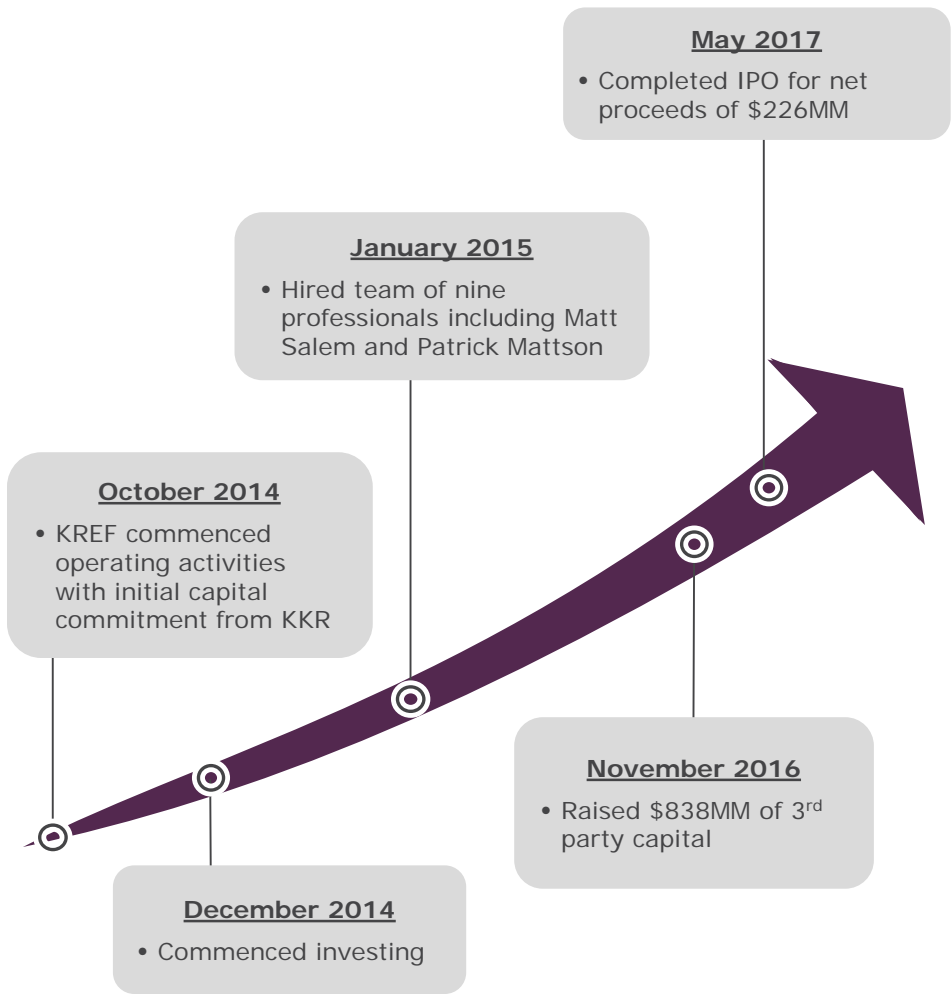


*KREF is a publicly traded externally managed REIT that focuses on originating senior commercial mortgage loans*

- ✓ Focused on larger, senior floating-rate loans
- ✓ Direct origination platform
- ✓ Fully integrated within KKR Real Estate
- ✓ ~4-year operating history; IPO in May 2017
- ✓ \$4.0BN portfolio, 100% performing<sup>(1)</sup>
- ✓ Strong alignment of interests with \$400MM KKR investment

(1) Includes closed transactions as of December 7, 2018.

# Successfully Executing on Business Strategy



## KREF Progress Since IPO<sup>(1)</sup>

- ✓ \$2.5BN  
LTM Originations
- ✓ 100%  
Floating-Rate Senior Loan Originations
- ✓ \$4.0BN  
Total Portfolio Comprised of 41 Investments
- ✓ \$110MM  
Gross Proceeds to Company from Follow-on Equity Offerings in August & November<sup>(2)</sup>
- ✓ \$1,146MM  
Book Value
- ✓ 17  
Investment Professionals
- ✓ \$144MM  
Convertible Note Offering
- ✓ \$1.0BN  
Managed Collateralized Loan Obligation
- ✓ \$4.1BN (51% non-mark-to-market)  
Total Financing Capacity<sup>(3)</sup>

(1) Financial information as of December 7, 2018.  
 (2) In August 2018 completed a public offering of 5.0 million primary shares, raising gross proceeds of ~\$100 million for KREF; in November 2018 completed a public offering of 4.5 million secondary shares and 0.5 million primary shares, raising gross proceeds of ~\$10 million for KREF.  
 (3) Excludes Senior Loan Interests.



# KKR Platform

- KREF is externally managed by KKR Real Estate Finance Manager LLC, a subsidiary of KKR (NYSE: KKR, Market Capitalization: \$17.4BN<sup>(1)</sup>), a leading global investment firm with an over 40-year history and a diverse mix of investments across multiple asset classes, including private equity, real estate, energy, growth equity, infrastructure, credit and, through strategic manager partnerships, hedge funds

## KKR Attributes



\$195 billion in AUM and an over 40-year investment track record



Offices in 21 cities in 16 countries



400+ investment professionals across private and public markets



~\$15 billion of balance sheet capital invested in or committed to KKR strategies

## KKR Real Estate Attributes



Over \$6 billion of AUM spanning KKR Real Estate credit and equity strategies



Offices in 9 cities in 7 countries



65+ dedicated investment and asset management professionals

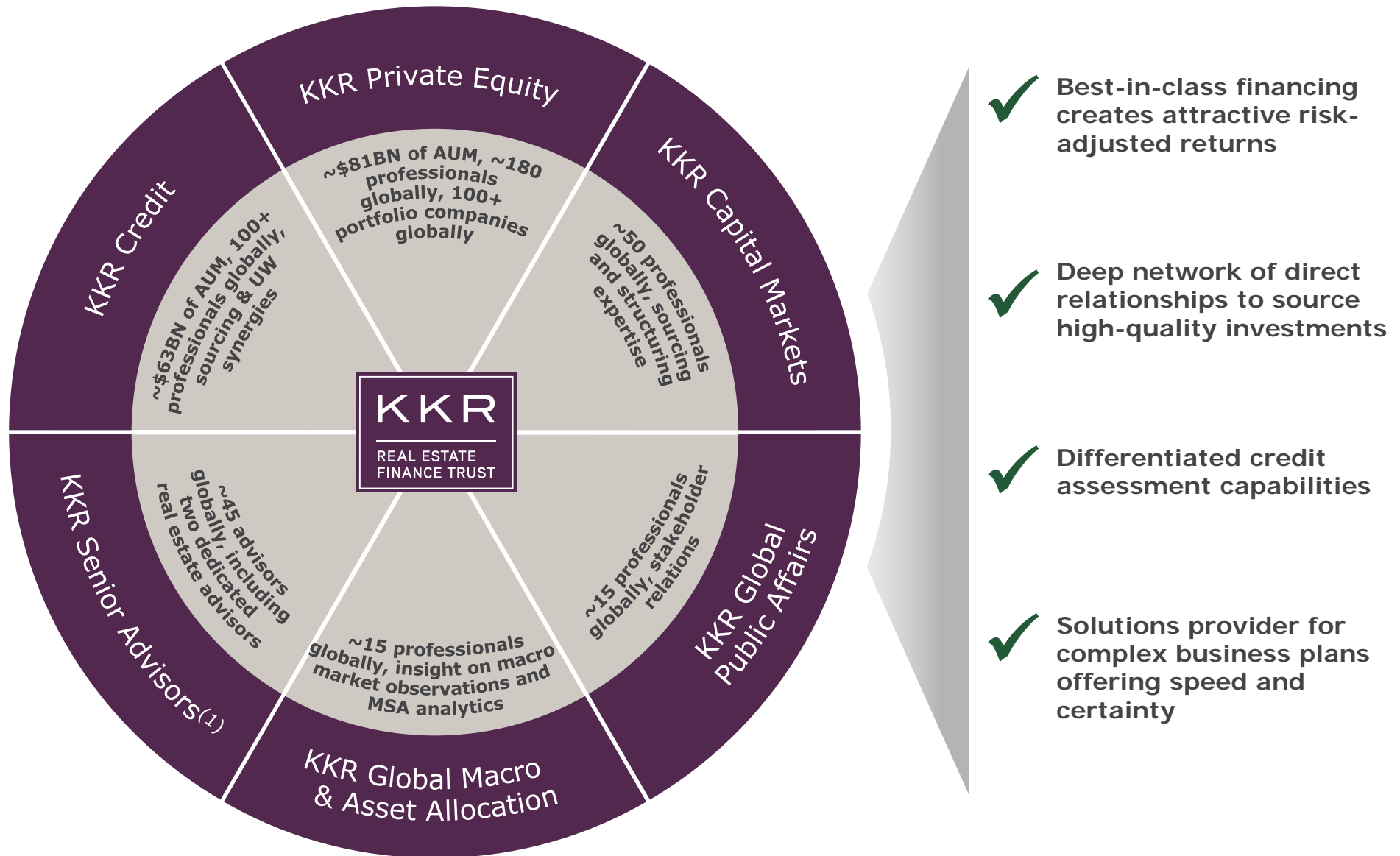


~\$1 billion of KKR balance sheet capital committed across KKR Real Estate strategies

(1) Based on KKR Adjusted Shares Eligible for Distribution as of September 30, 2018 and the closing price of KKR Common Shares on December 7, 2018.

