

STARWOOD PROPERTY TRUST, INC.

Form 10-Q

November 05, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

Commission file number 001-34436

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Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland  
(State or Other Jurisdiction of  
Incorporation or Organization)

27-0247747  
(I.R.S. Employer  
Identification No.)

591 West Putnam Avenue  
Greenwich, Connecticut  
(Address of Principal Executive Offices)

06830  
(Zip Code)

Registrant's telephone number, including area code:

(203) 422-8100

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of October 30, 2015 was 237,672,948.



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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including without limitation, statements concerning our operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are developed by combining currently available information with our beliefs and assumptions and are generally identified by the words “believe,” “expect,” “anticipate” and other similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates.

These forward-looking statements are based largely on our current beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control, and which could materially affect actual results, performance or achievements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2014, this Quarterly Report on Form 10-Q and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015, including those set forth under the captions “Risk Factors” and “Business”;
- defaults by borrowers in paying debt service on outstanding indebtedness;
- impairment in the value of real estate property securing our loans or in which we invest;
- availability of mortgage origination and acquisition opportunities acceptable to us;
- our ability to fully integrate LNR Property LLC, a Delaware limited liability company (“LNR”), which was acquired on April 19, 2013, into our business and achieve the benefits that we anticipate from this acquisition;
- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;
- national and local economic and business conditions;
- general and local commercial and residential real estate property conditions;

- changes in federal government policies;
- changes in federal, state and local governmental laws and regulations;
- increased competition from entities engaged in mortgage lending and securities investing activities;
- changes in interest rates; and
- the availability of, and costs associated with, sources of liquidity.

In light of these risks and uncertainties, there can be no assurances that the results referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q will in fact occur. Except to the extent required by applicable law or regulation, we undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, changes to future results over time or otherwise.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share data)

|  | As of<br>September<br>30, 2015 | As of<br>December 31,<br>2014 |
|--|--------------------------------|-------------------------------|
| Assets:  |                                |                               |
| Cash and cash equivalents  | \$ 372,768                     | \$ 255,187                    |
| Restricted cash  | 43,620                         | 48,704                        |
| Loans held-for-investment, net                                     | 5,814,886                      | 5,779,238                     |
| Loans held-for-sale (\$423,630 and \$391,620 held at fair value)   | 450,828                        | 391,620                       |
| Loans transferred as secured borrowings                            | 142,456                        | 129,427                       |
| Investment securities (\$421,456 and \$556,253 held at fair value) | 786,461                        | 998,248                       |
| Properties, net  | 530,438                        | 39,854                        |
| Intangible assets (\$123,892 and \$132,303 held at fair value)     | 191,080                        | 144,152                       |
| Investment in unconsolidated entities                              | 199,171                        | 193,983                       |
| Goodwill   | 140,437                        | 140,437                       |
| Derivative assets  | 36,307                         | 26,628                        |
| Accrued interest receivable  | 36,042                         | 40,102                        |
| Other assets   | 137,296                        | 95,652                        |
| Variable interest entity ("VIE") assets, at fair value             | 82,937,617                     | 107,816,065                   |
| Total Assets   | \$ 91,819,407                  | \$ 116,099,297                |
| Liabilities and Equity   |                                |                               |
| Liabilities:   |                                |                               |
| Accounts payable, accrued expenses and other liabilities           | \$ 137,786                     | \$ 144,516                    |
| Related-party payable  | 22,804                         | 40,751                        |
| Dividends payable  | 115,191                        | 108,189                       |
| Derivative liabilities   | 14,901                         | 5,476                         |
| Secured financing agreements, net                                  | 3,682,274                      | 3,137,789                     |
| Convertible senior notes, net                                      | 1,320,207                      | 1,418,022                     |
| Secured borrowings on transferred loans                            | 143,926                        | 129,441                       |



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|   |               |                |
|---|---------------|----------------|
| VIE liabilities, at fair value  | 82,181,138    | 107,232,201    |
| Total Liabilities   | 87,618,227    | 112,216,385    |
| Commitments and contingencies (Note 21)   |               |                |
| Equity:   |               |                |
| Starwood Property Trust, Inc. Stockholders' Equity:   |               |                |
| Preferred stock, \$0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding  | —             | —              |
| Common stock, \$0.01 per share, 500,000,000 shares authorized, 240,665,588 issued and 237,658,615 outstanding as of September 30, 2015 and 224,752,053 issued and 223,538,303 outstanding as of December 31, 2014 | 2,407         | 2,248          |
| Additional paid-in capital  | 4,184,538     | 3,835,725      |
| Treasury stock (3,006,973 shares and 1,213,750 shares)  | (61,525)      | (23,635)       |
| Accumulated other comprehensive income  | 39,510        | 55,896         |
| Retained earnings (accumulated deficit)   | 5,843         | (9,378)        |
| Total Starwood Property Trust, Inc. Stockholders' Equity  | 4,170,773     | 3,860,856      |
| Non-controlling interests in consolidated subsidiaries  | 30,407        | 22,056         |
| Total Equity  | 4,201,180     | 3,882,912      |
| Total Liabilities and Equity  | \$ 91,819,407 | \$ 116,099,297 |

See notes to condensed consolidated financial statements.

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## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations

(Unaudited, amounts in thousands, except per share data)

|  | For the Three Months<br>Ended<br>September 30, |            | For the Nine Months<br>Ended<br>September 30, |            |
|--|--|------------|---|------------|
|  | 2015   | 2014       | 2015  | 2014       |
| Revenues:  |  |            |   |            |
| Interest income from loans   | \$ 120,598                                     | \$ 110,669 | \$ 357,319                                    | \$ 321,034 |
| Interest income from investment securities                             | 24,674   | 28,640     | 76,228  | 85,714     |
| Servicing fees   | 32,528   | 34,641     | 90,939  | 101,533    |
| Rental income  | 10,045   | 3,385      | 17,731  | 6,520      |
| Other revenues   | 4,300  | 4,033      | 7,437   | 9,296      |
| Total revenues   | 192,145  | 181,368    | 549,654                                       | 524,097    |
| Costs and expenses:  |  |            |   |            |
| Management fees  | 28,082   | 24,943     | 82,871  | 77,849     |
| Interest expense   | 50,688   | 39,739     | 151,021                                       | 115,265    |
| General and administrative   | 38,693   | 47,640     | 115,361                                       | 136,835    |
| Acquisition and investment pursuit costs                               | 3,682  | 759        | 9,735   | 1,924      |
| Costs of rental operations   | 2,352  | 1,783      | 5,261   | 3,889      |
| Depreciation and amortization  | 7,234  | 3,017      | 17,147  | 12,807     |
| Loan loss allowance, net   | (2,667)  | 1,575      | 311   | 1,933      |
| Other expense  | 3  | 918        | 378   | 6,527      |
| Total costs and expenses   | 128,067  | 120,374    | 382,085                                       | 357,029    |
| Income before other income, income taxes and non-controlling interests | 64,078   | 60,994     | 167,569                                       | 167,068    |
| Other income:  |  |            |   |            |
| Change in net assets related to consolidated VIEs                      | 49,665   | 87,778     | 153,399                                       | 190,810    |
| Change in fair value of servicing rights                               | (4,217)  | (7,897)    | (8,411)                                       | (18,671)   |
| Change in fair value of investment securities, net                     | 2,617  | 1,860      | 3,564   | 15,180     |
| Change in fair value of mortgage loans held-for-sale, net              | 19,082   | 15,517     | 51,044  | 48,018     |
| Earnings from unconsolidated entities                                  | 5,706  | 3,805      | 20,747  | 13,432     |
| Gain on sale of investments and other assets, net                      | 3,348  | 1,332      | 20,755  | 12,965     |
| Gain on derivative financial instruments, net                          | 2,230  | 29,275     | 7,323   | 11,619     |
| Foreign currency loss, net   | (17,782)                                       | (21,466)   | (27,235)                                      | (16,212)   |
| Total other-than-temporary impairment ("OTTI")                         | —  | (264)      | —   | (2,256)    |
| Noncredit portion of OTTI recognized in other comprehensive income     | —  | 264        | —   | 1,246      |
| Net impairment losses recognized in earnings                           | —  | —          | —   | (1,010)    |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Loss on extinguishment of debt                           | —          | —          | (5,921)    | —          |
| Other income, net  | 64         | 28         | 119        | 738        |
| Total other income                                       | 60,713     | 110,232    | 215,384    | 256,869    |
| Income from continuing operations before income taxes    | 124,791    | 171,226    | 382,953    | 423,937    |
| Income tax provision                                     | (7,675)    | (3,836)    | (27,418)   | (13,733)   |
| Income from continuing operations                        | 117,116    | 167,390    | 355,535    | 410,204    |
| Loss from discontinued operations, net of tax (Note 3)   | —          | —          | —          | (1,551)    |
| Net income   | 117,116    | 167,390    | 355,535    | 408,653    |
| Net income attributable to non-controlling interests     | (381)      | (2,346)    | (1,289)    | (5,140)    |
| Net income attributable to Starwood Property Trust, Inc. | \$ 116,735 | \$ 165,044 | \$ 354,246 | \$ 403,513 |

Earnings per share data attributable to Starwood Property Trust, Inc.:

|                                     |         |         |         |         |
|-------------------------------------|---------|---------|---------|---------|
| Basic:                              |         |         |         |         |
| Income from continuing operations   | \$ 0.49 | \$ 0.73 | \$ 1.51 | \$ 1.89 |
| Loss from discontinued operations   | —       | —       | —       | (0.01)  |
| Net income                          | \$ 0.49 | \$ 0.73 | \$ 1.51 | \$ 1.88 |
| Diluted:                            |         |         |         |         |
| Income from continuing operations   | \$ 0.49 | \$ 0.73 | \$ 1.51 | \$ 1.88 |
| Loss from discontinued operations   | —       | —       | —       | (0.01)  |
| Net income                          | \$ 0.49 | \$ 0.73 | \$ 1.51 | \$ 1.87 |
| Dividends declared per common share | \$ 0.48 | \$ 0.48 | \$ 1.44 | \$ 1.44 |

See notes to condensed consolidated financial statements.

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## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

|  | For the Three Months<br>Ended<br>September 30, |            | For the Nine Months<br>Ended<br>September 30, |            |
|--|--|------------|---|------------|
|  | 2015   | 2014       | 2015  | 2014       |
| Net income   | \$ 117,116                                     | \$ 167,390 | \$ 355,535                                    | \$ 408,653 |
| Other comprehensive (loss) income (net change by component):         |  |            |   |            |
| Cash flow hedges   | (208)  | 530        | (348)   | 559        |
| Available-for-sale securities  | (9,095)  | 3,954      | (18,915)                                      | (2,166)    |
| Foreign currency remeasurement                                       | 2,912  | (9,765)    | 2,877   | (4,161)    |
| Other comprehensive loss   | (6,391)  | (5,281)    | (16,386)                                      | (5,768)    |
| Comprehensive income   | 110,725  | 162,109    | 339,149                                       | 402,885    |
| Less: Comprehensive income attributable to non-controlling interests | (381)  | (2,346)    | (1,289)                                       | (5,140)    |
| Comprehensive income attributable to Starwood Property Trust, Inc.   | \$ 110,344                                     | \$ 159,763 | \$ 337,860                                    | \$ 397,745 |

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

| Common stock<br>Shares | Par<br>Value | Additional<br>Paid-in<br>Capital | Treasury Stock<br>Shares | Amount      | (Accumulated<br>Deficit)<br>Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Starwood<br>Property<br>Trust, Inc.<br>Stockholders'<br>Equity | Non-<br>Controlling<br>Interests |
|------------------------|--------------|----------------------------------|--------------------------|-------------|--|---|---|----------------------------------|
| 224,752,053            | \$ 2,248     | \$ 3,835,725                     | 1,213,750                | \$ (23,635) | \$ (9,378)                                       | \$ 55,896   | \$ 3,860,856  | \$ 22,056                        |
| 13,800,000             | 138          | 326,004                          | —                        | —           | —  | —   | 326,142   | —                                |
| 9,400                  | —            | 219                              | —                        | —           | —  | —   | 219   | —                                |
| —                      | —            | (945)                            | —                        | —           | —  | —   | (945)   | —                                |
| —                      | —            | —                                | 1,793,223                | (37,890)    | —  | —   | (37,890)  | —                                |
| —                      | —            | (17,727)                         | —                        | —           | —  | —   | (17,727)  | —                                |
| 1,484,879              | 15           | 26,440                           | —                        | —           | —  | —   | 26,455  | —                                |
| 619,256                | 6            | 14,822                           | —                        | —           | —  | —   | 14,828  | —                                |
| —                      | —            | —                                | —                        | —           | 354,246  | —   | 354,246   | 1,289                            |
| —                      | —            | —                                | —                        | —           | (339,025)  | —   | (339,025)   | —                                |
| —                      | —            | —                                | —                        | —           | —  | (16,386)  | (16,386)  | —                                |

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|             |          |              |           |             |             |           |              |           |
|-------------|----------|--------------|-----------|-------------|-------------|-----------|--------------|-----------|
| —           | —        | —            | —         | —           | —           | —         | —            | 4,188     |
| —           | —        | —            | —         | —           | —           | —         | —            | 4,133     |
| —           | —        | —            | —         | —           | —           | —         | —            | (1,259)   |
| 240,665,588 | \$ 2,407 | \$ 4,184,538 | 3,006,973 | \$ (61,525) | \$ 5,843    | \$ 39,510 | \$ 4,170,773 | \$ 30,407 |
| 196,139,045 | \$ 1,961 | \$ 4,300,479 | 625,850   | \$ (10,642) | \$ (84,719) | \$ 75,449 | \$ 4,282,528 | \$ 44,605 |
| 25,300,000  | 253      | 564,442      | —         | —           | —           | —         | 564,695      | —         |
| 759,000     | 8        | 18,338       | —         | —           | —           | —         | 18,346       | —         |
| 2,430       | —        | 58           | —         | —           | —           | —         | 58           | —         |
| —           | —        | (1,623)      | —         | —           | —           | —         | (1,623)      | —         |
| —           | —        | —            | 587,900   | (12,993)    | —           | —         | (12,993)     | —         |
| 1,025,144   | 10       | 21,491       | —         | —           | —           | —         | 21,501       | —         |
| 376,932     | 4        | 8,986        | —         | —           | —           | —         | 8,990        | —         |
| —           | —        | —            | —         | —           | 403,513     | —         | 403,513      | 5,140     |
| —           | —        | —            | —         | —           | (311,492)   | —         | (311,492)    | —         |
| —           | —        | (1,118,743)  | —         | —           | —           | —         | (1,118,743)  | (1,594)   |
| —           | —        | —            | —         | —           | —           | (5,768)   | (5,768)      | —         |
| —           | —        | —            | —         | —           | —           | —         | —            | 382       |
| —           | —        | —            | —         | —           | —           | —         | —            | (33,582)  |

223,602,551    \$ 2,236    \$ 3,793,428    1,213,750    \$ (23,635)    \$ 7,302    \$ 69,681    \$ 3,849,012    \$ 14,951

See notes to condensed consolidated financial statements.