# Integration with KKR Differentiates KREF in the Marketplace

- KREF further differentiates itself by seeking opportunities where it has sourcing, underwriting and execution advantages through KKR's brand, industry knowledge, relationships and deep bench of investment professionals











(1) Senior Advisors, Industry Advisors and KKR Advisors are engaged as consultants and are not employees of KKR.

# KKR Real Estate Credit Investment Committee

- Diversity of Manager's Investment Committee creates a thorough vetting process that enables KREF to evaluate potential transactions through multiple lenses

**Manager Investment Committee**

<p><b>Chris Lee</b></p>  <p><b>Co-CEO &amp; Co-President KREF Member &amp; Head of Real Estate Americas</b></p> <ul style="list-style-type: none"> <li>• Joined KKR in 2012</li> <li>• Formerly at Apollo Global Management and Goldman Sachs</li> </ul>	<p><b>Matt Salem</b></p>  <p><b>Co-CEO &amp; Co-President KREF Member &amp; Head of Real Estate Credit</b></p> <ul style="list-style-type: none"> <li>• Joined KKR in 2015</li> <li>• Formerly at Rialto Capital Management and Goldman Sachs</li> </ul>	<p><b>Patrick Mattson</b></p>  <p><b>Chief Operating Officer KREF Director &amp; COO of Real Estate Credit</b></p> <ul style="list-style-type: none"> <li>• Joined KKR in 2015</li> <li>• Formerly at Rialto Capital Management and Morgan Stanley</li> </ul>	<p><b>Ralph Rosenberg</b></p>  <p><b>Chairman of KREF Board Member &amp; Global Head of Real Estate</b></p> <ul style="list-style-type: none"> <li>• Joined KKR in 2011</li> <li>• Formerly at Eton Park and Goldman Sachs</li> </ul>
<p><b>Jamie Weinstein</b></p>  <p><b>Member &amp; Global Co-Head of Special Situations</b></p> <ul style="list-style-type: none"> <li>• Joined KKR in 2005</li> <li>• Formerly at Tishman Speyer Properties &amp; Boston Consulting Group</li> </ul>	<p><b>Billy Butcher</b></p>  <p><b>Member &amp; Chief Operating Officer of Global Real Estate</b></p> <ul style="list-style-type: none"> <li>• Joined KKR in 2004</li> <li>• Formerly at Goldman Sachs</li> </ul>	<p><b>Roger Morales</b></p>  <p><b>Member &amp; Head of Real Estate Acquisitions Americas</b></p> <ul style="list-style-type: none"> <li>• Joined KKR in 2011</li> <li>• Formerly at Eton Park and Vornado Realty Trust</li> </ul>	<p><b>Justin Pattner</b></p>  <p><b>Managing Director &amp; Head of Real Estate Equity Americas</b></p> <ul style="list-style-type: none"> <li>• Joined KKR in 2011</li> <li>• Formerly at Eton Park and Lubert Adler</li> </ul>

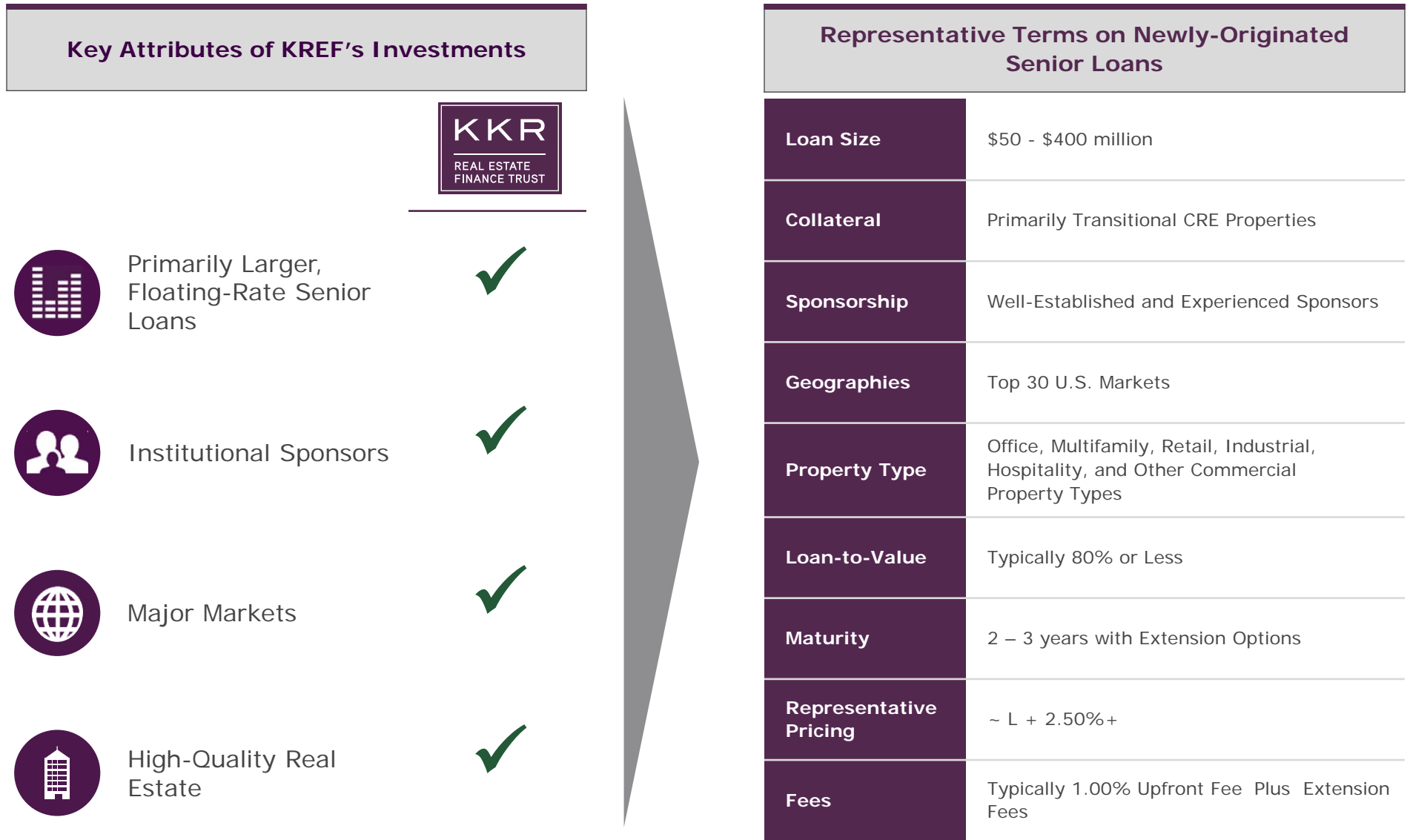
- 13 additional real estate credit investment professionals with extensive backgrounds investing in commercial real estate debt, equity and CMBS
- 3 new Investment Committee members were added in April 2018

 KREF Management Team

 KREF Directors

# Targeted KREF Strike Zone

- KREF focuses on floating-rate senior loans collateralized by high-quality commercial real estate:





# Key Investment Decision-Making Factors

## Disciplined Evaluation of Potential Investments



### Market Dynamics

- High barrier-to-entry markets
- Infill locations
- Favorable market dynamics
- Liquid markets with historically robust capital flows



### Attractive Basis

- Discount to replacement cost
- Borrower basis at a discount to competitive owners in the market
- Attractive stabilized debt yield relative to historic capitalization rates
- Ability to own asset through cycles at loan basis



### Business Plan Underwriting

- Supportable collateral cash flow
- Realistic and achievable business plan
- Incentive alignment
- Achievable take-out upon stabilization
- Ability to manage through credible downside scenario



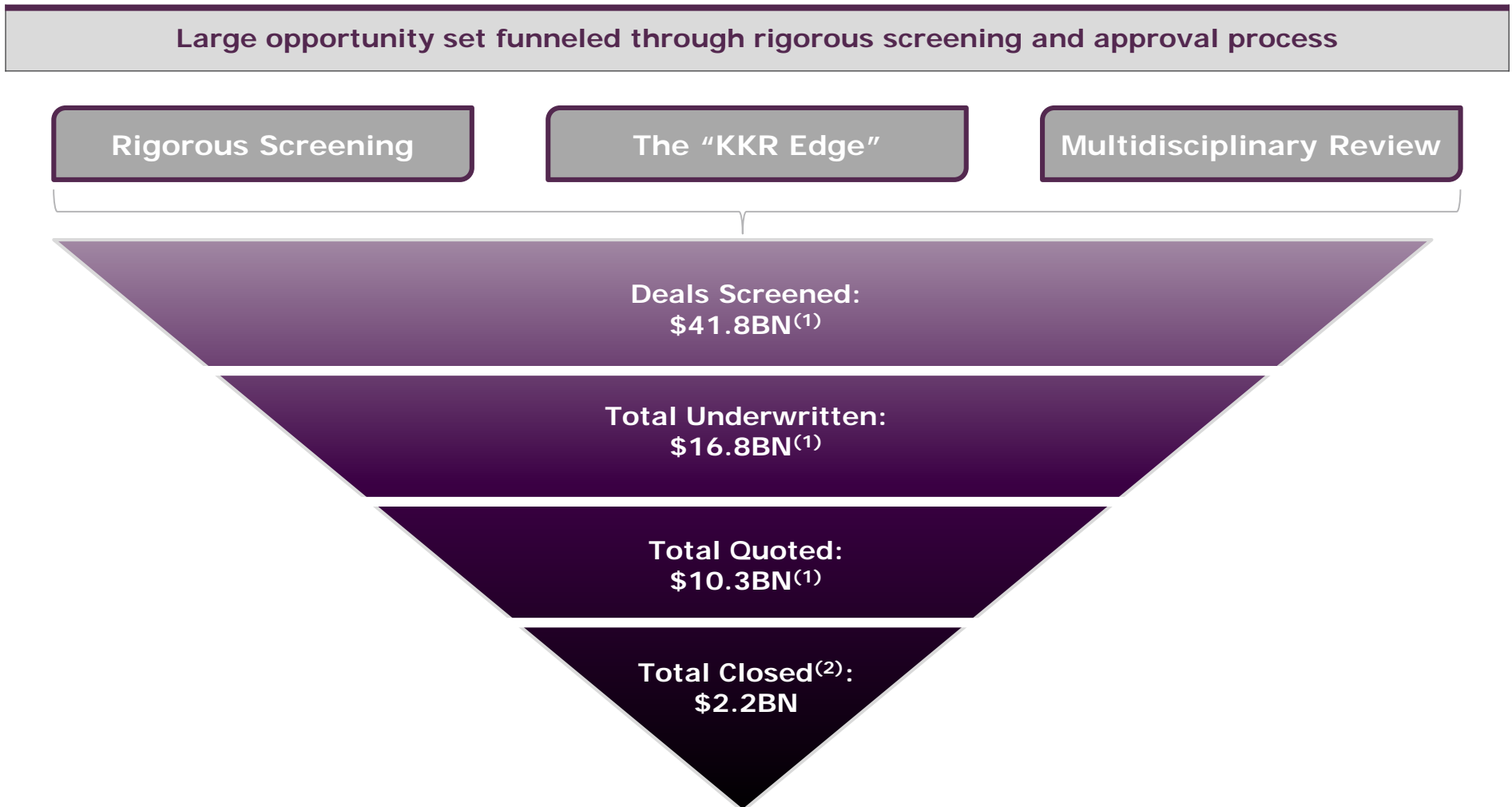
### Sponsorship

- Institutional-quality, experienced sponsors with a proven track record and strong capitalization
- Existing relationships with KKR Real Estate and the KKR organization as a whole
- Experienced operators for the property type, market and business plan

Note: The above highlights key decision making factors in the Manager's evaluation of investment opportunities, although not every investment will satisfy all of these criteria.

# Rigorous Investment Screening and Selection Process

- For LTM September 30, 2018, KREF has screened \$41.8 billion of financing opportunities and originated \$2.2 billion (5%) of senior loans



(1) For the last twelve months September 30, 2018, values represent approximations.

(2) Total Closed represents last twelve months September 30, 2018.

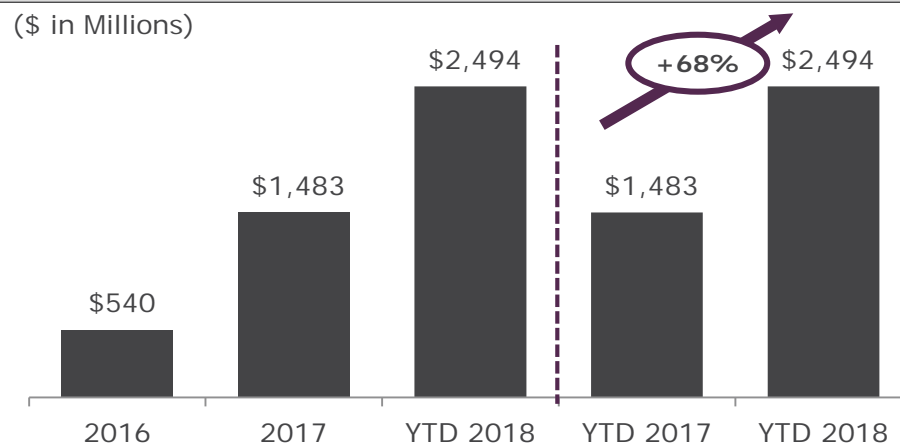
# YTD Loan Originations

- YTD September 30, 2018, originations of \$1.8 billion of floating-rate senior loans
- Subsequent to quarter-end, originated six floating-rate senior loans totaling \$674 million, bringing YTD originations to \$2.5 billion
- Current total portfolio of \$4.0 billion<sup>(1)</sup>, up \$1.9 billion or 93% since December 31, 2017

## Summary of YTD Originations<sup>(1)</sup>

18	New loans originated
\$2,494mm	Committed to new loans
100%	Senior loans
100%	Floating-rate loans
70%	Weighted average LTV
L+3.0%	Weighted average coupon
11.8%	Weighted average underwritten IRR <sup>(3)</sup>

## Growth in Total Loan Originations<sup>(2)</sup>



## Average Loan Size Originated<sup>(2)</sup>



(1) As of December 7, 2018.

(2) YTD 2018 represents through December 7, 2018 and YTD 2017 represents through December 7, 2017.

(3) See Appendix for definition.

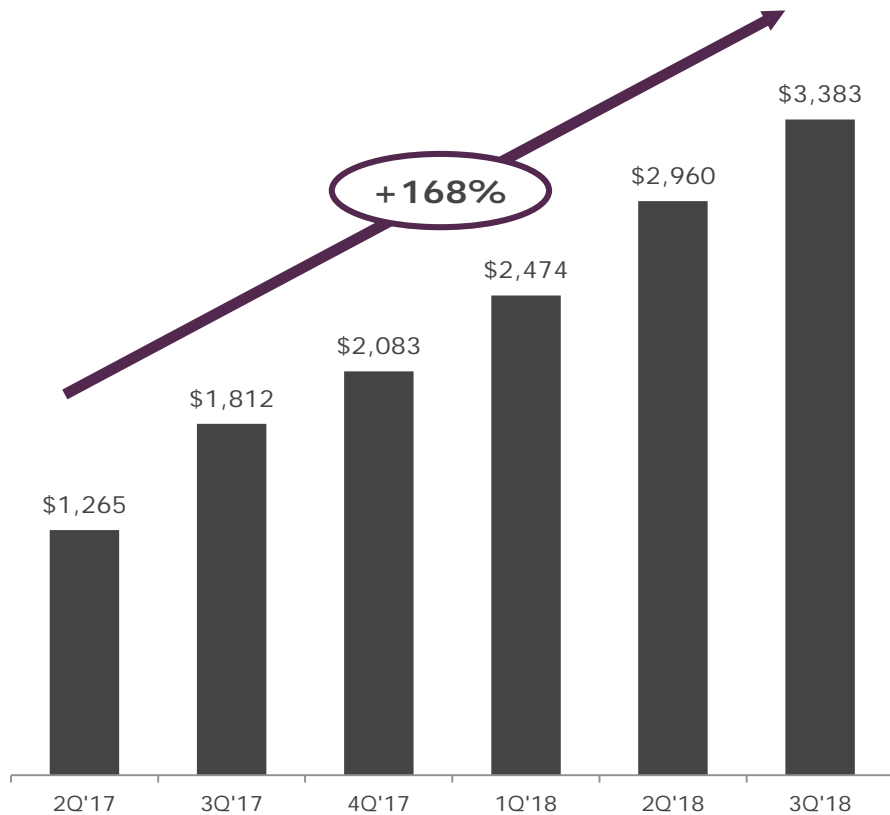
# KREF Portfolio by the Numbers

- Outstanding total portfolio of \$3.4 billion as of September 30, 2018
- 62% increase in portfolio size since December 31, 2017 and 168% since June 30, 2017 (first quarter-end post IPO)
- Office and multifamily loans comprise 87% of the portfolio