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## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

|   | For the Nine Months Ended<br>September 30, |             |
|---|--|-------------|
|   | 2015                                       | 2014        |
| Cash Flows from Operating Activities:   |  |             |
| Net income  | \$ 355,535                                 | \$ 408,653  |
| Adjustments to reconcile net income to net cash provided by operating activities:   |  |             |
| Amortization of deferred financing costs  | 11,055                                     | 8,501       |
| Amortization of convertible debt discount and deferred fees                         | 15,631                                     | 9,376       |
| Accretion of net discount on investment securities                                  | (20,312)                                   | (17,174)    |
| Accretion of net deferred loan fees and discounts                                   | (26,615)                                   | (16,756)    |
| Amortization of net premium (discount) from secured borrowings on transferred loans | 4  | (862)       |
| Share-based compensation  | 26,455                                     | 21,501      |
| Share-based component of incentive fees   | 14,828                                     | 8,990       |
| Change in fair value of fair value option investment securities                     | (3,564)                                    | (15,180)    |
| Change in fair value of consolidated VIEs   | 17,438                                     | (71,105)    |
| Change in fair value of servicing rights  | 8,411                                      | 18,671      |
| Change in fair value of loans held-for-sale   | (51,044)                                   | (48,018)    |
| Change in fair value of derivatives   | (12,765)                                   | (14,595)    |
| Foreign currency loss, net  | 27,372                                     | 15,767      |
| Gain on sale of investments and other assets  | (20,755)                                   | (13,907)    |
| Other-than-temporary impairment   | —  | 1,010       |
| Loan loss allowance, net  | 311  | 1,933       |
| Depreciation and amortization   | 15,873                                     | 13,178      |
| Earnings from unconsolidated entities   | (20,747)                                   | (13,432)    |
| Distributions of earnings from unconsolidated entities                              | 18,665                                     | 9,354       |
| Loss on extinguishment of debt  | 5,921                                      | —           |
| Originations of loans held-for-sale, net of principal collections                   | (1,424,837)                                | (1,159,058) |
| Proceeds from sale of loans held-for-sale   | 1,443,871                                  | 1,165,583   |
| Changes in operating assets and liabilities:  |  |             |
| Related-party payable, net  | (17,947)                                   | 7,073       |
| Accrued and capitalized interest receivable, less purchased interest                | (48,310)                                   | (29,770)    |
| Other assets  | (29,576)                                   | (6,192)     |
| Accounts payable, accrued expenses and other liabilities                            | (25,211)                                   | (46,997)    |



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|  |             |             |
|--|-------------|-------------|
| Net cash provided by operating activities                    | 259,687     | 236,544     |
| Cash Flows from Investing Activities:                        |             |             |
| Origination and purchase of loans held-for-investment        | (1,670,124) | (2,123,947) |
| Proceeds from principal collections on loans                 | 1,057,700   | 966,350     |
| Proceeds from loans sold                                     | 599,504     | 341,472     |
| Purchase of investment securities                            | (163,018)   | (67,230)    |
| Proceeds from sales of investment securities                 | 6,301       | 100,166     |
| Proceeds from principal collections on investment securities | 348,090     | 40,999      |
| Real estate business combinations, net of cash acquired      | (239,933)   | —           |
| Proceeds from sale of properties                             | 33,056      | 1,784       |
| Purchase of other assets                                     | (309)       | (18,731)    |
| Investment in unconsolidated entities                        | (32,063)    | (21,973)    |
| Distribution of capital from unconsolidated entities         | 29,003      | 38,946      |
| Payments for purchase or termination of derivatives          | (18,271)    | (16,081)    |
| Proceeds from termination of derivatives                     | 30,194      | 5,611       |
| Return of investment basis in purchased derivative asset     | 260         | 1,222       |
| Decrease in restricted cash, net                             | 9,404       | 8,890       |
| Spin-off of Starwood Waypoint Residential Trust              | —           | (111,960)   |
| Acquisition and improvement of single family homes           | —           | (61,901)    |
| Proceeds from sale of non-performing loans                   | —           | 1,153       |
| Net cash used in investing activities                        | (10,206)    | (915,230)   |

See notes to condensed consolidated financial statements.

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## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

|   | For the Nine Months Ended<br>September 30, |              |
|---|--|--------------|
|   | 2015                                       | 2014         |
| Cash Flows from Financing Activities:                                     |  |              |
| Borrowings under financing agreements                                     | \$ 3,423,328                               | \$ 2,917,281 |
| Principal repayments on and repurchases of borrowings                     | (3,289,937)                                | (2,459,837)  |
| Payment of deferred financing costs                                       | (13,876)                                   | (11,536)     |
| Proceeds from common stock issuances                                      | 326,361                                    | 583,099      |
| Payment of equity offering costs  | (945)                                      | (1,623)      |
| Payment of dividends  | (332,023)                                  | (293,607)    |
| Distributions to non-controlling interests                                | (1,259)                                    | (33,582)     |
| Purchase of treasury stock  | (29,792)                                   | —            |
| Issuance of debt of consolidated VIEs                                     | 9,132                                      | 88,412       |
| Repayment of debt of consolidated VIEs                                    | (246,230)                                  | (129,724)    |
| Distributions of cash from consolidated VIEs                              | 26,690                                     | 32,601       |
| Net cash (used in) provided by financing activities                       | (128,551)                                  | 691,484      |
| Net increase in cash and cash equivalents                                 | 120,930                                    | 12,798       |
| Cash and cash equivalents, beginning of period                            | 255,187                                    | 317,627      |
| Effect of exchange rate changes on cash                                   | (3,349)                                    | (3,103)      |
| Cash and cash equivalents, end of period                                  | \$ 372,768                                 | \$ 327,322   |
| Supplemental disclosure of cash flow information:                         |  |              |
| Cash paid for interest  | \$ 126,668                                 | \$ 110,208   |
| Income taxes paid   | 27,256                                     | 19,040       |
| Supplemental disclosure of non-cash investing and financing activities:   |  |              |
| Fair value of assets acquired   | \$ 540,764                                 | \$ —         |
| Fair value of liabilities assumed   | 300,831                                    | —            |
| Assets acquired from consolidated VIEs, net                               | (39,506)                                   | —            |
| Unsettled common stock repurchased  | 8,098                                      | 12,993       |
| Dividends declared, but not yet paid                                      | 115,191                                    | 108,056      |
| Consolidation of VIEs (VIE asset/liability additions)                     | 8,067,859                                  | 27,094,681   |
| Deconsolidation of VIEs (VIE asset/liability reductions)                  | (5,278,580)                                | 8,502,882    |
| Net assets distributed in spin-off of Starwood Waypoint Residential Trust | —  | 1,008,377    |

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of September 30, 2015

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. (“STWD” together with its subsidiaries, “we” or the “Company”) is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering (“IPO”). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities (“CMBS”), and other commercial real estate investments in both the U.S. and Europe. We refer to the following as our target assets: commercial real estate mortgage loans, preferred equity interests, CMBS and other commercial real estate-related debt investments. Our target assets may also include residential mortgage-backed securities (“RMBS”), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have three reportable business segments as of September 30, 2015:

- Real estate lending (the “Lending Segment”)—engages primarily in originating, acquiring, financing and managing commercial first mortgages, subordinated mortgages, mezzanine loans, preferred equity, CMBS, RMBS and other real estate and real estate-related debt investments in both the U.S. and Europe that are held-for-investment.
- Real estate investing and servicing (the “Investing and Servicing Segment”)—includes (i) servicing businesses in both the U.S. and Europe that manage and work out problem assets, (ii) an investment business that selectively acquires and manages unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions, and (iv) an investment business that selectively acquires commercial real estate assets, including properties acquired from CMBS trusts. This segment excludes the consolidation of securitization variable interest entities (“VIEs”).
- Real estate property (the “Property Segment”)—engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multi-family properties, that are held for investment.

On January 31, 2014, we completed the spin-off of our former single family residential (“SFR”) segment to our stockholders as discussed further in Note 3.

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

We are organized as a holding company and conduct our business primarily through our various wholly-owned subsidiaries. We are externally managed and advised by SPT Management, LLC (our “Manager”) pursuant to the terms of a management agreement. Our Manager is controlled by Barry Sternlicht, our Chairman and Chief Executive Officer. Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht.

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2. Summary of Significant Accounting Policies

Balance Sheet Presentation of the Investing and Servicing Segment's Variable Interest Entities

As noted above, the Investing and Servicing Segment operates an investment business that acquires unrated, investment grade and non-investment grade rated CMBS. These securities represent interests in securitization structures (commonly referred to as special purpose entities, or "SPEs"). These SPEs are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. Under accounting principles generally accepted in the United States of America ("GAAP"), SPEs typically qualify as variable interest entities ("VIEs"). These are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

Because the Investing and Servicing Segment often serves as the special servicer of the trusts in which it invests, consolidation of these structures is required pursuant to GAAP as outlined in detail below. This results in a consolidated balance sheet which presents the gross assets and liabilities of the VIEs. The assets and other instruments held by these VIEs are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the VIEs do not have any recourse to the general credit of any other consolidated entities, nor to us as the consolidator of these VIEs.

The VIE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

Refer to the segment data in Note 22 for a presentation of the Investing and Servicing Segment without consolidation of these VIEs.

Basis of Accounting and Principles of Consolidation

The accompanying condensed consolidated financial statements include our accounts and those of our consolidated subsidiaries and VIEs. Intercompany amounts have been eliminated in consolidation. In the opinion of management,

all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows have been included.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Form 10-K"), as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the operating results for the full year.

Refer to our Form 10-K for a description of our recurring accounting policies. We have included disclosure in this Note 2 regarding principles of consolidation and other accounting policies that (i) are required to be disclosed quarterly, (ii) we view as critical, or (iii) became significant since December 31, 2014 due to a corporate action or increase in the significance of the underlying business activity.

#### Variable Interest Entities

We evaluate all of our interests in VIEs for consolidation. When our interests are determined to be variable interests, we assess whether we are deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. Accounting Standards Codification ("ASC") 810, Consolidation, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its

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economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. We consider our variable interests as well as any variable interests of our related parties in making this determination. Where both of these factors are present, we are deemed to be the primary beneficiary and we consolidate the VIE. Where either one of these factors is not present, we are not the primary beneficiary and do not consolidate the VIE.

To assess whether we have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, we consider all facts and circumstances, including our role in establishing the VIE and our 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 over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

To assess whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, we consider all of our economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE. This assessment requires that we apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by us.

Our purchased investment securities include CMBS, which are unrated and non-investment grade rated securities issued by CMBS trusts. In certain cases, we may contract to provide special servicing activities for these CMBS trusts, or, as holder of the controlling class, we may have the right to name and remove the special servicer for these trusts. In our role as special servicer, we provide services on defaulted loans within the trusts, such as foreclosure or work-out procedures, as permitted by the underlying contractual agreements. In exchange for these services, we receive a fee. These rights give us the ability to direct activities that could significantly impact the trust's economic performance. However, in those instances where an unrelated third party has the right to unilaterally remove us as special servicer, we do not have the power to direct activities that most significantly impact the trust's economic performance. We evaluated all of our positions in such investments for consolidation.

For VIEs in which we are determined to be the primary beneficiary, all of the underlying assets, liabilities and equity of the structures are recorded on our 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 structures, as well as the fees paid by these trusts to us in our capacity as special servicer, are eliminated in consolidation. Further, an allocable portion of the identified servicing intangible asset associated with the servicing fee streams, and the corresponding allocable amortization or change in fair value of the servicing intangible asset, are also eliminated in consolidation.



We perform ongoing reassessments of: (1) whether any entities previously evaluated under the majority voting interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework, and (2) whether changes in the facts and circumstances regarding our involvement with a VIE causes our consolidation conclusion regarding the VIE to change.

We elect the fair value option for initial and subsequent recognition of the assets and liabilities of our consolidated VIEs. Interest income and interest expense associated with these VIEs are no longer relevant on a standalone basis because these amounts are already reflected in the fair value changes. We have elected to present these items in a single line on our condensed consolidated statements of operations. The residual difference shown on our condensed consolidated statements of operations in the line item "Change in net assets related to consolidated VIEs" represents our beneficial interest in the VIEs.

We separately present the assets and liabilities of our consolidated VIEs as individual line items on our consolidated balance sheets. The liabilities of our consolidated VIEs consist solely of obligations to the bondholders of the related CMBS trusts, and are thus presented as a single line item entitled "VIE liabilities." The assets of our

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consolidated VIEs consist principally of loans, but at times, also include foreclosed loans which have been temporarily converted into real estate owned (“REO”). These assets in the aggregate are likewise presented as a single line item entitled “VIE assets.”

Loans comprise the vast majority of our VIE assets and are carried at fair value due to the election of the fair value option. When an asset becomes REO, it is due to nonperformance of the loan. Because the loan is already at fair value, the carrying value of an REO asset is also initially at fair value. Furthermore, when we consolidate a CMBS trust, any existing REO would be consolidated at fair value. Once an asset becomes REO, its disposition time is relatively short. As a result, the carrying value of an REO generally approximates fair value under GAAP.

In addition to sharing a similar measurement method as the loans in a CMBS trust, the VIE assets as a whole can only be used to settle the obligations of the consolidated VIE. The assets of our VIEs are not individually accessible by the bondholders, which creates inherent limitations from a valuation perspective. Also creating limitations from a valuation perspective is our role as special servicer, which provides us very limited visibility, if any, into the performing loans of a CMBS trust.

REO assets generally represent a very small percentage of the overall asset pool of a CMBS trust. In a new issue CMBS trust there are no REO assets. We estimate that REO assets constitute approximately 4% of our consolidated VIE assets, with the remaining 96% representing loans. However, it is important to note that the fair value of our VIE assets is determined by reference to our VIE liabilities as permitted under Accounting Standards Update (“ASU”) 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. In other words, our VIE liabilities are more reliably measurable than the VIE assets, resulting in our current measurement methodology which utilizes this value to determine the fair value of our VIE assets as a whole. As a result, these percentages are not necessarily indicative of the relative fair values of each of these asset categories if the assets were to be valued individually.

Due to our accounting policy election under ASU 2014-13, separately presenting two different asset categories would result in an arbitrary assignment of value to each, with one asset category representing a residual amount, as opposed to its fair value. However, as a pool, the fair value of the assets in total is equal to the fair value of the liabilities.

For these reasons, the assets of our VIEs are presented in the aggregate.

Convertible Senior Notes

ASC 470, Debt, requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. ASC 470-20 requires that the initial proceeds from the sale of these notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Company at such time. The equity components of the convertible notes have been reflected within additional paid-in capital in our condensed consolidated balance sheets. The resulting debt discount is being amortized over the period during which the convertible notes are expected to be outstanding (the maturity date) as additional non-cash interest expense.