## Total Portfolio Growth

(\$ in Millions)

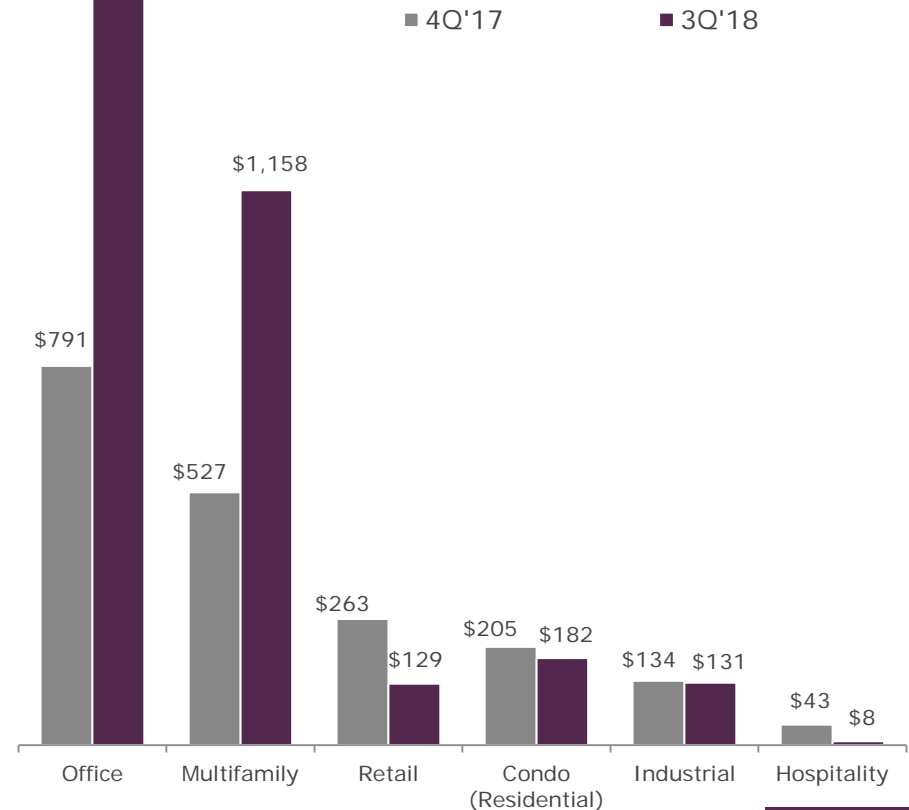
**Current Portfolio: \$4.0 billion<sup>(1)</sup>**  
Including loans closed subsequent to quarter end



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

(\$ in Millions)

- Office YTD increase of 120%
- Multifamily YTD increase of 120%
- Retail YTD decrease of 51%



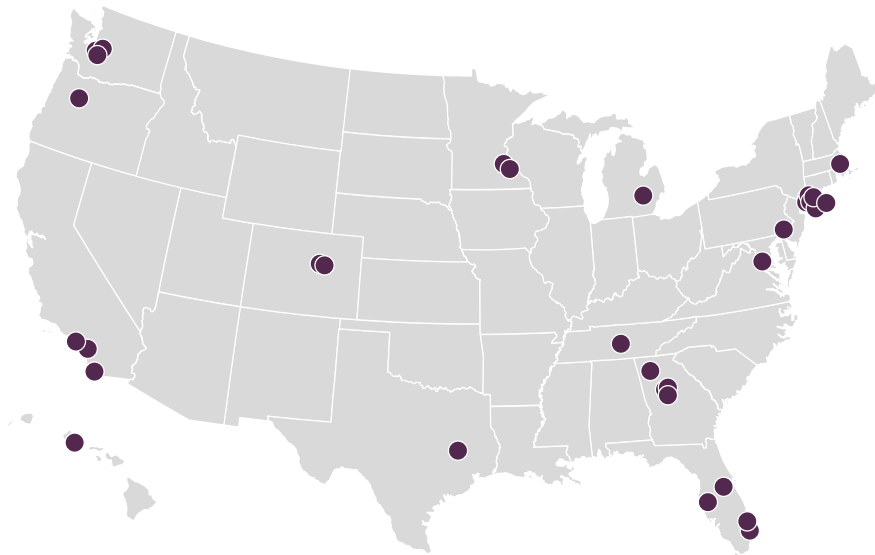
(1) As of December 7, 2018.

(2) Chart based on total assets. Total assets reflect the principal amount outstanding of our senior and mezzanine loans.

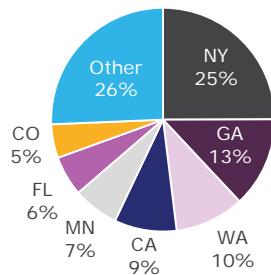
# 3Q'18 KREF Portfolio by the Numbers

- \$3.4 billion portfolio comprised of 37 investments
- Portfolio weighted average LTV of 68%<sup>(1)</sup>

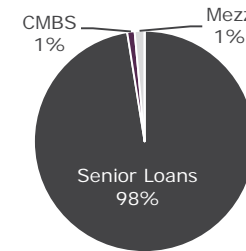
## Geography<sup>(2)</sup>



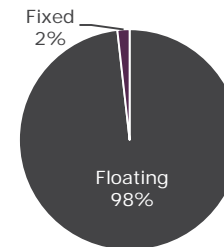
Note: Map does not include Midwest Mezzanine portfolio (\$5.5 million)



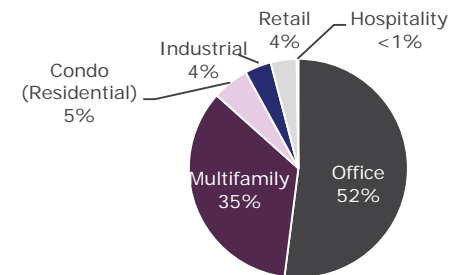
## Investment Type<sup>(3)</sup>



## Interest Rate Type



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

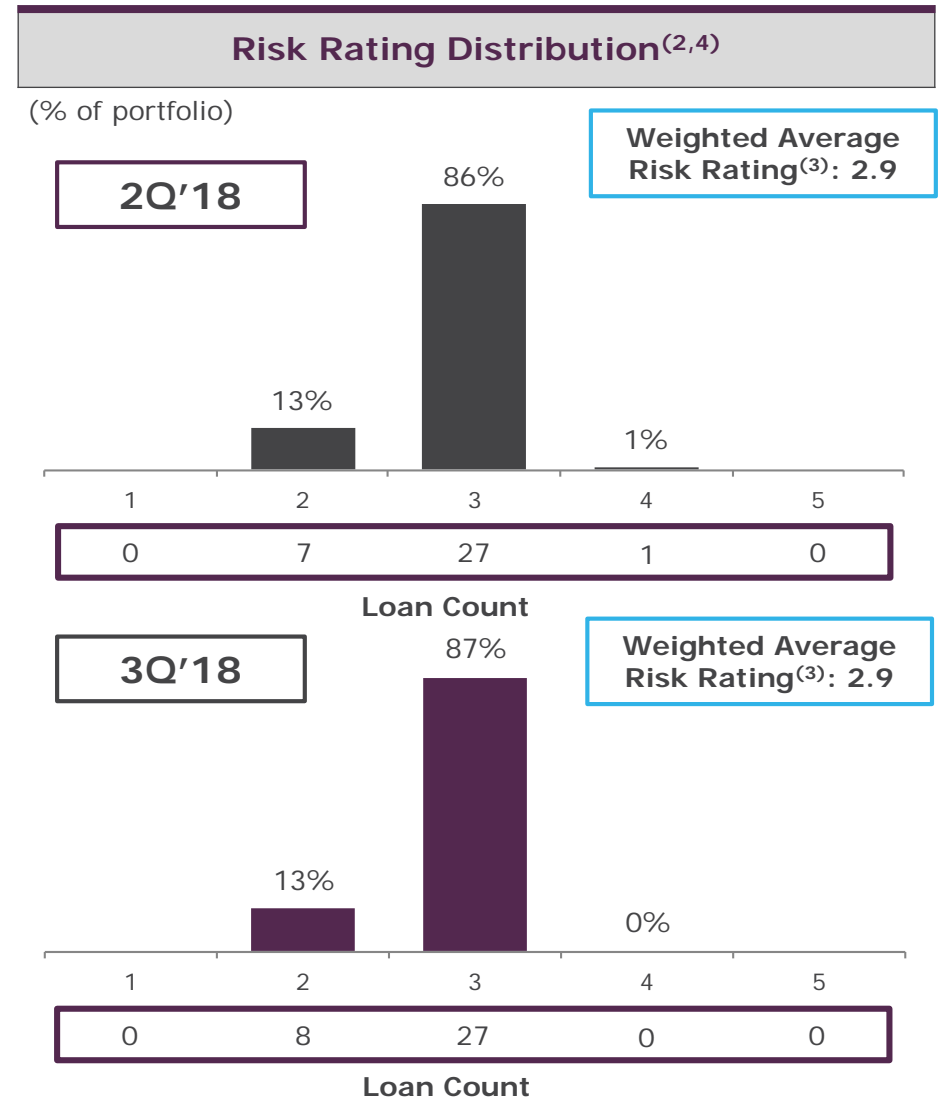
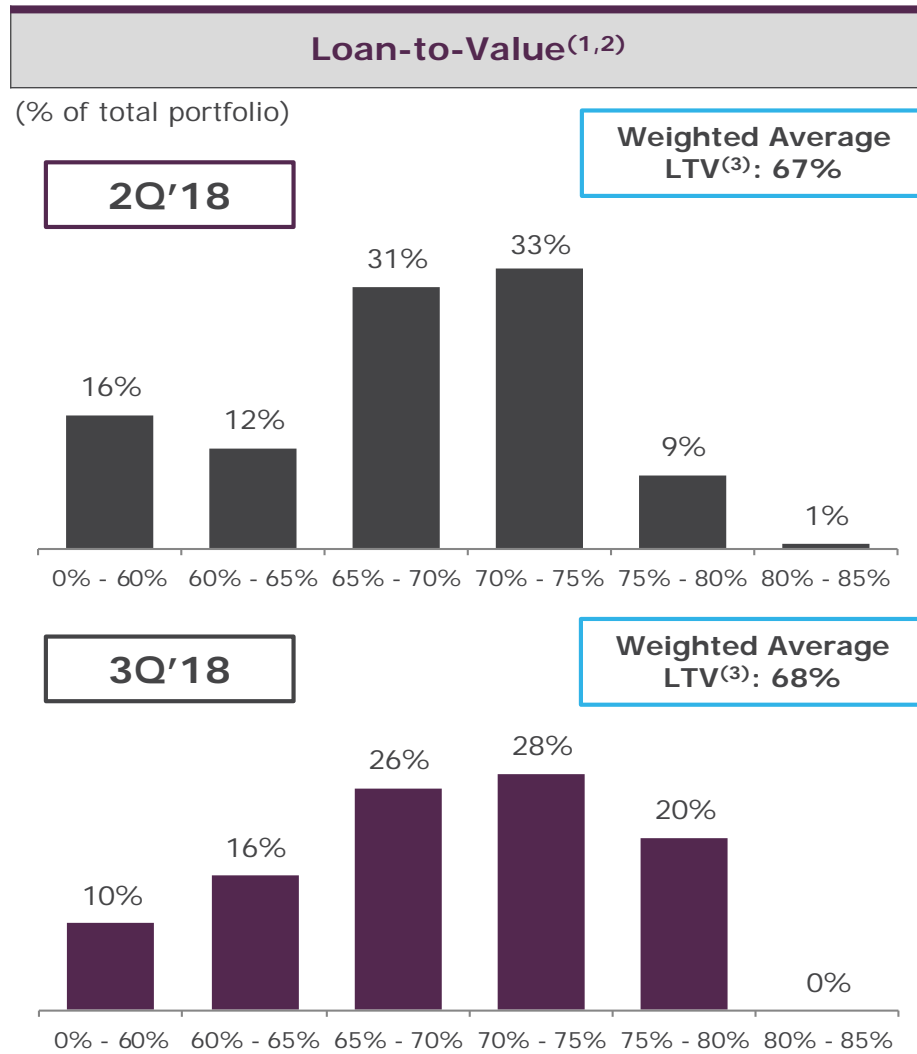


Note: The charts above are based on total assets. Total assets reflect (i) the principal amount of our senior and mezzanine loans and (ii) the cost basis of our CMBS B-Pieces, net of VIE liabilities. In accordance with GAAP, we carry our CMBS B-Pieces at fair value, which we valued above our cost basis as of September 30, 2018.

- (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 22 for additional details.
- (2) Excludes CMBS B-Pieces.
- (3) 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.

# Portfolio Credit Quality Remains Strong

- KREF's loan portfolio is 100% performing, with no defaulted or impaired loans
- The securities portfolio is performing as expected



(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.  
 (2) Includes non-consolidated senior interests.  
 (3) Weighted average is weighted by current principal amount for all but one of our senior and mezzanine loans and by net equity for our CMBS B-Pieces.  
 (4) Excludes CMBS B-Pieces.

# Recent Operating Performance

- 3Q 2018 Net Income attributable to common stockholders of \$20.8 million or \$0.37 per share
- Net Core Earnings<sup>(1)</sup> of \$21.4 million or \$0.38 per share, up 18% QoQ when compared to 2Q Net Core Earnings excluding gain on sale of CMBS B-Piece investments
- Book value of \$1,146.3 million or \$19.76 per share in 3Q compared to \$1,051.1 million or \$19.82 per share in 2Q
- Paid 3Q dividend of \$0.43 per share on October 12, 2018, equating to a 8.6% annualized dividend yield based on KREF closing price of \$19.89 as of November 5, 2018 and 8.7% based on 3Q book value per share

## Net Income<sup>(2)</sup> and Net Core Earnings<sup>(1)</sup>

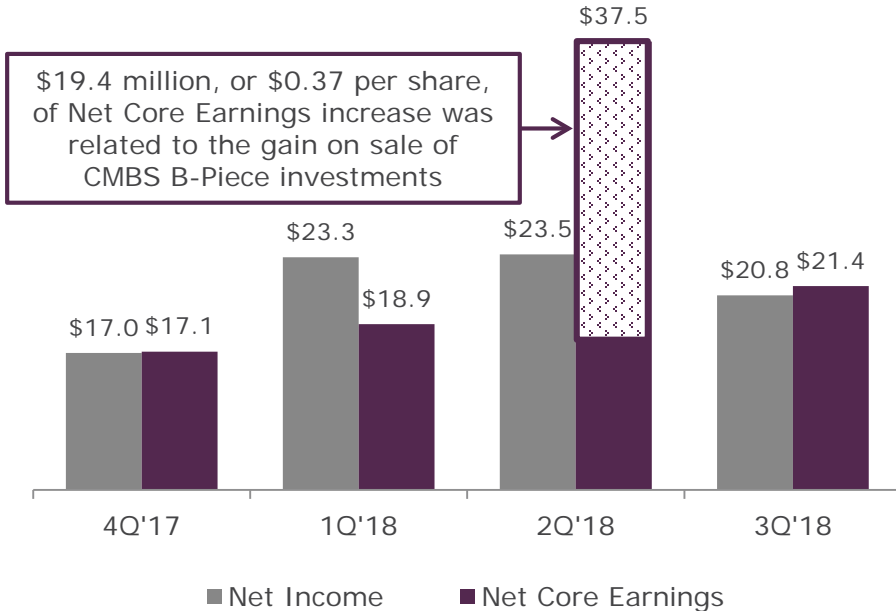
Net income per share:

\$0.32      \$0.44      \$0.44      \$0.37

Net core earnings per share:

\$0.32      \$0.35      \$0.71      \$0.38

(\$ in Millions)



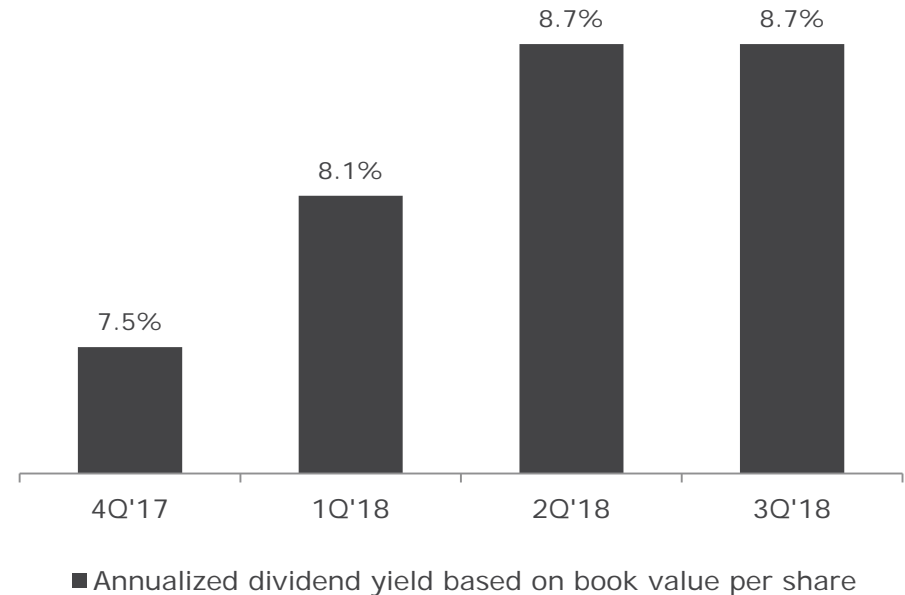
## Dividends and Book Value Per Share

Book value per share:

\$19.73      \$19.79      \$19.82      \$19.76

Dividend per share:

\$0.37      \$0.40      \$0.43      \$0.43



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

(2) Represents Net Income attributable to common stockholders.