Upon repurchase of convertible debt instruments, ASC 470-20 requires the issuer to allocate total settlement consideration, inclusive of transaction costs, amongst the liability and equity components of the instrument based on the fair value of the liability component immediately prior to repurchase. The difference between the settlement consideration allocated to the liability component and the net carrying value of the liability component, including unamortized debt issuance costs, is recognized as gain (loss) on extinguishment of debt in our condensed consolidated statements of operations. The remaining settlement consideration allocated to the equity component is recognized as a reduction of additional paid-in capital in our condensed consolidated balance sheets.

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### Discontinued Operations

On January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders as discussed in Note 3. In accordance with ASC 205, Presentation of Financial Statements, the results of the SFR segment are presented within discontinued operations in our condensed consolidated statements of operations for the nine months ended September 30, 2014.

### Fair Value Option

The guidance in ASC 825, Financial Instruments, provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The decision to elect the fair value option is determined on an instrument by instrument basis and must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to this guidance are required to be reported separately in our consolidated balance sheets from those instruments using another accounting method.

We have elected the fair value option for eligible financial assets and liabilities of our consolidated VIEs, loans held-for-sale originated by the Investing and Servicing Segment's conduit platform, purchased CMBS issued by VIEs we could consolidate in the future and certain investments in marketable equity securities. The fair value elections for VIE and securitization related items were made in order to mitigate accounting mismatches between the carrying value of the instruments and the related assets and liabilities that we consolidate at fair value. The fair value elections for mortgage loans held-for-sale originated by the Investing and Servicing Segment's conduit platform were made due to the short-term nature of these instruments. The fair value elections for investments in marketable equity securities were made because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market.

### Fair Value Measurements

We measure our mortgage backed securities, derivative assets and liabilities, domestic servicing rights intangible asset and any assets or liabilities where we have elected the fair value option at fair value. When actively quoted observable prices are not available, we either use implied pricing from similar assets and liabilities or valuation models based on net present values of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

As discussed above, we measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. The VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a collateralized debt obligation (“CDO”). This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. Refer to Note 19 for further information regarding our fair value measurements.

#### Loans Receivable and Provision for Loan Losses

In our Lending Segment we purchase and originate commercial real estate debt and related instruments generally to be held as long-term investments at amortized cost. We are required to periodically evaluate each of these loans for possible impairment. Impairment is indicated when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is determined to be impaired, we write down the loan through a charge to the provision for loan losses. Actual losses, if any, could ultimately differ from these estimates.

We perform a quarterly review of our portfolio of loans. In connection with this review, we assess the performance of each loan and assign a risk rating based on several factors, including risk of loss, loan-to-collateral value

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ratio (“LTV”), collateral performance, structure, exit plan, and sponsorship. Loans are rated “1” through “5”, from less risk to greater risk, in connection with this review.

### Intangible Lease Assets

In accordance with ASC 805, Business Combinations, the acquirer in a business combination must recognize, with certain exceptions, the fair values of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. In connection with the Ireland portfolio acquisition (refer to Note 3 for further discussion) and certain properties acquired from CMBS trusts, we recognized intangible lease assets and liabilities associated with certain noncancelable operating leases of the acquired properties. These intangible lease assets and liabilities include in-place lease intangible assets, favorable lease intangible assets and unfavorable lease liabilities. In-place lease intangible assets reflect the acquired benefit of purchasing properties with in-place leases and are measured based on estimates of direct costs associated with leasing the property and lost rental income during projected lease-up and free rent periods, both of which are avoided due to the presence of in-place leases at the acquisition date. Favorable and unfavorable lease intangible assets and liabilities reflect the terms of in-place tenant leases being either favorable or unfavorable relative to market terms at the acquisition date. The estimated fair values of our favorable and unfavorable lease assets and liabilities at the respective acquisition dates represent the discounted cash flow differential between the contractual cash flows of such leases and the estimated cash flows that comparable leases at market terms would generate. Our intangible lease assets and liabilities are recognized within intangible assets and other liabilities, respectively, in our condensed consolidated balance sheet. Our in-place lease intangible assets are amortized to amortization expense while our favorable and unfavorable lease intangible assets and liabilities are amortized to rental income, both over the remaining noncancelable term of the respective leases on a straight-line basis.

### Properties

Our properties consist of commercial real estate properties held-for-investment and are recorded at cost, less accumulated depreciation and impairments, if any. Properties consist primarily of land, buildings and improvements. Land is not depreciated, and buildings and improvements are depreciated on a straight-line basis over their estimated useful lives. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments are capitalized and depreciated on a straight-line basis over their estimated useful lives. We review properties for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability is determined by comparing the carrying amount of the property to the undiscounted future net cash flows it is expected to generate. If such carrying amounts exceed the expected undiscounted future net cash flows, we adjust the carrying amount of the property to its estimated fair value.

### Revenue Recognition

## Rental Income

Rental income is recognized when earned from tenants. For leases that provide rent concessions or fixed escalations over the lease term, rental income is recognized on a straight-line basis over the noncancelable term of the lease. In net lease arrangements, costs reimbursable from tenants are recognized in rental income in the period in which the related expenses are incurred as we are generally the primary obligor with respect to purchasing goods and services for property operations.

## Acquisition and Investment Pursuit Costs

Costs incurred in connection with acquiring properties, investments, loans and businesses, as well as in pursuing unsuccessful acquisitions and investments, are recorded within acquisition and investment pursuit costs in our condensed consolidated statements of operations when incurred. These costs reflect services performed by third parties and principally include due diligence and legal services.

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### Earnings Per Share

We present both basic and diluted earnings per share (“EPS”) amounts in our financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from (i) our share-based compensation, consisting of unvested restricted stock (“RSAs”) and restricted stock units (“RSUs”), (ii) shares contingently issuable to our Manager, and (iii) the “in-the-money” conversion options associated with our outstanding convertible notes (see further discussion in Note 17). Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

The Company’s unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities. For the three and nine months ended September 30, 2015 and 2014, the two-class method resulted in the most dilutive EPS calculation.

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The most significant and subjective estimate that we make is the projection of cash flows we expect to receive on our loans, investment securities and intangible assets, which has a significant impact on the amounts of interest income, credit losses (if any), and fair values that we record and/or disclose. In addition, the fair value of financial assets and liabilities that are estimated using a discounted cash flows method is significantly impacted by the rates at which we estimate market participants would discount the expected cash flows.

### Reclassifications

Certain prior period amounts have been reclassified to conform to our current period presentation. In that regard, we have reclassified \$39.9 million of commercial real estate properties from other assets to properties, net on our condensed consolidated balance sheet as of December 31, 2014. Additionally, revenues of \$3.4 million and \$6.5 million previously reported in other revenue have been reclassified to rental income in our condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively. Expenses of \$1.8 million and \$3.9 million previously reported in other expense have been reclassified to costs of rental operations in our condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively.



## Recent Accounting Developments

On February 18, 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, which amends the criteria for determining which entities are considered VIEs, amends the criteria for determining if a service provider possesses a variable interest in a VIE and ends the deferral granted to investment companies for application of the VIE consolidation model. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2015. Early application is permitted. We are in the process of assessing what impact this ASU will have on the Company.

On April 7, 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30), which requires entities to present debt issuance costs as a direct deduction from the carrying value of the related debt liability, consistent with debt discounts, rather than as a separate deferred asset as the previous guidance required. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2015. We do not expect the application of this ASU to materially impact the Company.

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. At

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issuance, the ASU was effective for the first interim or annual period beginning after December 15, 2016. On August 12, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, which delayed the effective date of ASU 2014-09 by one year, resulting in the ASU becoming effective for the first interim or annual period beginning after December 15, 2017. Early application, which was not permissible under the initial effectiveness timeline, is now permissible though no earlier than as of the first interim or annual period beginning after December 15, 2016. We do not expect the application of this ASU to materially impact the Company.

On September 25, 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments, which requires that the acquirer in a business combination recognize any measurement period adjustments in the period in which the adjustments are identified rather than retrospectively as of the acquisition date, as current GAAP dictates. The ASU shall be applied prospectively and is effective for annual periods, and interim periods therein, beginning after December 15, 2015. Early application is permitted. We intend to early adopt this ASU by recognizing any future measurement period adjustments in the period identified.

### 3. Acquisitions and Divestitures

#### Affordable Housing Portfolio Acquisition

In August 2015, we entered into an agreement to acquire 29 affordable housing communities located throughout Florida (the “Affordable Housing Portfolio”) for an aggregate acquisition price of \$524.1 million. The acquisition will be fully funded with existing cash on hand and debt totaling \$362.8 million, including third party debt and the assumption of pre-existing federal, state and county sponsored financing. The Affordable Housing Portfolio is comprised of 7,870 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas.

On October 26, 2015, we entered into an agreement to acquire a 450-unit affordable housing community in Tampa, Florida for \$29.1 million.

On October 20, 2015, we acquired seven of the properties for \$143.2 million. As of November 5, 2015, the initial accounting for these acquisitions was not sufficiently complete to allow for the inclusion of the ASC 805, Business Combinations, disclosures herein.

The properties not yet acquired remain subject to customary closing conditions. Refer to Note 23 for further discussion.

## Ireland Portfolio Acquisition

On July 24, 2015, we acquired a fully occupied net leased office property located in Dublin, Ireland for \$121.9 million. This acquisition was partially financed with \$80.7 million from the Lender 6 Mortgage facility. This property, along with the 11 net leased fully occupied office properties and one multi-family property acquired in May 2015, comprise the “Ireland Portfolio”. The aggregate cash purchase price for the Ireland Portfolio, which collectively comprises approximately 600,000 square feet, was \$226.6 million. In connection with the acquisition, we extinguished \$283.0 million of debt assumed, and obtained new financings totaling \$328.6 million from the Lender 6 Mortgage facility. Refer to Note 9 for further discussion of this facility. All properties within the Ireland Portfolio were acquired from entities controlled by the same third party investment fund.

We applied the provisions of ASC 805, Business Combinations, in accounting for our acquisition of the Ireland Portfolio. In doing so, we have provisionally recorded all identifiable assets acquired and liabilities assumed at fair value as of the acquisition date. These provisional amounts may be adjusted during the measurement period, which expires no later than one year from the acquisition date, if new information is obtained that, if known, would have affected the amounts recognized as of the acquisition date.

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The following table summarizes the provisional estimates of identified assets acquired and liabilities assumed at the respective acquisition dates (amounts in thousands):

|  |            |
|--|------------|
| Assets acquired:   |            |
| Restricted cash  | \$ 10,829  |
| Properties   | 445,369    |
| Intangible assets  | 59,529     |
| Other assets   | 11,128     |
| Total assets acquired                                    | 526,855    |
| Liabilities assumed:                                     |            |
| Accounts payable, accrued expenses and other liabilities | 17,273     |
| Secured financing agreements                             | 283,010    |
| Total liabilities assumed                                | 300,283    |
| Net assets acquired/purchase price                       | \$ 226,572 |

For the period from their respective acquisition dates through September 30, 2015, we have recognized revenues of \$10.8 million and net loss of \$4.1 million related to the Ireland Portfolio. Such net loss includes one-time acquisition-related costs, such as legal and due diligence costs, of approximately \$3.3 million which are included in acquisition and investment pursuit costs within our condensed consolidated statements of operations. No goodwill was recognized in connection with the Ireland Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

The pro-forma revenues and net income attributable to STWD of the combined entity for the three and nine months ended September 30, 2015 and 2014, assuming the Ireland Portfolio acquisition occurred on January 1, 2014, are as follows (amounts in thousands, except per share amounts):

|                                 | For the Three Months |            | For the Nine Months |            |
|---------------------------------|----------------------|------------|---------------------|------------|
|                                 | Ended                |            | Ended               |            |
|                                 | September 30,        |            | September 30,       |            |
|                                 | 2015                 | 2014       | 2015                | 2014       |
| Revenues                        | \$ 192,722           | \$ 190,198 | \$ 564,574          | \$ 550,586 |
| Net income attributable to STWD | 116,803              | 164,838    | 357,314             | 399,053    |
| Net income per share - Basic    | 0.49                 | 0.73       | 1.52                | 1.85       |
| Net income per share - Diluted  | 0.49                 | 0.73       | 1.52                | 1.85       |

Pro-forma net income was adjusted to include the following estimated management fees the combined entity would have incurred (amounts in thousands):

|                                 | For the Three<br>Months Ended<br>September 30, |          | For the Nine<br>Months Ended<br>September 30, |          |
|---------------------------------|--|----------|---|----------|
|                                 | 2015   | 2014     | 2015  | 2014     |
| Management fee expense addition | \$ 46  | \$ 1,047 | \$ 1,605                                      | \$ 3,141 |

## SFR Spin-off

On January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders. The real estate investment trust, Starwood Waypoint Residential Trust (“SWAY”), is listed on the New York Stock Exchange (“NYSE”) and trades under the ticker symbol “SWAY.” Our stockholders received one common share of SWAY for every five shares of our common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed \$100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of January 31, 2014, SWAY held net assets of \$1.1 billion. The net assets of SWAY consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans as of January 31, 2014. In connection with the spin-off, 40.1 million shares of SWAY were issued. The results of operations for the SFR segment are presented within discontinued operations in our condensed consolidated statement of operations for the nine months ended September 30, 2014. We have no continuing involvement with the SFR segment following the spin-off. Subsequent to the spin-off, SWAY entered into a management agreement with an affiliate of our Manager. The following table presents the

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summarized consolidated results of discontinued operations for the SFR segment prior to the spin-off (amounts in thousands):

|   | For the Three<br>Months<br>Ended<br>September<br>30, 2014 | For the Nine<br>Months<br>Ended<br>September<br>30, 2014 |
|---|---|--|
| Total revenues                            | \$ —  | \$ 3,876   |
| Total costs and expenses                  | —   | 6,369  |
| Loss before other income and income taxes | —   | (2,493)  |
| Total other income                        | —   | 942  |
| Loss before income taxes                  | —   | (1,551)  |
| Income tax provision                      | —   | —  |
| Net loss                                  | \$ —  | \$ (1,551)   |

## 4. Loans

Our loans held-for-investment are accounted for at amortized cost and our loans held-for-sale are accounted for at the lower of cost or fair value, unless we have elected the fair value option. The following tables summarize our investments in mortgages and loans by subordination class as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|                     | Carrying<br>Value | Face<br>Amount | Weighted<br>Average<br>Coupon | Weighted<br>Average Life<br>("WAL")<br>(years)(3) |
|---------------------|-------------------|----------------|-------------------------------|---|
| September 30, 2015  |                   |                |                               |   |
| First mortgages (1) | \$ 4,533,689      | \$ 4,588,988   | 6.1 %                         | 3.0   |

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|   |              |              |      |   |     |
|---|--------------|--------------|------|---|-----|
| Subordinated mortgages (2)  | 399,381      | 424,957      | 8.6  | % | 3.6 |
| Mezzanine loans (1)   | 888,158      | 873,081      | 10.0 | % | 2.2 |
| Total loans held-for-investment   | 5,821,228    | 5,887,026    |      |   |     |
| Loans held-for-sale (carrying value of \$423,630 under fair value option) | 450,828      | 447,204      | 4.8  | % | 8.9 |
| Loans transferred as secured borrowings                                   | 142,456      | 143,926      | 6.0  | % | 2.2 |
| Total gross loans   | 6,414,512    | 6,478,156    |      |   |     |
| Loan loss allowance (loans held-for-investment)                           | (6,342)      | —            |      |   |     |
| Total net loans   | \$ 6,408,170 | \$ 6,478,156 |      |   |     |
| December 31, 2014   |              |              |      |   |     |
| First mortgages (1)   | \$ 4,538,961 | \$ 4,609,526 | 6.2  | % | 3.5 |
| Subordinated mortgages (2)  | 345,091      | 374,859      | 8.1  | % | 3.9 |
| Mezzanine loans (1)   | 901,217      | 889,948      | 10.4 | % | 2.6 |
| Total loans held-for-investment   | 5,785,269    | 5,874,333    |      |   |     |
| Loans held-for-sale, fair value option elected                            | 391,620      | 390,342      | 4.5  | % | 8.3 |
| Loans transferred as secured borrowings                                   | 129,427      | 129,570      | 5.4  | % | 2.5 |
| Total gross loans   | 6,306,316    | 6,394,245    |      |   |     |
| Loan loss allowance (loans held-for-investment)                           | (6,031)      | —            |      |   |     |
| Total net loans   | \$ 6,300,285 | \$ 6,394,245 |      |   |     |

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- (1) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The application of this methodology resulted in mezzanine loans with carrying values of \$892.3 million and \$704.2 million being classified as first mortgages as of September 30, 2015 and December 31, 2014, respectively.
- (2) Subordinated mortgages include B-notes and junior participation in first mortgages where we do not own the senior A-note or senior participation. If we own both the A-note and B-note, we categorize the loan as a first mortgage loan.