# Financing Overview

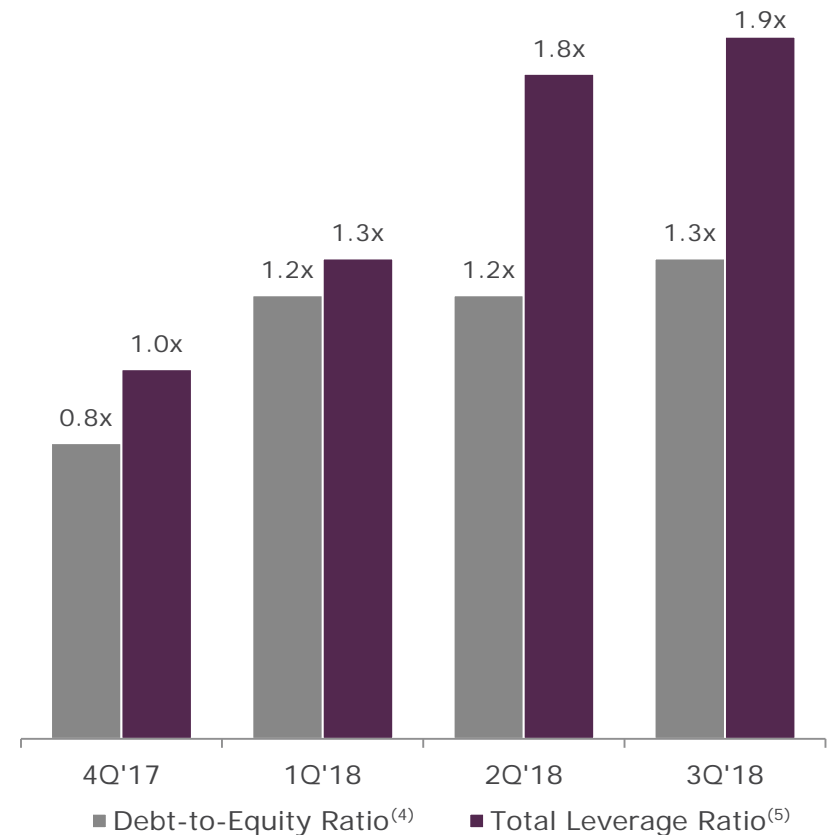
- Total financing capacity of \$2.9 billion<sup>(1)</sup> with \$0.7 billion of undrawn capacity
- Entered into \$200.0 million asset specific financing facility providing matched-term financing on a non-mark to market basis
- Upsized Wells Fargo Repurchase Facility from \$750.0 million to \$1.0 billion
- Subsequent to quarter-end, increased Term Loan Facility from \$600.0 million to \$1.0 billion and closed a \$1.0 billion Managed Collateralized Loan Obligation, resulting in \$4.1 billion of total financing capacity<sup>(1)</sup>

## Summary of Outstanding Financing

(\$ in Millions)

	Maximum Capacity	Outstanding Face Amount	Weighted Average Coupon
Term Credit Facilities	\$2,000 <sup>(2)</sup>	\$1,544	L+1.9%
Asset Specific Financing	\$200	--	--
Convertible Notes	\$144	\$144	6.1%
Corporate Revolving Facility	\$75	--	--
<b>Total Corporate Obligations</b>	<b>\$2,419</b>	<b>\$1,687</b>	
Term Loan Facility	\$600	\$582	L+1.4%
Senior Loan Interests <sup>(3)</sup>	\$150	\$150	L+1.9%
<b>Total Leverage</b>	<b>\$3,169</b>	<b>\$2,420</b>	

## Leverage Ratios



(1) Excludes Senior Loan Interests.

(2) Subject to customary conditions, KREF is permitted to request the Morgan Stanley facility be further increased by an additional \$150 million, which is not included in the maximum capacity.

(3) Includes \$83.9 million of Loan Participations Sold and \$66.6 million of Non-Consolidated Senior Interests, which result from non-recourse sales of senior loan interests in loans KREF originated.

(4) Represents (i) facilities outstanding face amount (excluding non-recourse term loan facility), and convertible notes less cash to (ii) total stockholders' equity.

(5) Represents (i) facilities outstanding face amount, convertible notes, loan participations sold, and non-consolidated senior loan interests less cash to (ii) total stockholders' equity.

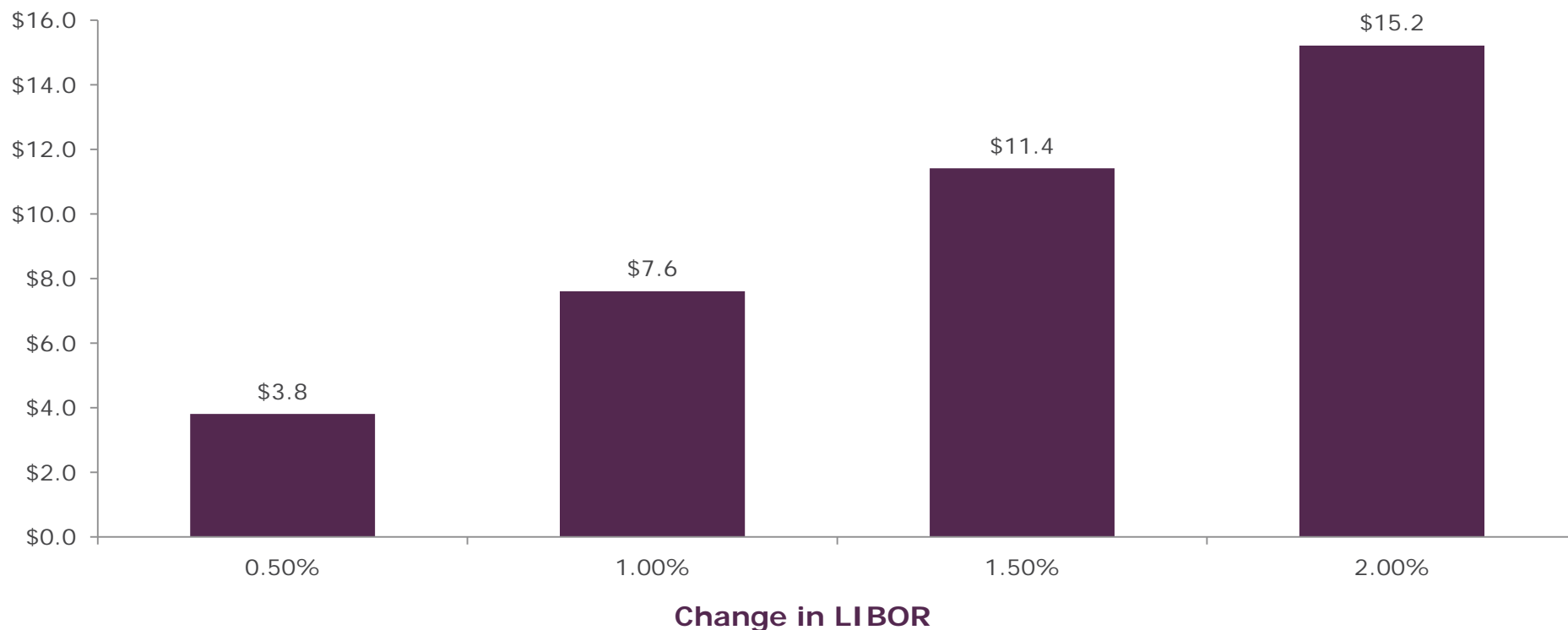


# Interest Rate Sensitivity

- KREF benefits in a rising rate environment
- 98% 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 \$3.8 million or \$0.07 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 September 30, 2018, assumes loans are drawn up to maximum approved advance rate based on current principal amount; per share amount assumes 58,022,590 shares outstanding.