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- (3) Represents the WAL of each respective group of loans as of the respective balance sheet date. The WAL of each individual loan is calculated using amounts and timing of future principal payments, as projected at origination.

As of September 30, 2015, approximately \$4.8 billion, or 81.9%, of our loans held-for-investment were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 6.1%. The following table summarizes our investments in floating rate loans (amounts in thousands):

| Index                 | September 30, 2015 |                | December 31, 2014 |                |
|-----------------------|--------------------|----------------|-------------------|----------------|
|                       | Base Rate          | Carrying Value | Base Rate         | Carrying Value |
| One-month LIBOR USD   | 0.1930 %           | \$ 463,214     | 0.1713 %          | \$ 138,576     |
| Three-month LIBOR GBP | 0.5831 %           | 411,122        | 0.5640 %          | 440,222        |
| LIBOR floor           | 0.15 - 3.00 % (1)  | 3,895,721      | 0.15 - 3.00 % (1) | 3,889,412      |
| Total                 |                    | \$ 4,770,057   |                   | \$ 4,468,210   |

- (1) The weighted-average LIBOR Floor was 0.31% and 0.35% as of September 30, 2015 and December 31, 2014, respectively.

Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash flow from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan at maturity, and/or (iii) the property's liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

Our evaluation process as described above produces an internal risk rating between 1 and 5, which is a weighted average of the numerical ratings in the following categories: (i) sponsor capability and financial condition, (ii) loan and collateral performance relative to underwriting, (iii) quality and stability of collateral cash flows, and (iv) loan structure. We utilize the overall risk ratings as a concise means to monitor any credit migration on a loan as well as on the whole portfolio. While the overall risk rating is generally not the sole factor we use in determining whether a loan is impaired, a loan with a higher overall risk rating would tend to have more adverse indicators of impairment, and therefore would be more likely to experience a credit loss.





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The rating categories generally include the characteristics described below, but these are utilized as guidelines and therefore not every loan will have all of the characteristics described in each category:

| Rating | Characteristics   |
|--------|---|
| 1      | <p>Sponsor capability and financial condition—Sponsor is highly rated or investment grade or, if private, the equivalent thereof with significant management experience.</p> <p>Loan collateral and performance relative to underwriting—The collateral has surpassed underwritten expectations.</p> <p>Quality and stability of collateral cash flows—Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix.</p> <p>Loan structure—LTV does not exceed 65%. The loan has structural features that enhance the credit profile.</p>   |
| 2      | <p>Sponsor capability and financial condition—Strong sponsorship with experienced management team and a responsibly leveraged portfolio.</p> <p>Loan collateral and performance relative to underwriting—Collateral performance equals or exceeds underwritten expectations and covenants and performance criteria are being met or exceeded.</p> <p>Quality and stability of collateral cash flows—Occupancy is stabilized with a diverse tenant mix.</p> <p>Loan structure—LTV does not exceed 70% and unique property risks are mitigated by structural features.</p>  |
| 3      | <p>Sponsor capability and financial condition—Sponsor has historically met its credit obligations, routinely pays off loans at maturity, and has a capable management team.</p> <p>Loan collateral and performance relative to underwriting—Property performance is consistent with underwritten expectations.</p> <p>Quality and stability of collateral cash flows—Occupancy is stabilized, near stabilized, or is on track with underwriting.</p> <p>Loan structure—LTV does not exceed 80%.</p>   |
| 4      | <p>Sponsor capability and financial condition—Sponsor credit history includes missed payments, past due payment, and maturity extensions. Management team is capable but thin.</p> <p>Loan collateral and performance relative to underwriting—Property performance lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. A sale of the property may be necessary in order for the borrower to pay off the loan at maturity.</p> <p>Quality and stability of collateral cash flows—Occupancy is not stabilized and the property has a large amount of rollover.</p> <p>Loan structure—LTV is 80% to 90%.</p> |
| 5      | <p>Sponsor capability and financial condition—Credit history includes defaults, deeds in lieu, foreclosures, and/or bankruptcies.</p> <p>Loan collateral and performance relative to underwriting—Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Sale proceeds would not be sufficient to pay off the loan at maturity.</p> <p>Quality and stability of collateral cash flows—The property has material vacancy and significant rollover of remaining tenants.</p> <p>Loan structure—LTV exceeds 90%.</p>                                |



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As of September 30, 2015, the risk ratings for loans subject to our rating system, which excludes loans on the cost recovery method and loans for which the fair value option has been elected, by class of loan were as follows (amounts in thousands):

| Risk Rating Category | Balance Sheet Classification<br>Loans Held-For-Investment |                        |                 | Cost           |                     | Loans Transferred     |              | % of        |   |
|----------------------|---|------------------------|-----------------|----------------|---------------------|-----------------------|--------------|-------------|---|
|                      | First Mortgages   | Subordinated Mortgages | Mezzanine Loans | Recovery Loans | Loans Held-For-Sale | As Secured Borrowings | Total        | Total Loans |   |
| 1                    | \$ 702  | \$ —                   | \$ —            | \$ —           | \$ —                | \$ —                  | \$ 702       | —           | % |
| 2                    | 396,967   | 88,195                 | 119,702         | —              | —                   | —                     | 604,864      | 9.4         | % |
| 3                    | 3,863,862   | 278,140                | 650,859         | —              | —                   | 142,456               | 4,935,317    | 76.9        | % |
| 4                    | 272,158   | 33,046                 | 117,597         | —              | —                   | —                     | 422,801      | 6.6         | % |
| 5                    | —   | —                      | —               | —              | —                   | —                     | —            | —           | % |
| N/A                  | —   | —                      | —               | —              | 450,828             | —                     | 450,828      | 7.1         | % |
|                      | \$ 4,533,689  | \$ 399,381             | \$ 888,158      | \$ —           | \$ 450,828          | \$ 142,456            | \$ 6,414,512 | 100.0       | % |

As of December 31, 2014, the risk ratings for loans subject to our rating system by class of loan were as follows (amounts in thousands):

| Risk Rating Category | Balance Sheet Classification<br>Loans Held-For-Investment |                        |                 | Cost           |                     | Loans Transferred     |              | % of        |   |
|----------------------|---|------------------------|-----------------|----------------|---------------------|-----------------------|--------------|-------------|---|
|                      | First Mortgages   | Subordinated Mortgages | Mezzanine Loans | Recovery Loans | Loans Held-For-Sale | As Secured Borrowings | Total        | Total Loans |   |
| 1                    | \$ 822  | \$ —                   | \$ —            | \$ —           | \$ —                | \$ —                  | \$ 822       | —           | % |
| 2                    | 258,822   | 116,168                | 148,582         | —              | —                   | —                     | 523,572      | 8.3         | % |
| 3                    | 4,120,562   | 196,476                | 645,778         | —              | —                   | 129,427               | 5,092,243    | 80.7        | % |
| 4                    | 109,489   | 32,447                 | 106,857         | —              | —                   | —                     | 248,793      | 4.0         | % |
| 5                    | 45,974  | —                      | —               | —              | —                   | —                     | 45,974       | 0.7         | % |
| N/A                  | —   | —                      | —               | 3,292          | 391,620             | —                     | 394,912      | 6.3         | % |
|                      | \$ 4,535,669  | \$ 345,091             | \$ 901,217      | \$ 3,292       | \$ 391,620          | \$ 129,427            | \$ 6,306,316 | 100.0       | % |

As of September 30, 2015, the Lending Segment held a \$61.0 million mezzanine loan on a luxury condominium project located in New York, of which \$18.6 million is greater than 90 days past due. After completing our

impairment evaluation process, we concluded that no impairment charges were required on this loan or any other individual loans held-for-investment as of September 30, 2015 or December 31, 2014, as we expect to collect all outstanding principal and interest. During the three months ended September 30, 2015, the Investing and Servicing Segment received full repayments of its basis in the two remaining loans held-for-investment which were greater than 90 days past due and were acquired as part of the acquisition of LNR Property LLC (“LNR”) in April 2013. None of our held-for-sale loans where we have elected the fair value option were 90 days or greater past due.

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In accordance with our policies, we record an allowance for loan losses equal to (i) 1.5% of the aggregate carrying amount of loans rated as a “4,” plus (ii) 5% of the aggregate carrying amount of loans rated as a “5.” The following table presents the activity in our allowance for loan losses (amounts in thousands):

|   | For the Nine Months<br>Ended<br>September 30, |            |
|---|---|------------|
|   | 2015  | 2014       |
| Allowance for loan losses at January 1                              | \$ 6,031                                      | \$ 3,984   |
| Provision for loan losses   | 311   | 1,933      |
| Charge-offs   | —   | —          |
| Recoveries  | —   | —          |
| Allowance for loan losses at September 30                           | \$ 6,342                                      | \$ 5,917   |
| Recorded investment in loans related to the allowance for loan loss | \$ 422,801                                    | \$ 287,231 |

The activity in our loan portfolio was as follows (amounts in thousands):

|  | For the Nine Months Ended<br>September 30, |              |
|--|--|--------------|
|  | 2015                                       | 2014         |
| Balance at January 1                           | \$ 6,300,285                               | \$ 4,750,804 |
| Acquisitions/originations/additional funding   | 3,114,293                                  | 3,283,546    |
| Capitalized interest (1)                       | 51,416                                     | 31,994       |
| Basis of loans sold (2)                        | (2,040,380)                                | (1,505,764)  |
| Loan maturities/principal repayments           | (1,055,419)                                | (1,009,222)  |
| Discount accretion/premium amortization        | 26,615                                     | 16,756       |
| Changes in fair value                          | 51,044                                     | 48,018       |
| Unrealized foreign currency remeasurement loss | (30,529)                                   | (21,088)     |
| Change in loan loss allowance, net             | (311)                                      | (1,933)      |
| Transfer to/from other asset classifications   | (8,844)                                    | (3,503)      |
| Balance at September 30                        | \$ 6,408,170                               | \$ 5,589,608 |

(1) Represents accrued interest income on loans whose terms do not require current payment of interest.

(2) See Note 11 for additional disclosure on these transactions.



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## 5. Investment Securities

Investment securities were comprised of the following as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|  | Carrying Value as of  |                      |
|--|-----------------------|----------------------|
|  | September<br>30, 2015 | December<br>31, 2014 |
| RMBS, available-for-sale                 | \$ 184,785            | \$ 207,053           |
| Single-borrower CMBS, available-for-sale | —                     | 100,349              |
| CMBS, fair value option (1)              | 927,315               | 753,553              |
| Held-to-maturity (“HTM”) securities      | 365,005               | 441,995              |
| Equity security, fair value option       | 14,311                | 15,120               |
| Subtotal—Investment securities           | 1,491,416             | 1,518,070            |
| VIE eliminations (1)                     | (704,955)             | (519,822)            |
| Total investment securities              | \$ 786,461            | \$ 998,248           |

(1) Certain fair value option CMBS are eliminated in consolidation against VIE liabilities pursuant to ASC 810.

Purchases, sales and principal collections for all investment securities were as follows (amounts in thousands):

|  | Available-for-sale |        | CMBS, fair   | HTM        | Equity   |           |
|--|--------------------|--------|--------------|------------|----------|-----------|
|  | RMBS               | CMBS   | value option | Securities | Security | Total     |
| Three Months Ended September 30,<br>2015 |                    |        |              |            |          |           |
| Purchases                                | \$ —               | \$ —   | \$ 5,665     | \$ 9,930   | \$ —     | \$ 15,595 |
| Sales                                    | —                  | —      | 1,203        | —          | —        | 1,203     |
| Principal collections                    | 8,500              | 91,794 | 1            | 21         | —        | 100,316   |
| Three Months Ended September 30,<br>2014 |                    |        |              |            |          |           |
| Purchases                                | \$ —               | \$ —   | \$ 13,777    | \$ —       | \$ —     | \$ 13,777 |
| Sales                                    | 5,588              | —      | —            | —          | —        | 5,588     |
| Principal collections                    | 21,870             | —      | 1            | 14         | —        | 21,885    |



|   | Available-for-sale |        | CMBS, fair   | HTM        | Equity   |            |
|---|--------------------|--------|--------------|------------|----------|------------|
|   | RMBS               | CMBS   | value option | Securities | Security | Total      |
| Nine Months Ended September 30,<br>2015 |                    |        |              |            |          |            |
| Purchases                               | \$ —               | \$ —   | \$ 14,653    | \$ 148,365 | \$ —     | \$ 163,018 |
| Sales                                   | —                  | —      | 6,301        | —          | —        | 6,301      |
| Principal collections                   | 27,114             | 92,018 | 2            | 228,956    | —        | 348,090    |
| Nine Months Ended September 30,<br>2014 |                    |        |              |            |          |            |
| Purchases                               | \$ —               | \$ —   | \$ 67,230    | \$ —       | \$ —     | \$ 67,230  |
| Sales                                   | 68,134             | —      | 32,032       | —          | —        | 100,166    |
| Principal collections                   | 40,155             | 805    | 1            | 38         | —        | 40,999     |

#### RMBS and Single-borrower CMBS, Available-for-Sale

With the exception of six CMBS classified as HTM, the Company classified all of its RMBS and any CMBS investments where the fair value option has not been elected as available-for-sale as of September 30, 2015 and December 31, 2014. These RMBS and CMBS are reported at fair value in the balance sheet with changes in fair value recorded in accumulated other comprehensive income (“AOCI”).