(2) Assumes spot one-month USD LIBOR rate of 2.26%.

# Case Studies

	<b>Manhattan Multifamily</b>	<b>San Diego Multifamily</b>	<b>Ft. Lauderdale Hotel</b>
<b>Investment</b>	Acquisition of luxury multifamily property in high demand submarket	Refinance of substantially renovated, institutional quality multifamily	Refinance of high-quality hotel with long-dated management contract
<b>Loan Type</b>	Floating-Rate Senior Loan	Floating-Rate Senior Loan	Floating-Rate Senior Loan
<b>Loan Size</b>	\$163 million	\$104 million	\$150 million
<b>Location</b>	Manhattan, NY	San Diego, CA	Ft. Lauderdale, FL
<b>Collateral</b>	266-unit, class-B multifamily	14-story, 231-unit multifamily	23-story, 346-room hotel
<b>Loan Purpose</b>	Acquisition	Refinance	Refinance
<b>LTV<sup>(1)</sup></b>	67%	74%	62%
<b>Investment Date</b>	December 2018	November 2018	November 2018
<b>“KKR Edge”</b>	<ul style="list-style-type: none"> <li>• Direct sponsor relationship</li> </ul>	<ul style="list-style-type: none"> <li>• Existing sponsor relationship</li> <li>• Deep market knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Existing borrower relationship</li> </ul>

## Asset Photos



Note: Occupancy rates are as of closing, except where noted.

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

# Case Studies

	<b>West Palm Beach Multifamily</b>	<b>Philadelphia Multifamily</b>	<b>Queens Multifamily</b>
<b>Investment</b>	Refinance of well-located multifamily property with 87% occupancy	Refinance of newly renovated multifamily with 93% occupancy	Refinance of a newly-built multifamily in growing neighborhood
<b>Loan Type</b>	Floating-Rate Senior Loan	Floating-Rate Senior Loan	Floating-Rate Senior Loan
<b>Loan Size</b>	\$135 million	\$77 million	\$45 million
<b>Location</b>	West Palm Beach, FL	Philadelphia, PA	Queens, NY
<b>Collateral</b>	812-unit, class-A- multifamily	510-unit, class-A multifamily	126-unit, class-A multifamily
<b>Loan Purpose</b>	Refinance	Refinance	Refinance
<b>LTV<sup>(1)</sup></b>	73%	73%	70%
<b>Investment Date</b>	November 2018	October 2018	October 2018
<b>“KKR Edge”</b>	<ul style="list-style-type: none"> <li>Existing borrower relationship</li> </ul>	<ul style="list-style-type: none"> <li>Certainty of execution</li> <li>Direct sponsor relationship</li> </ul>	<ul style="list-style-type: none"> <li>Certainty of execution</li> <li>Existing sponsor relationship</li> </ul>

## Asset Photos



Note: Occupancy rates are as of closing, except where noted.

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

# Key Investment Highlights

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- ✓ Established and growing business with strong operating and execution track record
- ✓ Differentiated platform and origination capabilities
- ✓ Large and compelling market opportunity
- ✓ Focused investment strategy with proven scale and access to capital
- ✓ Disciplined underwriting and risk management
- ✓ Well positioned for rising short-term interest rates
- ✓ Strong alignment of interests

# Appendix

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# Portfolio Details

#	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	Queens, NY	Office	5/9/2018	\$350.0	\$232.8	\$128.8	\$117.2	L + 3.3%	4.7	71%
2	Senior Loan	Atlanta, GA / Tampa, FL	Multifamily	7/31/2018	341.0	332.6	81.3	8.4	L + 3.2%	4.9	75%
3	Senior Loan	New York, NY	Condo (Resi)	8/4/2017	239.2	181.6	71.9	0.0	L + 4.8%	1.8	62%
4	Senior Loan	Boston, MA	Office	5/23/2018	213.7	195.4	31.2	18.3	L + 2.4%	4.7	69%
5	Senior Loan	Minneapolis, MN	Office	11/13/2017	181.8	151.3	39.2	30.5	L + 3.8%	4.2	75%
6	Senior Loan	Seattle, WA	Office	9/13/2018	172.0	162.1	38.8	9.9	L + 3.7%	5.0	65%
7	Senior Loan	San Diego, CA	Office	9/9/2016	168.0	157.5	41.9	10.5	L + 4.2%	3.0	71%
8	Senior Loan	Philadelphia, PA	Office	6/19/2018	165.0	140.9	25.8	24.1	L + 2.5%	4.8	71%
9	Senior Loan	Irvine, CA	Office	4/11/2017	162.1	138.9	41.2	23.2	L + 3.9%	3.6	62%
10	Senior Loan	Portland, OR	Retail	10/26/2015	155.0	123.0	47.3	32.0	L + 5.5%	2.1	61%
11	Senior Loan	North Bergen, NJ	Multifamily	10/23/2017	150.0	143.6	37.9	6.4	L + 4.3%	4.1	57%
12	Senior Loan	Brooklyn, NY	Office	3/30/2017	132.3	113.4	39.7	18.9	L + 4.4%	3.5	68%
13	Senior Loan	Atlanta, GA	Office	8/15/2017	119.0	97.4	13.5	5.4	L + 3.0%	3.9	66%
14	Senior Loan	Honolulu, HI	Multifamily	8/23/2017	105.0	100.0	24.5	5.0	L + 4.0%	3.9	66%
15	Senior Loan	Crystal City, VA	Office	9/14/2016	103.5	90.1	23.0	13.4	L + 4.5%	3.0	59%
16	Senior Loan	Seattle, WA	Multifamily	9/7/2018	93.0	93.0	92.5	0.0	L + 2.6%	4.9	79%
17	Senior Loan	Westbury, NY	Multifamily	3/8/2018	89.0	87.1	12.8	1.9	L + 3.1%	4.5	69%
18	Senior Loan	New York, NY	Multifamily	3/29/2018	86.0	86.0	12.4	0.0	L + 2.6%	4.5	48%
19	Senior Loan	Denver, CO	Multifamily	2/28/2017	85.9	82.4	15.7	0.0	L + 3.8%	3.4	75%
20	Senior Loan	Denver, CO	Multifamily	8/4/2017	81.0	81.0	19.8	0.0	L + 4.0%	3.8	73%
21	Senior Loan	Seattle, WA	Office	3/20/2018	80.7	80.7	20.9	0.0	L + 3.5%	4.5	65%
22	Senior Loan	Orlando, FL	Multifamily	3/28/2018	80.0	70.7	12.8	9.3	L + 2.8%	4.5	70%
23	Senior Loan	St Paul, MN	Office	1/16/2018	75.5	70.3	17.4	5.2	L + 3.6%	4.4	73%
24	Senior Loan	Queens, NY	Industrial	7/21/2017	75.1	61.9	15.6	13.2	L + 3.7%	3.8	72%
25	Senior Loan	New York, NY	Multifamily	10/7/2016	74.5	72.8	23.8	1.7	L + 4.4%	3.1	68%
26	Senior Loan	Atlanta, GA	Industrial	7/24/2018	74.5	68.8	68.3	5.7	L + 2.7%	4.9	74%
27	Senior Loan	Atlanta, GA	Office	5/12/2017	61.9	53.8	14.1	8.1	L + 4.0%	3.7	71%
28	Senior Loan	Nashville, TN	Office	5/19/2016	55.0	53.5	14.1	1.5	L + 4.3%	3.3	70%
<b>Total / Weighted Average</b>					<b>\$3,769.7</b>	<b>\$3,322.6</b>	<b>\$1,026.1</b>	<b>\$369.9</b>	<b>L + 3.6%</b>	<b>4.0</b>	<b>68%</b>
<b>Mezzanine Loans</b>											
1 - 6	Fixed Rate Mezzanine	Various	Various	Various	26.2	26.2	26.2	-	10.6%	6.6	77%
<b>Total / Weighted Average</b>					<b>\$26.2</b>	<b>\$26.2</b>	<b>\$26.2</b>	<b>-</b>	<b>10.6%</b>	<b>6.6</b>	<b>77%</b>
<b>CMBS</b>											
<b>Total / Weighted Average</b>					<b>\$74.9</b>	<b>\$58.7</b>	<b>\$33.8</b>	<b>\$16.2</b>	<b>3.7%</b>	<b>8.9</b>	<b>60%</b>
<b>Portfolio Total / Weighted Average</b>					<b>\$3,870.8</b>	<b>\$3,407.5</b>	<b>\$1,086.1</b>	<b>\$386.1</b>	<b>5.9%</b>	<b>4.1</b>	<b>68%</b>
<b>3Q18 Outstanding Portfolio<sup>(8)</sup></b>											<b>\$3,382.6</b>

- 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; (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 Senior Loan 13 and Senior Loan 19, 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 \$16.2 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 2.26% included in 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 3, LTV is based on the current principal amount divided by the adjusted appraised gross sellout value net of sales cost; 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.