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The tables below summarize various attributes of our investments in available-for-sale RMBS and single-borrower CMBS where the fair value option has not been elected as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|                         | Purchase<br>Amortized<br>Cost | Credit<br>OTTI | Recorded<br>Amortized<br>Cost | Unrealized Gains or (Losses)<br>Recognized in AOCI |                              |                               | Net<br>Fair Value<br>Adjustment | Fair Value |
|-------------------------|-------------------------------|----------------|-------------------------------|--|------------------------------|-------------------------------|---------------------------------|------------|
|                         |                               |                |                               | Non-Credit<br>OTTI                                 | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses |                                 |            |
| September 30,<br>2015   |                               |                |                               |  |                              |                               |                                 |            |
| RMBS                    | \$ 153,694                    | \$ (10,184)    | \$ 143,510                    | \$ (175)   | \$ 41,450                    | \$ —                          | \$ 41,275                       | \$ 184,785 |
| Single-borrower<br>CMBS | —                             | —              | —                             | —  | —                            | —                             | —                               | —          |
| Total                   | \$ 153,694                    | \$ (10,184)    | \$ 143,510                    | \$ (175)   | \$ 41,450                    | \$ —                          | \$ 41,275                       | \$ 184,785 |
| December 31,<br>2014    |                               |                |                               |  |                              |                               |                                 |            |
| RMBS                    | \$ 163,733                    | \$ (10,197)    | \$ 153,536                    | \$ (197)   | \$ 53,714                    | \$ —                          | \$ 53,517                       | \$ 207,053 |
| Single-borrower<br>CMBS | 93,685                        | —              | 93,685                        | —  | 6,664                        | —                             | 6,664                           | 100,349    |
| Total                   | \$ 257,418                    | \$ (10,197)    | \$ 247,221                    | \$ (197)   | \$ 60,378                    | \$ —                          | \$ 60,181                       | \$ 307,402 |

|                      | Weighted Average<br>Coupon(1) |   | Weighted Average<br>Rating (Standard & Poor's) | WAL (Years)(2) |
|----------------------|-------------------------------|---|--|----------------|
| September 30, 2015   |                               |   |  |                |
| RMBS                 | 1.1                           | % | B-   | 6.3            |
| Single-borrower CMBS | —                             | % | —  | —              |
| December 31, 2014    |                               |   |  |                |
| RMBS                 | 1.1                           | % | B-   | 5.8            |
| Single-borrower CMBS | 11.6                          | % | BB+  | 3.2            |

(1) Calculated using the September 30, 2015 and December 31, 2014 one-month LIBOR rate of 0.193% and 0.171%, respectively, for floating rate securities.

(2) Represents the WAL of each respective group of securities as of the respective balance sheet date. The WAL of each individual security is calculated using projected amounts and projected timing of future principal payments.

As of September 30, 2015, there were no variable rate single-borrower CMBS. As of December 31, 2014, \$0.2 million, or 0.2%, of the single-borrower CMBS were variable rate. As of September 30, 2015, approximately \$128.4 million, or 69.5%, of the RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.43%. As of December 31, 2014, approximately \$140.1 million, or 67.7%, of the RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.44%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS and single-borrower CMBS as of September 30, 2015 and December 31, 2014, excluding CMBS where we have elected the fair value option (amounts in thousands):

|                           | September 30, 2015 |      | December 31, 2014 |           |
|---------------------------|--------------------|------|-------------------|-----------|
|                           | RMBS               | CMBS | RMBS              | CMBS      |
| Principal balance         | \$ 242,219         | \$ — | \$ 270,783        | \$ 93,685 |
| Accretable yield          | (73,361)           | —    | (85,495)          | —         |
| Non-accretable difference | (25,348)           | —    | (31,752)          | —         |
| Total discount            | (98,709)           | —    | (117,247)         | —         |
| Amortized cost            | \$ 143,510         | \$ — | \$ 153,536        | \$ 93,685 |

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The principal balance of credit deteriorated RMBS was \$205.2 million and \$222.9 million as of September 30, 2015 and December 31, 2014, respectively. Accretable yield related to these securities totaled \$61.9 million and \$66.6 million as of September 30, 2015 and December 31, 2014, respectively.

The following table discloses the changes to accretable yield and non-accretable difference for our RMBS during the three and nine months ended September 30, 2015 (amounts in thousands):

|  | Accretable Yield | Non-Accretable<br>Difference |
|--|------------------|------------------------------|
| Three Months Ended September 30, 2015      |                  |                              |
| Balance as of July 1, 2015                 | \$ 74,184        | \$ 28,609                    |
| Accretion of discount                      | (3,600)          | —                            |
| Principal write-downs                      | —                | (484)                        |
| Purchases                                  | —                | —                            |
| Sales                                      | —                | —                            |
| OTTI                                       | —                | —                            |
| Transfer to/from non-accretable difference | 2,777            | (2,777)                      |
| Balance as of September 30, 2015           | \$ 73,361        | \$ 25,348                    |
| Nine Months Ended September 30, 2015       |                  |                              |
| Balance as of January 1, 2015              | \$ 85,495        | \$ 31,752                    |
| Accretion of discount                      | (17,087)         | —                            |
| Principal write-downs                      | —                | (1,451)                      |
| Purchases                                  | —                | —                            |
| Sales                                      | —                | —                            |
| OTTI                                       | —                | —                            |
| Transfer to/from non-accretable difference | 4,953            | (4,953)                      |
| Balance as of September 30, 2015           | \$ 73,361        | \$ 25,348                    |

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets excluding Investing and Servicing Segment VIEs. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was \$0.4 million for both the three months ended September 30, 2015 and 2014, and \$1.1 million and \$1.5 million for the nine months ended September 30, 2015 and 2014, respectively, which has been recorded as management fees in the accompanying condensed consolidated statements of operations.

The following table presents the gross unrealized losses and estimated fair value of the available-for-sale securities (i) where we have not elected the fair value option, (ii) that were in an unrealized loss position as of September 30, 2015 and December 31, 2014, and (iii) for which OTTI (full or partial) have not been recognized in earnings (amounts in thousands):

|                          | Estimated Fair Value                       |   | Unrealized Losses                          |   |
|--------------------------|--|---|--|---|
|                          | Securities with a loss less than 12 months | Securities with a loss greater than 12 months | Securities with a loss less than 12 months | Securities with a loss greater than 12 months |
| As of September 30, 2015 |  |   |  |   |
| RMBS                     | \$ 12,320                                  | \$ 678  | \$ (25)                                    | \$ (150)                                      |
| Single-borrower CMBS     | —  | —   | —  | —   |
| Total                    | \$ 12,320                                  | \$ 678  | \$ (25)                                    | \$ (150)                                      |
| As of December 31, 2014  |  |   |  |   |
| RMBS                     | \$ —                                       | \$ 682  | \$ —                                       | \$ (197)                                      |
| Single-borrower CMBS     | —  | —   | —  | —   |
| Total                    | \$ —                                       | \$ 682  | \$ —                                       | \$ (197)                                      |

As of September 30, 2015 and December 31, 2014, there were two securities with unrealized losses reflected in the table above. After evaluating these securities and recording adjustments for credit-related other-than-temporary

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impairment, we concluded that the remaining unrealized losses reflected above were noncredit-related and would be recovered from the securities' estimated future cash flows. We considered a number of factors in reaching this conclusion, including that we did not intend to sell the securities, it was not considered more likely than not that we would be forced to sell the securities prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of the other-than-temporary impairments we record on securities, are calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. Significant judgment is used in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

## CMBS, Fair Value Option

As discussed in the "Fair Value Option" section of Note 2 herein, we elect the fair value option for the Investing and Servicing Segment's CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of September 30, 2015, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were \$927.3 million and \$4.5 billion, respectively. These balances represent our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value (\$705.0 million at September 30, 2015) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS. During the three and nine months ended September 30, 2015, we purchased \$115.0 million and \$213.2 million of CMBS, respectively, for which we elected the fair value option. Due to our consolidation of securitization VIEs, \$109.4 million and \$198.6 million, respectively, of these amounts are eliminated and reflected primarily as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows.

As of September 30, 2015, none of our CMBS where we have elected the fair value option were variable rate. The table below summarizes various attributes of our investment in fair value option CMBS as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|                         | Weighted<br>Average<br>Coupon |   | Weighted<br>Average Rating<br>(Standard & Poor's) (1) | WAL<br>(Years)(2) |
|-------------------------|-------------------------------|---|---|-------------------|
| September 30, 2015      |                               |   |   |                   |
| CMBS, fair value option | 3.5                           | % | CCC+  | 7.4               |
| December 31, 2014       |                               |   |   |                   |
| CMBS, fair value option | 3.9                           | % | CCC-  | 7.7               |

(1) As of September 30, 2015 and December 31, 2014, excludes \$35.8 million and \$41.7 million, respectively, in fair value option CMBS that are not rated.

- (2) The WAL of each security is calculated based on the period of time over which we expect to receive principal cash flows. Expected principal cash flows are based on contractual payments net of expected losses.

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## HTM Securities

The table below summarizes unrealized gains and losses of our investments in HTM securities as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|                     | Net<br>Carrying<br>Amount<br>(Amortized<br>Cost) | Gross<br>Unrealized<br>Holding<br>Gains | Gross<br>Unrealized<br>Holding<br>Losses | Fair Value |
|---------------------|--|---|--|------------|
| September 30, 2015  |  |   |  |            |
| Preferred interests | \$ 81,968  | \$ —                                    | \$ (827)                                 | \$ 81,141  |
| CMBS                | 283,037  | 43                                      | (2,195)                                  | 280,885    |
| Total               | \$ 365,005                                       | \$ 43                                   | \$ (3,022)                               | \$ 362,026 |
| December 31, 2014   |  |   |  |            |
| Preferred interests | \$ 307,465                                       | \$ —                                    | \$ (1,366)                               | \$ 306,099 |
| CMBS                | 134,530  | —                                       | —  | 134,530    |
| Total               | \$ 441,995                                       | \$ —                                    | \$ (1,366)                               | \$ 440,629 |

The table below summarizes the maturities of our HTM preferred equity interests in limited liability companies that own commercial real estate and our HTM CMBS as of September 30, 2015 (amounts in thousands):

|                     | Preferred<br>Interests | CMBS       | Total      |
|---------------------|------------------------|------------|------------|
| Less than one year  | \$ —                   | \$ —       | \$ —       |
| One to three years  | —                      | 283,037    | 283,037    |
| Three to five years | 62,704                 | —          | 62,704     |
| Thereafter          | 19,264                 | —          | 19,264     |
| Total               | \$ 81,968              | \$ 283,037 | \$ 365,005 |

## Equity Security, Fair Value Option

During 2012, we acquired 9,140,000 ordinary shares from a related-party (approximately a 4% interest) in Starwood European Real Estate Finance Limited (“SEREF”), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange. We have elected to report the investment using the fair value option



because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market, and also due to potential lags in reporting resulting from differences in the respective regulatory requirements. The fair value of the investment remeasured in USD was \$14.3 million and \$15.1 million as of September 30, 2015 and December 31, 2014, respectively.

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## 6. Properties

On July 24, 2015, we acquired a fully occupied net leased office property located in Dublin, Ireland for \$121.9 million. This acquisition was partially financed with \$80.7 million from the Lender 6 Mortgage facility (see Note 9 for facility terms). This property, with the 11 net leased fully occupied office properties and one multi-family property acquired in May 2015, comprise the Ireland Portfolio discussed in Note 3.

Also during the three and nine months ended September 30, 2015, our Investing and Servicing Segment acquired three and six commercial real estate properties, respectively, from CMBS trusts for \$32.5 million and \$65.9 million, respectively. These properties are generally acquired from CMBS trusts that are consolidated as VIEs on our balance sheet. As a result, the acquisitions are generally reflected as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows.

The below table summarizes our properties held as of September 30, 2015 and December 31, 2014 (dollar amounts in thousands):

|                                 | Depreciable Life | September<br>30, 2015 | December<br>31, 2014 |
|---------------------------------|------------------|-----------------------|----------------------|
| Property Segment                |                  |                       |                      |
| Land                            | —                | \$ 162,274            | \$ —                 |
| Buildings                       | 30 years         | 286,913               | —                    |
| Investing and Servicing Segment |                  |                       |                      |
| Land                            | —                | 20,972                | 8,225                |
| Land improvements               | 5 – 15 years     | 70                    | —                    |
| Buildings                       | 20 – 40 years    | 63,619                | 30,637               |
| Building improvements           | 5 – 10 years     | 240                   | —                    |
| Furniture & fixtures            | 3 years          | 680                   | 1,635                |
| Properties, cost                |                  | 534,768               | 40,497               |
| Less: accumulated depreciation  |                  | (4,330)               | (643)                |
| Properties, net                 |                  | \$ 530,438            | \$ 39,854            |

In March 2015, the Investing and Servicing Segment sold an operating property that we had previously acquired from a CMBS trust. The sale resulted in a \$17.1 million gain, which is included in gain on sale of investments and other assets in our condensed consolidated statement of operations for the nine months ended September 30, 2015.



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## 7. Investment in Unconsolidated Entities

The below table summarizes our investments in unconsolidated entities as of September 30, 2015 and December 31, 2014 (dollar amounts in thousands):

|   | Participation /<br>Ownership %(1) | Carrying value as of  |                      |
|---|-----------------------------------|-----------------------|----------------------|
|   |                                   | September<br>30, 2015 | December<br>31, 2014 |
| Equity method:  |                                   |                       |                      |
| Retail Fund   | 33%                               | \$ 121,733            | \$ 129,475           |
| Investor entity which owns equity in two real estate services providers           | 50%                               | 23,366                | 21,534               |
| Equity interests in commercial real estate (2)                                    | 16% - 43%                         | 28,224                | —                    |
| Bridge loan venture (3)   | various                           | —                     | 8,417                |
| Various   | 25% - 50%                         | 7,061                 | 16,933               |
|   |                                   | 180,384               | 176,359              |
| Cost method:  |                                   |                       |                      |
| Investment funds which own equity in a loan servicer and other real estate assets | 4% - 6%                           | 9,225                 | 9,225                |
| Various   | 0% - 3%                           | 9,562                 | 8,399                |
|   |                                   | 18,787                | 17,624               |
|   |                                   | \$ 199,171            | \$ 193,983           |

(1) None of these investments are publicly traded and therefore quoted market prices are not available.