# Consolidated Balance Sheets

(in thousands - except share and per share data)	September 30, 2018	December 31, 2017
<b>Assets</b>		
Cash and cash equivalents	\$ 192,771	\$ 103,120
Restricted cash	-	400
Commercial mortgage loans, held-for-investment, net	3,261,878	1,888,510
Equity method investments, at fair value	24,745	14,390
Accrued interest receivable	12,395	8,423
Other assets	20,046	7,239
Commercial mortgage loans held in variable interest entities, at fair value	1,100,089	5,372,811
<b>Total Assets</b>	<b>\$ 4,611,924</b>	<b>\$ 7,394,893</b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Secured financing agreements, net	\$ 2,115,954	\$ 964,800
Convertible notes, net	137,339	-
Loan participations sold, net	83,442	81,472
Accounts payable, accrued expenses and other liabilities	2,236	2,465
Dividends Payable	25,235	19,981
Accrued interest payable	6,376	1,623
Due to affiliates	7,700	4,442
Variable interest entity liabilities, at fair value	1,086,939	5,256,926
<b>Total Liabilities</b>	<b>3,465,221</b>	<b>6,331,709</b>
<b>Commitments and Contingencies</b>		
<b>Temporary Equity</b>		
Redeemable noncontrolling interests in equity of consolidated joint venture	-	3,090
Redeemable preferred stock	402	949
<b>Permanent Equity</b>		
Preferred stock, 50,000,000 authorized (1 share with par value of \$0.01 issued and outstanding as of September 30, 2018 and December 31, 2017)	-	-
Common stock, 300,000,000 authorized (58,022,590 and 53,685,440 shares with par value of \$0.01 issued and outstanding as of September 30, 2018 and December 31, 2017, respectively)	580	537
Additional paid-in capital	1,154,113	1,052,851
Retained earnings	5,763	6,280
Repurchased stock, 723,507 and 26,398 shares repurchased as of September 30, 2018 and December 31, 2017, respectively	(14,155)	(523)
<b>Total KKR Real Estate Finance Trust Inc. stockholders' equity</b>	<b>1,146,301</b>	<b>1,059,145</b>
<b>Total Permanent Equity</b>	<b>1,146,301</b>	<b>1,059,145</b>
<b>Total Liabilities and Equity</b>	<b>\$ 4,611,924</b>	<b>\$ 7,394,893</b>

# Consolidated Statements of Income

(in thousands - except share and per share data)	For the Three Months Ended			For the Nine Months Ended	
	September 30, 2018	June 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Net Interest Income</b>					
Interest income	\$ 51,895	\$ 40,363	\$ 24,408	\$ 123,952	\$ 54,760
Interest expense	23,337	18,798	5,414	52,825	12,592
Total net interest income	28,558	21,565	18,994	71,127	42,168
<b>Other Income</b>					
Realized gain on sale of investments	-	13,000	-	13,000	-
Change in net assets related to consolidated variable interest entities	379	(6,408)	4,025	2,460	12,810
Income from equity method investments	747	789	115	2,084	461
Other income	476	602	177	1,239	616
Total other income (loss)	\$ 1,602	\$ 7,983	\$ 4,317	\$ 18,783	\$ 13,887
<b>Operating Expenses</b>					
General and administrative	1,653	1,686	1,339	6,002	3,254
Management fees to affiliate	4,164	3,913	3,989	12,016	9,513
Incentive compensation to affiliate	3,286	-	-	3,286	-
Total operating expenses	9,103	5,599	5,328	21,304	12,767
<b>Income (Loss) Before Income Taxes, Noncontrolling Interests and Preferred Dividends</b>	<b>21,057</b>	<b>23,949</b>	<b>17,983</b>	<b>68,606</b>	<b>43,288</b>
Income tax expense (benefit)	85	(33)	120	227	388
<b>Net Income (Loss)</b>	<b>20,972</b>	<b>23,982</b>	<b>17,863</b>	<b>68,379</b>	<b>42,900</b>
<b>Redeemable Noncontrolling Interests in Income (Loss) of Consolidated Joint Venture</b>	-	29	54	63	134
<b>Noncontrolling Interests in Income (Loss) of Consolidated Joint Venture</b>	-	-	377	-	801
<b>Net Income Attributable to KKR Real Estate Finance Trust Inc. and Subsidiaries</b>	<b>20,972</b>	<b>23,953</b>	<b>17,432</b>	<b>68,316</b>	<b>41,965</b>
Preferred Stock Dividends and Redemption Value Adjustment	151	470	93	395	181
<b>Net Income (Loss) Attributable to Common Stockholders</b>	<b>\$ 20,821</b>	<b>\$ 23,483</b>	<b>\$ 17,339</b>	<b>\$ 67,921</b>	<b>\$ 41,784</b>
<b>Net Income (Loss) Per Share of Common Stock, Basic</b>	<b>\$ 0.37</b>	<b>\$ 0.44</b>	<b>\$ 0.32</b>	<b>\$ 1.26</b>	<b>\$ 0.98</b>
<b>Net Income (Loss) Per Share of Common Stock, Diluted</b>	<b>\$ 0.37</b>	<b>\$ 0.44</b>	<b>\$ 0.32</b>	<b>\$ 1.25</b>	<b>\$ 0.98</b>
Weighted Average Number of Shares of Common Stock Outstanding, Basic	55,903,126	53,064,585	53,696,967	54,111,272	42,501,356
Weighted Average Number of Shares of Common Stock Outstanding, Diluted	55,921,655	53,069,866	53,697,041	54,132,331	42,501,530
Dividends Declared per Share of Common Stock	\$ 0.43	\$ 0.43	\$ 0.37	\$ 1.26	\$ 1.25



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

	3Q18	2Q18	1Q18	4Q17
<i>(\$ in thousands, except share and per share data)</i>				
<b>Net Income Attributable to Common Stockholders</b>	<b>\$20,821</b>	<b>\$23,483</b>	<b>\$23,280</b>	<b>\$17,034</b>
<b>Adjustments</b>				
Non-cash equity compensation expense	295	273	1,018	25
Incentive compensation to affiliate	3,286	-	-	-
Depreciation and amortization	-	-	-	-
Unrealized (gains) or losses	205	1,822	(5,377)	79
Non-cash convertible notes discount amortization	91	42	-	-
Reversal of previously unrealized gain now realized <sup>(1)</sup>	-	11,900	-	-
<b>Core Earnings<sup>(2)</sup></b>	<b>\$24,698</b>	<b>\$37,520</b>	<b>\$18,921</b>	<b>\$17,138</b>
Weighted Average Shares Outstanding				
Basic	55,903,126	53,064,585	53,337,915	53,685,440
Diluted	55,921,655	53,069,866	53,378,467	53,688,027
<b>Core Earnings per Weighted Average Share, Basic and diluted<sup>(2)</sup></b>	<b>\$0.44</b>	<b>\$0.71</b>	<b>\$0.35</b>	<b>\$0.32</b>
Core Earnings <sup>(2)</sup>				
Core Earnings <sup>(2)</sup>	\$24,698	\$37,520	\$18,921	\$17,138
Less: Incentive compensation to affiliate	3,286	-	-	-
<b>Net Core Earnings<sup>(2)</sup></b>	<b>\$21,412</b>	<b>\$37,520</b>	<b>\$18,921</b>	<b>\$17,138</b>
<b>Net Core Earnings per Weighted Average Share, Basic and diluted<sup>(2)</sup></b>	<b>\$0.38</b>	<b>\$0.71</b>	<b>\$0.35</b>	<b>\$0.32</b>

(1) Includes \$5.5 million and \$6.4 million of unrealized gains related to the first quarter of 2018 and to prior periods, respectively, that were realized during the three months ended June 30, 2018. \$2.4 million of the incentive fees was incurred in the third quarter of 2018 as a result of the April CMBS sale.

(2) See Appendix page 26 for definitions. Excludes \$0.2 million, \$0.2 million, \$1.1 million and \$1.1 million or \$0.00, \$0.00, \$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 3Q18, 2Q18, 1Q18 and 4Q17, respectively. For 2Q18, includes \$19.4 million or \$0.37 per share, related to the gain on sale of CMBS investments.

# 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.