(2) During the nine months ended September 30, 2015, we acquired \$28.0 million of equity interests in limited liability companies that own ten office and student housing properties throughout the U.S.

(3) During the three months ended September 30, 2015, we sold our interest in the Bridge Loan Venture at par.

There were no differences between the carrying value of our investment in unconsolidated entities and the underlying equity in the net assets of the investees as of September 30, 2015.

## 8. Goodwill and Intangible Assets

## Goodwill

Goodwill at September 30, 2015 and December 31, 2014 represents the excess of consideration transferred over the fair value of net assets of LNR acquired on April 19, 2013. The goodwill recognized is attributable to value embedded in LNR's existing platform, which includes an international network of commercial real estate asset managers, work-out specialists, underwriters and administrative support professionals as well as proprietary historical performance data on commercial real estate assets.

## Intangible Assets

### Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic and European servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. All of our servicing fees are specified by these Pooling and Servicing Agreements. At September 30, 2015 and December 31, 2014, the balance of the domestic servicing intangible was net of \$27.9 million and \$46.1 million, respectively, that was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs.

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Before VIE consolidation, as of September 30, 2015 and December 31, 2014 the domestic servicing intangible had a balance of \$151.8 million and \$178.4 million, respectively, which represents our economic interest in this asset.

## Lease Intangibles

In connection with our acquisitions of commercial real estate, we recognized in-place lease intangible assets and favorable lease intangible assets associated with certain noncancelable operating leases of the acquired properties. The weighted-average amortization periods for the in-place lease intangible assets and the favorable lease intangible assets for the Ireland Portfolio at acquisition were 10.0 years and 11.2 years, respectively, as of September 30, 2015.

The following table summarizes our intangible assets, which are comprised of servicing rights intangibles and lease intangibles, as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|  | As of September 30, 2015 |                          |                    | As of December 31, 2014 |                          |                    |
|--|--------------------------|--------------------------|--------------------|-------------------------|--------------------------|--------------------|
|  | Gross Carrying Value     | Accumulated Amortization | Net Carrying Value | Gross Carrying Value    | Accumulated Amortization | Net Carrying Value |
| Domestic servicing rights, at fair value | \$ 123,892               | \$ —                     | \$ 123,892         | \$ 132,303              | \$ —                     | \$ 132,303         |
| European servicing rights (1)            | 32,429                   | (28,657)                 | 3,772              | 33,392                  | (21,543)                 | 11,849             |
| In-place lease intangible assets         | 54,245                   | (3,397)                  | 50,848             | —                       | —                        | —                  |
| Favorable lease intangible assets        | 13,074                   | (506)                    | 12,568             | —                       | —                        | —                  |
| Total net intangible assets              | \$ 223,640               | \$ (32,560)              | \$ 191,080         | \$ 165,695              | \$ (21,543)              | \$ 144,152         |

(1) The fair value as of September 30, 2015 and December 31, 2014 was \$7.7 million and \$12.7 million, respectively.

The following table summarizes the activity within intangible assets for the nine months ended September 30, 2015 (amounts in thousands):

| Domestic Servicing Rights | European Servicing Rights | In-place Lease Intangible Assets | Favorable Lease Intangible Assets | Total |
|---------------------------|---------------------------|----------------------------------|-----------------------------------|-------|
|---------------------------|---------------------------|----------------------------------|-----------------------------------|-------|

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|  |            |           |           |           |            |
|--|------------|-----------|-----------|-----------|------------|
| Balance as of January 1, 2015                                  | \$ 132,303 | \$ 11,849 | \$ —      | \$ —      | \$ 144,152 |
| Acquisition of Ireland Portfolio                               | —          | —         | 47,999    | 11,530    | 59,529     |
| Properties acquired from CMBS trusts                           | —          | —         | 5,842     | 1,412     | 7,254      |
| Amortization   | —          | (7,814)   | (3,384)   | (504)     | (11,702)   |
| Foreign exchange (loss) gain                                   | —          | (263)     | 391       | 130       | 258        |
| Changes in fair value due to changes in inputs and assumptions | (8,411)    | —         | —         | —         | (8,411)    |
| Balance as of September 30, 2015                               | \$ 123,892 | \$ 3,772  | \$ 50,848 | \$ 12,568 | \$ 191,080 |

The following table sets forth the estimated aggregate amortization of our European servicing rights, in-place lease intangible assets and favorable lease intangible assets for the next five years and thereafter (amounts in thousands):

|                     |           |
|---------------------|-----------|
| 2015 (remainder of) | \$ 3,839  |
| 2016                | 12,039    |
| 2017                | 8,560     |
| 2018                | 7,855     |
| 2019                | 6,700     |
| Thereafter          | 28,195    |
| Total               | \$ 67,188 |

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## 9. Secured Financing Agreements

The following table is a summary of our secured financing agreements in place as of September 30, 2015 and December 31, 2014 (dollars in thousands):

|  | Current Maturity      | Extended Maturity(a) | Pricing                | Pledged Asset Carrying Value | Maximum Facility Size | Carrying Value at September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|------------------------|------------------------------|-----------------------|--------------------------------------|-------------------|
| Lender 1 Repo 1                                    | (b)                   | (b)                  | LIBOR + 1.85% to 5.25% | \$ 1,471,791                 | \$ 1,600,000          | \$ 916,310                           | \$ 875,111        |
| Lender 1 Repo 2                                    | (c)                   | N/A                  | LIBOR + 1.90%          | 184,785                      | 125,000               | 6,948                                | 101,886           |
| Lender 2 Repo 1                                    | Oct 2015              | Oct 2018             | LIBOR + 1.75% to 2.75% | 373,917                      | 325,000               | 272,824                              | 240,188           |
| Lender 3 Repo 1                                    | May 2017              | May 2019             | LIBOR + 2.85%          | 229,983                      | 162,917               | 162,917                              | 124,250           |
| Conduit Repo 1                                     | Sep 2016              | N/A                  | LIBOR + 1.95% to 3.35% | 116,084                      | 150,000               | 85,849                               | 94,727            |
| Conduit Repo 2                                     | Nov 2015              | Nov 2016             | LIBOR + 2.10%          | 164,310                      | 150,000               | 121,556                              | 113,636           |
| Conduit Repo 3                                     | Feb 2018              | Feb 2019             | LIBOR + 2.10%          | 107,389                      | 150,000               | 79,847                               | —                 |
| Lender 4 Repo 1                                    | Oct 2016              | Oct 2017             | LIBOR + 2.00%          | 405,195                      | 317,688               | 317,688                              | 327,117           |
| Lender 5 Repo 1                                    | (d)                   | N/A                  | N/A                    | —                            | —                     | —                                    | 58,079            |
| Lender 6 Repo 1                                    | Aug 2018              | N/A                  | LIBOR + 2.50% to 3.00% | 733,579                      | 500,000               | 367,010                              | 296,967           |
| Lender 6 Mortgage                                  | May 2020              | N/A                  | EURIBOR + 1.69%        | 502,497                      | 328,602               | 328,602                              | —                 |
| Lender 7 Repo 1                                    | Dec 2016              | N/A                  | LIBOR + 2.35% to 2.70% | 140,274                      | 107,416               | 107,416                              | 39,024            |
| Investing and Servicing Segment Property Mortgages | June 2018 to Nov 2024 | N/A                  | Various                | 43,688                       | 38,975                | 31,835                               | 14,000            |



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|           |          |          |           |              |              |              |  |              |
|-----------|----------|----------|-----------|--------------|--------------|--------------|--|--------------|
| Lender 9  |          |          | LIBOR +   |              |              |              |  |              |
| Repo 1    | (e)      | (e)      | 1.40% to  |              |              |              |  |              |
| Borrowing |          |          | 1.85%     | 319,853      | 225,313      | 225,313      |  | —            |
| Base      | Jul 2018 | Jul 2019 | LIBOR +   |              |              |              |  |              |
| Term      |          |          | 2.75% (f) | 222,770      | 450,000 (g)  | —            |  | 189,871      |
| Loan      | Apr 2020 | N/A      | LIBOR +   |              |              |              |  |              |
| FHLB      |          |          | 2.75% (f) | 3,296,673    | 659,962      | 658,159 (h)  |  | 662,933 (h)  |
| Advances  | N/A      | N/A      | Various   | —            | 1,000,000    | —            |  | —            |
|           |          |          |           | \$ 8,312,788 | \$ 6,290,873 | \$ 3,682,274 |  | \$ 3,137,789 |

- (a) Subject to certain conditions as defined in the respective facility agreement.
- (b) Maturity date for borrowings collateralized by loans of January 2017 before extension options and January 2019 assuming initial extension options. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions and not to exceed January 2023.
- (c) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 2017.
- (d) Facility was terminated at our option in March 2015.
- (e) Facility carries a rolling twelve month term which may reset monthly with the lender's consent. Current maturity is September 2016. Facility carries no maximum facility size. Amount herein reflects the outstanding balance as of September 30, 2015.
- (f) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The Term Loan is also subject to a 75 basis point floor.
- (g) Subject to certain conditions defined in the facility agreement, the maximum facility size may be increased to \$650.0 million.
- (h) Term loan outstanding balance is net of \$1.8 million and \$2.1 million of unamortized discount as of September 30, 2015 and December 31, 2014, respectively.

In the normal course of business, the Company is in discussions with its lenders to extend or amend any financing facilities which contain near term expirations.

In February 2015, we executed a \$150.0 million repurchase facility ("Conduit Repo 3") with an existing lender for our Investing and Servicing Segment's conduit platform. The facility carries a three year initial term with a one year extension option and an annual interest rate of LIBOR +2.10%.

In March 2015, we executed a repurchase facility ("Lender 9 Repo 1") with a new lender to finance certain CMBS holdings, including CMBS holdings previously financed under the Lender 5 Repo 1 facility which was terminated at our option in March 2015. There is no maximum facility size specified under the facility as the lender will evaluate all eligible collateral on an individual basis. The facility carries a rolling twelve month term which may reset

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monthly with the lender's consent and an annual interest rate of LIBOR +1.40% to LIBOR +1.85% depending on the CMBS collateral.

In April 2015, we amended the Lender 4 Repo 1 facility to reduce pricing.

In May 2015, we executed a €294.0 million mortgage facility ("Lender 6 Mortgage") to finance the acquisition of the Ireland Portfolio, of which €73.5 million was drawn during the three months ended September 30, 2015. The facility carries a five year term, an annual interest rate of EURIBOR + 1.69% and was fully funded as of September 30, 2015. Refer to Note 3 for further discussion of this acquisition. During the nine months ended September 30, 2015, we incurred deferred financing costs of \$5.7 million associated with this facility.

In July 2015, we exercised a one-year extension option on the Lender 6 Repo 1 facility, extending the maturity from August 2017 to August 2018.

In July 2015, we amended the Borrowing Base facility to (i) permanently upsize available borrowings from \$250.0 million to \$450.0 million; (ii) extend the maturity date to July 2019 assuming exercise of a one-year extension option; and (iii) reduce pricing.

In July 2015, we exercised a one-year extension option on the Lender 4 Repo 1 facility, extending the maturity from October 2015 to October 2016.

In August 2015, we amended the Lender 1 Repo 1 facility to upsize available borrowings from \$1.25 billion to \$1.6 billion.

During the nine months ended September 30, 2015, we executed two mortgage facilities with aggregate borrowings of \$17.8 million to finance commercial real estate acquired by our Investing and Servicing Segment. At inception, these facilities carry a weighted average term of 4.2 years and weighted average interest rate of LIBOR + 2.41%.

In September 2015, we were admitted as a member of the Federal Home Loan Bank ("FHLB") of Des Moines, which provides us an additional financing source for various multifamily and commercial real estate loans and investment securities. As of September 30, 2015, we had no outstanding borrowings with the FHLB.

Our secured financing agreements contain certain financial tests and covenants. Should we breach certain of these covenants, it may restrict our ability to pay dividends in the future. As of September 30, 2015, we were in compliance with all such covenants.

The following table sets forth our five-year principal repayments schedule for secured financings, assuming no defaults and excluding loans transferred as secured borrowings. Our credit facilities generally require principal to be paid down prior to the facilities' respective maturities if and when we receive principal payments on, or sell, the investment collateral that we have pledged. The amount reflected in each period includes principal repayments on our credit facilities that would be required if (i) we received the repayments that we expect to receive on the investments that have been pledged as collateral under the credit facilities, as applicable, and (ii) the credit facilities that are expected to have

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amounts outstanding at their current maturity dates are extended where extension options are available to us (amounts in thousands):

|                     | Repurchase<br>Agreements | Other<br>Secured<br>Financing | Total        |
|---------------------|--------------------------|-------------------------------|--------------|
| 2015 (remainder of) | \$ 302,104               | \$ 1,692                      | \$ 303,796   |
| 2016                | 249,929                  | 6,769                         | 256,698      |
| 2017                | 928,144                  | 6,769                         | 934,913      |
| 2018                | 626,982                  | 19,054                        | 646,036      |
| 2019                | 556,519                  | 6,769                         | 563,288      |
| Thereafter          | —                        | 979,347 (1)                   | 979,347      |
| Total               | \$ 2,663,678             | \$ 1,020,400                  | \$ 3,684,078 |

(1) Principal paydown of the Term Loan through 2020 excludes \$1.8 million of discount amortization.

Secured financing maturities for 2015 primarily relate to \$287.3 million on the Conduit Repo facilities.

As of September 30, 2015 and December 31, 2014, we had approximately \$29.6 million and \$26.5 million, respectively, of deferred financing costs from secured financing agreements, net of amortization, which is included in other assets on our condensed consolidated balance sheets. For the three and nine months ended September 30, 2015, approximately \$3.8 million and \$10.8 million, respectively, of amortization was included in interest expense on our condensed consolidated statements of operations. For the three and nine months ended September 30, 2014, approximately \$2.9 million and \$8.2 million, respectively, of amortization was included in interest expense on our condensed consolidated statements of operations.

As of September 30, 2015 and December 31, 2014, the outstanding balance of our repurchase agreements related to the following asset collateral classes (amounts in thousands):

| Class of Collateral       | September<br>30, 2015 | December<br>31, 2014 |
|---------------------------|-----------------------|----------------------|
| Loans held-for-investment | \$ 2,036,748          | \$ 1,863,633         |
| Loans held-for-sale       | 287,252               | 208,363              |
| Investment securities     | 339,678               | 198,989              |
|                           | \$ 2,663,678          | \$ 2,270,985         |

We seek to mitigate risks associated with our repurchase agreements by managing risk related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value. The margin call provisions under the majority of our repurchase facilities, consisting of 76% of these agreements, do not permit valuation adjustments based on capital markets activity. Instead, margin calls on these facilities are limited to collateral-specific credit marks. To monitor credit risk associated with the performance and value of our loans and investments, our asset management team regularly reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary. For repurchase agreements containing margin call provisions for general capital markets activity, approximately half of these pertain to our loans held-for-sale, for which we manage credit risk through the purchase of credit index instruments. We further seek to manage risks associated with our repurchase agreements by matching the maturities and interest rate characteristics of our loans with the related repurchase agreements.

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## 10. Convertible Senior Notes

On October 8, 2014, we issued \$431.3 million of 3.75% Convertible Senior Notes due 2017 (the “2017 Notes”). On February 15, 2013, we issued \$600.0 million of 4.55% Convertible Senior Notes due 2018 (the “2018 Notes”). On July 3, 2013, we issued \$460.0 million of 4.00% Convertible Senior Notes due 2019 (the “2019 Notes”). The following summarizes the unsecured convertible senior notes (collectively, the “Convertible Notes”) outstanding as of September 30, 2015 (amounts in thousands, except rates):

|   | Principal<br>Amount | Coupon<br>Rate |   | Effective<br>Rate(1) |   | Conversion<br>Rate(2) | Maturity<br>Date               | Remaining<br>Period of<br>Amortization |
|---|---------------------|----------------|---|----------------------|---|-----------------------|--------------------------------|--|
| 2017 Notes  | \$ 431,250          | 3.75           | % | 5.87                 | % | 41.7397               | 10/15/2017                     | 2.0 years                              |
| 2018 Notes  | \$ 599,981          | 4.55           | % | 6.10                 | % | 45.8850               | 3/1/2018                       | 2.4 years                              |
| 2019 Notes  | \$ 341,363          | 4.00           | % | 5.37                 | % | 48.6931               | 1/15/2019                      | 3.3 years                              |
|   |                     |                |   |                      |   |                       | As of<br>September<br>30, 2015 | As of<br>December<br>31, 2014          |
| Total principal   |                     |                |   |                      |   |                       | \$ 1,372,594                   | \$ 1,491,228                           |
| Net unamortized discount  |                     |                |   |                      |   |                       | (52,387)                       | (73,206)                               |
| Carrying amount of debt components  |                     |                |   |                      |   |                       | \$ 1,320,207                   | \$ 1,418,022                           |
| Carrying amount of conversion option equity components recorded in additional paid-in capital |                     |                |   |                      |   |                       | \$ 46,343                      | \$ 64,070                              |

- (1) Effective rate includes the effects of underwriter purchase discount and the adjustment for the conversion option, the value of which reduced the initial liability and was recorded in additional paid-in-capital.
- (2) The conversion rate represents the number of shares of common stock issuable per \$1,000 principal amount of Convertible Notes converted, as adjusted in accordance with the applicable indentures as a result of the spin-off of the SFR segment and cash dividend payments. The if-converted values of the 2017 Notes, 2018 Notes and 2019 Notes were less than their principal amounts by \$61.9 million, \$35.0 million, and \$0.3 million at September 30, 2015, respectively, since the closing market price of the Company’s common stock of \$20.52 per share was less than the implicit conversion prices of \$23.96, \$21.79, and \$20.54, respectively. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, conversion of this principal amount, totaling 62.2 million shares, was not included in the computation of diluted earnings per share

("EPS"). No dilution related to the 2017 Notes, 2018 Notes or 2019 Notes was included in the computation of diluted EPS for the three and nine months ended September 30, 2015 as these notes were not "in-the-money". See further discussion at Note 17.

Under the repurchase program approved by our board of directors (refer to Note 16), we repurchased \$118.6 million aggregate principal amount of our 2019 Notes during the nine months ended September 30, 2015 for \$136.3 million plus transaction expenses of \$0.1 million. The repurchase price was allocated between the fair value of the liability component and the fair value of the equity component of the convertible security. The portion of the repurchase price attributable to the equity component totaled \$17.7 million and was recognized as a reduction of additional paid-in capital during the nine months ended September 30, 2015. The remaining repurchase price was attributable to the liability component. The difference between this amount and the net carrying amount of the liability and debt issuance costs was reflected as a loss on extinguishment of debt in our condensed consolidated statement of operations. For the nine months ended September 30, 2015, the loss on extinguishment of debt totaled \$5.9 million, consisting principally of the write-off of unamortized debt discount. There were no repurchases of our outstanding Convertible Notes during the three months ended September 30, 2015.

As of September 30, 2015 and December 31, 2014, we had approximately \$1.6 million and \$2.3 million, respectively, of deferred financing costs from our Convertible Senior Notes, net of amortization, which is included in other assets on our condensed consolidated balance sheets.

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Conditions for Conversion

Prior to April 15, 2017 for the 2017 Notes, September 1, 2017 for the 2018 Notes and July 15, 2018 for the 2019 Notes, the Convertible Notes will be convertible only upon satisfaction of one or more of the following conditions: (1) the closing market price of the Company's common stock is at least 110% for the 2017 Notes or 130% for the 2018 Notes and 2019 Notes of the conversion price of the respective Convertible Notes for at least 20 out of 30 trading days prior to the end of the preceding fiscal quarter, (2) the trading price of the Convertible Notes is less than 98% of the product of (i) the conversion rate and (ii) the closing price of the Company's common stock during any five consecutive trading day period, (3) the Company issues certain equity instruments at less than the 10-day average closing market price of its common stock or the per-share value of certain distributions exceeds the market price of the Company's common stock by more than 10% or (4) other specified corporate events (significant consolidation, sale, merger, share exchange, fundamental change, etc.) occur.

On or after April 15, 2017 for the 2017 Notes, September 1, 2017 for the 2018 Notes and July 15, 2018 for the 2019 Notes, holders may convert each of their notes at the applicable conversion rate at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date.

11. Loan Securitization/Sale Activities

As described below, we regularly sell loans and notes under various strategies. We evaluate such sales as to whether they meet the criteria for treatment as a sale—legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transfer of control.

Within the Investing and Servicing Segment, we originate commercial mortgage loans with the intent to sell these mortgage loans to VIEs for the purposes of securitization. These VIEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the VIE. In certain instances, we retain a subordinated interest in the VIE and serve as special servicer for the VIE. The following summarizes the fair value and par value of loans sold from our conduit platform, as well as the amount of sale proceeds used in part to repay the outstanding balance of the repurchase agreements associated with these loans for the three and nine months ended September 30, 2015 and 2014 (amounts in thousands):

|                      |                           |
|----------------------|---------------------------|
| For the Three Months |                           |
| Ended                | For the Nine Months Ended |
| September 30,        | September 30,             |



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|                                    | 2015       | 2014       | 2015         | 2014         |
|------------------------------------|------------|------------|--------------|--------------|
| Fair value of loans sold           | \$ 410,227 | \$ 498,789 | \$ 1,443,871 | \$ 1,165,583 |
| Par value of loans sold            | 398,654    | 482,129    | 1,396,674    | 1,119,537    |
| Repayment of repurchase agreements | 299,301    | 361,569    | 1,043,757    | 839,626      |

Within the Lending Segment, we originate or acquire loans and then subsequently sell a portion, which can be in various forms including first mortgages, A-Notes, senior participations and mezzanine loans. Typically, our motivation for entering into these transactions is to effectively create leverage on the subordinated position that we will retain and hold for investment. In certain instances, we continue to service the loan following its sale. The following table summarizes our loans sold and loans transferred as secured borrowings by the Lending Segment net of expenses (amounts in thousands):

|  | Loan Transfers Accounted for as Sales |            | Loan Transfers Accounted for as Secured Borrowings |           |
|--|---------------------------------------|------------|--|-----------|
|  | Face Amount                           | Proceeds   | Face Amount  | Proceeds  |
| For the Three Months Ended September 30, |                                       |            |  |           |
| 2015                                     | \$ 225,264                            | \$ 220,928 | \$ —   | \$ —      |
| 2014                                     | 142,896                               | 138,958    | —  | —         |
| For the Nine Months Ended September 30,  |                                       |            |  |           |
| 2015                                     | \$ 606,725                            | \$ 599,504 | \$ 38,925  | \$ 38,925 |
| 2014                                     | 347,755                               | 341,472    | —  | —         |

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During the three months ended September 30, 2015 and 2014, the Lending Segment recognized gains on sales of loans of \$2.7 million and \$0.8 million, respectively, within gain on sale of investments in our condensed consolidated statements of operations. During the nine months ended September 30, 2015 and 2014, the Lending Segment recognized gains on sales of loans of \$3.0 million and \$1.3 million, respectively.

12. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. Refer to Note 12 to the consolidated financial statements included in our Form 10-K for further discussion of our risk management objectives and policies.

Designated Hedges

Our objective in using interest rate derivatives is to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

In connection with our repurchase agreements, we have entered into eight outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of September 30, 2015, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled \$87.5 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.56% to 2.23% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from November 2015 to May 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2015 and 2014 we did not recognize any hedge ineffectiveness in earnings.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next twelve months, we estimate that an additional \$0.4 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 68 months.

#### Non-designated Hedges

Derivatives not designated as hedges are derivatives that do not meet the criteria for hedge accounting under GAAP or which we have not elected to designate as hedges. We do not use these derivatives for speculative purposes but instead they are used to manage our exposure to foreign exchange rates, interest rate changes, and certain credit spreads. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in gain (loss) on derivative financial instruments in our condensed consolidated statements of operations.

We have entered into a series of forward contracts whereby we agreed to sell an amount of foreign currency for an agreed upon amount of USD at various dates through June 2020. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated investments.



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The following table summarizes our foreign exchange ("Fx") forwards, interest rate swaps, interest rate caps and credit index instruments as of September 30, 2015 (notional amounts in thousands):

| Type of Derivative                          | Number of Contracts | Aggregate Notional Amount | Notional Currency | Maturity                      |
|---|---------------------|---------------------------|-------------------|-------------------------------|
| Fx contracts – Sell Euros ("EUR") (1)       | 87                  | 352,420                   | EUR               | October 2015 – June 2020      |
| Fx contracts – Sell Pounds Sterling ("GBP") | 63                  | 257,203                   | GBP               | October 2015 – March 2018     |
| Fx contracts – Sell Swedish Krona ("SEK")   | 2                   | 19,197                    | SEK               | December 2015                 |
| Fx contracts – Buy SEK                      | 1                   | 4,083                     | SEK               | December 2015                 |
| Fx contracts – Sell Norwegian Krone ("NOK") | 1                   | 1,218                     | NOK               | December 2015                 |
| Fx contracts – Sell Danish Krone ("DKK")    | 1                   | 3,200                     | DKK               | December 2015                 |
| Interest rate swaps – Paying fixed rates    | 73                  | 513,218                   | USD               | July 2016 – October 2025      |
| Interest rate swaps – Receiving fixed rates | 4                   | 14,300                    | USD               | October 2015 – September 2025 |
| Interest rate caps                          | 2                   | 294,000                   | EUR               | May 2020                      |
| Interest rate caps                          | 2                   | 17,835                    | USD               | June 2018                     |
| Credit index instruments                    | 11                  | 40,000                    | USD               | January 2047                  |
| Total                                       | 247                 |                           |                   |                               |

(1) Includes 59 Fx contracts executed to hedge our Euro currency exposure created by our acquisition of the Ireland Portfolio. As of September 30, 2015, these contracts have an aggregate notional of €259.7 million and varying maturities through June 2020.

The table below presents the fair value of our derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|   | Fair Value of Derivatives in an Asset Position(1) As of |                   | Fair Value of Derivatives in a Liability Position(2) As of |                   |
|---|---|-------------------|--|-------------------|
|   | September 30, 2015                                      | December 31, 2014 | September 30, 2015   | December 31, 2014 |
| Derivatives designated as hedging instruments:      |   |                   |  |                   |
| Interest rate swaps                                 | \$ 6  | \$ 138            | \$ 451   | \$ 235            |
| Total derivatives designated as hedging instruments | 6   | 138               | 451  | 235               |
| Derivatives not designated as hedging instruments:  |   |                   |  |                   |

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|   |           |           |           |          |
|---|-----------|-----------|-----------|----------|
| Interest rate swaps and caps                            | 2,981     | 1,128     | 13,508    | 5,216    |
| Foreign exchange contracts                              | 31,657    | 24,388    | 942       | 15       |
| Credit index instruments                                | 1,663     | 974       | —         | 10       |
| Total derivatives not designated as hedging instruments | 36,301    | 26,490    | 14,450    | 5,241    |
| Total derivatives                                       | \$ 36,307 | \$ 26,628 | \$ 14,901 | \$ 5,476 |

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(1) Classified as derivative assets in our condensed consolidated balance sheets.

(2) Classified as derivative liabilities in our condensed consolidated balance sheets.

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The tables below present the effect of our derivative financial instruments on the condensed consolidated statements of operations and of comprehensive income for the three and nine months ended September 30, 2015 and 2014 (amounts in thousands):

| Derivatives Designated as Hedging Instruments<br>For the Three Months Ended<br>September 30, | Gain (Loss)                                 | Gain (Loss)   | Gain (Loss)                                      | Location of Gain (Loss)<br>Recognized in Income |
|--|---|---|--|---|
|  | Recognized<br>in OCI<br>(effective portion) | Reclassified<br>from AOCI<br>into Income<br>(effective portion) | Recognized<br>in Income<br>(ineffective portion) |   |
| 2015   | \$ (395)                                    | \$ (187)  | \$ —   | Interest expense                                |
| 2014   | \$ 186                                      | \$ (344)  | \$ —   | Interest expense                                |
| For the Nine Months Ended  |   |   |  |   |
| September 30,  |   |   |  |   |
| 2015   | \$ (933)                                    | \$ (585)  | \$ —   | Interest expense                                |
| 2014   | \$ (522)                                    | \$ (1,081)  | \$ —   | Interest expense                                |

| Derivatives Not Designated<br>as Hedging Instruments | Location of Gain (Loss)<br>Recognized in Income | Amount of Gain (Loss)<br>Recognized in Income for the<br>Three Months Ended |           | Amount of Gain (Loss)<br>Recognized in Income for the<br>Nine Months Ended |            |
|--|---|---|-----------|--|------------|
|  |   | September 30,<br>2015   | 2014      | September 30,<br>2015  | 2014       |
| Interest rate swaps and caps                         | Gain on derivative<br>financial instruments     | \$ (17,242)   | \$ 1,054  | \$ (22,206)  | \$ (5,639) |
| Foreign exchange contracts                           | Gain on derivative<br>financial instruments     | 18,957  | 28,123    | 29,129   | 18,293     |
| Credit index instruments                             | Gain on derivative<br>financial instruments     | 515   | 98        | 400  | (1,035)    |
|  |   | \$ 2,230  | \$ 29,275 | \$ 7,323   | \$ 11,619  |

## 13. Offsetting Assets and Liabilities

The following tables present the potential effects of netting arrangements on our financial position for financial assets and liabilities within the scope of ASC 210-20, Balance Sheet—Offsetting, which for us are derivative assets and

liabilities as well as repurchase agreement liabilities (amounts in thousands):

|                             | (i)<br>Gross Amounts<br>Recognized | (ii)<br>Gross Amounts<br>Offset in the<br>Statement of<br>Financial Position | (iii) = (i) - (ii)<br>Net Amounts<br>Presented in<br>the Statement of<br>Financial Position | (iv)<br>Gross Amounts Not<br>Offset in the Statement<br>of Financial Position<br>Financial<br>Instruments | Cash<br>Collateral<br>Received /<br>Pledged | (v) = (iii) - (iv)<br>Net Amount |
|-----------------------------|------------------------------------|--|---|---|---|----------------------------------|
| As of September<br>30, 2015 |                                    |  |   |   |   |                                  |
| Derivative assets           | \$ 36,307                          | \$ —   | \$ 36,307   | \$ 1,475  | \$ —  | \$ 34,832                        |
| Derivative<br>liabilities   | \$ 14,901                          | \$ —   | \$ 14,901   | \$ 1,475  | \$ 13,426                                   | \$ —                             |
| Repurchase<br>agreements    | 2,663,678                          | —  | 2,663,678   | 2,663,678   | —   | —                                |
|                             | \$ 2,678,579                       | \$ —   | \$ 2,678,579  | \$ 2,665,153  | \$ 13,426                                   | \$ —                             |
| As of December<br>31, 2014  |                                    |  |   |   |   |                                  |
| Derivative assets           | \$ 26,628                          | \$ —   | \$ 26,628   | \$ 2,016  | \$ —  | \$ 24,612                        |
| Derivative<br>liabilities   | \$ 5,476                           | \$ —   | \$ 5,476  | \$ 2,016  | \$ 3,460                                    | \$ —                             |
| Repurchase<br>agreements    | 2,270,985                          | —  | 2,270,985   | 2,270,985   | —   | —                                |
|                             | \$ 2,276,461                       | \$ —   | \$ 2,276,461  | \$ 2,273,001  | \$ 3,460                                    | \$ —                             |



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14. Variable Interest Entities

Investment Securities

As discussed in Note 2, we evaluate all of our investments and other interests in entities for consolidation, including our investments in CMBS and our retained interests in securitization transactions we initiated, all of which are generally considered to be variable interests in VIEs.

The VIEs consolidated in accordance with ASC 810 are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The assets and other instruments held by these securitization entities are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the securitization entities do not have any recourse to the general credit of any other consolidated entities, nor to us as the primary beneficiary. The VIE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

VIEs in which we are the Primary Beneficiary

The inclusion of the assets and liabilities of VIEs in which we are deemed the primary beneficiary has no economic effect on us. Our exposure to the obligations of VIEs is generally limited to our investment in these entities. We are not obligated to provide, nor have we provided, any financial support for any of these consolidated structures.

VIEs in which we are not the Primary Beneficiary

In certain instances, we hold a variable interest in a VIE in the form of CMBS, but either (i) we are not appointed, or do not serve as, special servicer or (ii) an unrelated third party has the rights to unilaterally remove us as special servicer. In these instances, we do not have the power to direct activities that most significantly impact the VIE's economic performance. In other cases, the variable interest we hold does not obligate us to absorb losses or provide us with the right to receive benefits from the VIE which could potentially be significant. For these structures, we are not deemed to be the primary beneficiary of the VIE, and we do not consolidate these VIEs.

As of September 30, 2015, one of our CDO structures was in default, which pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO's economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO's economic performance, we do not consolidate the VIE. As of September 30, 2015, this CDO structure was not consolidated. During the three months ended March 31, 2014, one of our CDOs, which was previously in default as of December 31, 2013, ceased to be in default. This event triggered the initial consolidation of the CDO and its underlying assets during the three months ended March 31, 2014.

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization VIEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of September 30, 2015, our maximum risk of loss related to VIEs in which we were not the primary beneficiary was \$222.4 million on a fair value basis.

As of September 30, 2015, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of \$40.5 billion. The corresponding assets are comprised

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primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

15. Related-Party Transactions

Management Agreement

We are party to a management agreement (the “Management Agreement”) with our Manager. Under the Management Agreement, our Manager, subject to the oversight of our board of directors, is required to manage our day to day activities, for which our Manager receives a base management fee and is eligible for an incentive fee and stock awards. Our Manager’s personnel perform certain due diligence, legal, management and other services that outside professionals or consultants would otherwise perform. As such, in accordance with the terms of our Management Agreement, our Manager is paid or reimbursed for the documented costs of performing such tasks, provided that such costs and reimbursements are in amounts no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm’s-length basis. Refer to Note 15 to the consolidated financial statements included in our Form 10-K for further discussion of this agreement.

**Base Management Fee.** For the three months ended September 30, 2015 and 2014, we recognized base management fees of \$15.2 million and \$13.8 million, respectively, within management fees in our condensed consolidated statements of operations. For the nine months ended September 30, 2015 and 2014, we recognized base management fees of \$44.0 million and \$40.7 million, respectively. As of September 30, 2015 and December 31, 2014, there were \$15.2 million and \$13.9 million, respectively, of unpaid base management fees within related-party payable in our condensed consolidated balance sheets.

**Incentive Fee.** For the three months ended September 30, 2015 and 2014, we recognized incentive fees of \$5.3 million and \$4.3 million, respectively, within management fees in our condensed consolidated statements of operations. For the nine months ended September 30, 2015 and 2014, we recognized incentive fees of \$16.1 million and \$15.5 million, respectively. As of September 30, 2015 and December 31, 2014, \$5.4 million and \$18.9 million, respectively, of unpaid incentive fees were included within related-party payable in our condensed consolidated balance sheets.

**Expense Reimbursement.** For both the three months ended September 30, 2015 and 2014, we recognized expense reimbursements for executive compensation and other reimbursable expenses of \$1.7 million within general and administrative expenses in our condensed consolidated statements of operations. For the nine months ended September 30, 2015 and 2014, we recognized expense reimbursements for executive compensation and other reimbursable expenses of \$4.6 million and \$5.7 million, respectively. As of September 30, 2015 and December 31, 2014, approximately \$2.1 million and \$3.4 million, respectively, of unpaid reimbursable executive compensation and

other expenses were included within related-party payable in our condensed consolidated balance sheets.

#### Manager Equity Plan

In May 2015, we granted 675,000 RSUs to our Manager under the Starwood Property Trust, Inc. Manager Equity Plan (“Manager Equity Plan”). In January 2014, we granted 2,489,281 RSUs to our Manager under the Manager Equity Plan. In connection with these grants and prior similar grants, we recognized share-based compensation expense of \$7.1 million and \$6.3 million within management fees in our condensed consolidated statements of operations for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, we recognized \$21.4 million and \$19.8 million, respectively, related to these awards. Refer to Note 16 herein for further discussion of these grants.

#### Investments in Loans and Securities

In March 2015, we purchased a subordinate single-borrower CMBS from a third party for \$58.6 million which is secured by 85 U.S. hotel properties. The borrower is an affiliate of Starwood Distressed Opportunity Fund IX (“Fund IX”), an affiliate of our Manager.

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In March 2015, we sold our entire interest, consisting of a \$35 million participation, in a subordinate loan (the “Mammoth Loan”) at par to Mammoth Mezz Holdings, LLC, an affiliate of our Manager. We purchased the Mammoth Loan in April 2011 from an independent third party and a syndicate of financial institutions and other entities acting as subordinate lenders to Mammoth Mountain Ski Area, LLC (“Mammoth”). Mammoth is a single purpose, bankruptcy remote entity that is owned and controlled by Starwood Global Opportunity Fund VII A, L.P., Starwood Global Opportunity Fund VII B, L.P., Starwood U.S. Opportunity Fund VII D, L.P. and Starwood U.S. Opportunity Fund VII D 2, L.P. (collectively, the “Sponsors”). Each of the Sponsors is indirectly wholly owned by Starwood Capital Group Global I, LLC and an affiliate of our Chief Executive Officer.

In January 2015, a junior mezzanine loan, which we co-originated with SEREF and an unaffiliated third party in 2012, was restructured to reduce both our and SEREF’s participation interests and margin. We now hold a participation interest in the junior mezzanine loan of £18 million, which bears interest at three-month LIBOR plus 8.81%. Prior to the restructure, our participation interest was £30.0 million and carried an interest rate of three-month LIBOR plus 11.65%. The junior mezzanine loan is secured primarily by the ownership interest in entities that own a portfolio of three luxury hotels located in London, England.

### Other Related-Party Arrangements

In connection with the LNR acquisition, we were required to cash collateralize certain obligations of LNR, including letters of credit and performance obligations. Fund IX funded \$6.2 million of this obligation, but the account was within our name and was thus reflected within our restricted cash balance. As of December 31, 2014, we recognized a corresponding payable to Fund IX of \$4.4 million within related-party payable in our condensed consolidated balance sheet. Our obligation was released in September 2015.

Our Investing and Servicing Segment acquires properties from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows. During the three and nine months ended September 30, 2015, we acquired in aggregate \$32.5 million and \$65.9 million, respectively, of properties from both consolidated and unconsolidated CMBS trusts. Refer to Note 6 for further discussion of these acquisitions.

During the three and nine months ended September 30, 2015, we provided due diligence services to an affiliate of Starwood Global Opportunity Fund X, an affiliate of our Manager, in which we received fees of \$0.1 million and \$0.4 million, respectively.

In the normal course of business, the Investing and Servicing Segment’s conduit lending platform provides loans to consolidated subsidiaries of the Company which are subsequently securitized and sold to third parties. The loan, debt and applicable interest income and expense are eliminated in consolidation until such time as the loan is sold. During the three months ended September 30, 2015, our conduit lending platform originated a \$10.4 million intercompany loan which was eliminated in consolidation as of September 30, 2015.

Refer to Note 15 to the consolidated financial statements included in our Form 10-K for further discussion of related-party agreements.

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## 16. Stockholders' Equity

During the nine months ended September 30, 2015, our board of directors declared the following dividends:

| Declare Date | Record Date | Ex-Dividend Date | Payment Date | Amount  | Frequency |
|--------------|-------------|------------------|--------------|---------|-----------|
| 8/4/15       | 9/30/15     | 9/28/15          | 10/15/15     | \$ 0.48 | Quarterly |
| 5/5/15       | 6/30/15     | 6/26/15          | 7/15/15      | \$ 0.48 | Quarterly |
| 2/25/15      | 3/31/15     | 3/27/15          | 4/15/15      | \$ 0.48 | Quarterly |

On April 20, 2015, we issued 12.0 million shares of common stock for gross proceeds of \$283.6 million. In connection with the offering, the underwriters had a 30-day option to purchase an additional 1.8 million shares of common stock, which they exercised in full, resulting in additional gross proceeds of \$42.5 million.

During the nine months ended September 30, 2015, there were no shares issued under our At-The-Market Equity Offering Sales Agreement (the "ATM Agreement"). During the nine months ended September 30, 2015, shares issued under the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the "DRIP Plan") were not material.

In September 2014, our board of directors authorized and announced the repurchase of up to \$250 million of our outstanding common stock over a period of one year. In December 2014, our board of directors amended the repurchase program to include the repurchase of our outstanding Convertible Notes. In June 2015, our board of directors amended the repurchase program to increase the authorized purchase amount to \$450 million and provide for a one-year extension through June 2016. There were no repurchases of our outstanding Convertible Notes during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we repurchased \$118.6 million aggregate principal amount of our 2019 Notes for \$136.3 million (refer to Note 10). Also during the three and nine months ended September 30, 2015 we repurchased 1,393,223 shares and 1,793,223 shares of common stock for \$29.1 million and \$37.9 million, respectively, under the repurchase program. As of September 30, 2015, we have \$262.6 million of remaining capacity to repurchase common stock or Convertible Notes under the repurchase program.

## Equity Incentive Plans

The Company currently maintains the Manager Equity Plan, the Starwood Property Trust, Inc. Equity Plan (the “Equity Plan”), and the Starwood Property Trust, Inc. Non-Executive Director Stock Plan (“Non-Executive Director Stock Plan”). Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further information regarding these plans.

The table below summarizes our share awards granted under the Manager Equity Plan that were not fully vested as of September 30, 2015 (dollar amounts in thousands):

| Grant Date       | Type | Amount Granted | Grant Date Fair Value | Vesting Period |
|------------------|------|----------------|-----------------------|----------------|
| May 2015         | RSU  | 675,000        | \$ 16,511             | 3 years        |
| January 2014 (1) | RSU  | 489,281        | 14,776                | 3 years        |
| January 2014     | RSU  | 2,000,000      | 55,420                | 3 years        |
| October 2012     | RSU  | 875,000        | 19,854                | 3 years        |

(1) As part of the spin-off of our SFR segment, all holders of the Company’s common stock and vested restricted common stock received one SWAY common share for every five shares of the Company’s common stock. At the time of the spin-off, the Manager held certain unvested RSUs that were not entitled to SWAY shares. Under the legal documentation governing the outstanding RSUs, the Manager was entitled to receive additional RSUs in an amount equal to the number of such outstanding RSUs times the amount received in the spin-off by a holder of a share of the Company’s common stock (i.e., the price per share of a SWAY common share divided by five) divided by the fair market value of a share of the Company’s common stock on the date of the spin-off. In order to prevent dilution of the rights of our equity plan participants resulting from this make-whole issuance, the Equity Plan and



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Manager Equity Plan provide for, and, on August 12, 2014, our board of directors authorized, an increase of 489,281 shares to the maximum number of shares available for issuance under the Equity Plan and Manager Equity Plan.

During the three and nine months ended September 30, 2015, we granted 30,608 and 533,267 RSAs, respectively, under the Equity Plan to a select group of eligible participants which includes our employees and employees of our Manager who perform services for us. The awards were granted based on the market price of the Company's common stock on the respective grant date and vest ratably over a three-year period. Expenses related to the vesting of these awards is reflected in general and administrative expenses in our condensed consolidated statements of operations.

As of September 30, 2015, there were 2.7 million shares available for future grants under the Manager Equity Plan, the Equity Plan and the Non-Executive Director Stock Plan.

## Schedule of Non-Vested Shares and Share Equivalents

|                                     | Non-Executive<br>Director<br>Stock Plan | Equity Plan | Manager<br>Equity Plan | Total       | Weighted<br>Average<br>Grant Date<br>Fair Value<br>(per share) |
|-------------------------------------|---|-------------|------------------------|-------------|--|
| Balance as of January 1, 2015       | 17,105                                  | 109,708     | 1,854,585              | 1,981,398   | \$ 27.30   |
| Granted                             | —                                       | 533,267     | 675,000                | 1,208,267   | 24.36  |
| Vested                              | (3,852)                                 | (40,151)    | (971,334)              | (1,015,337) | 26.47  |
| Forfeited                           | —                                       | (19,722)    | —                      | (19,722)    | 23.96  |
| Balance as of September 30,<br>2015 | 13,253                                  | 583,102     | 1,558,251              | 2,154,606   | 26.07  |

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## 17. Earnings per Share

The following table provides a reconciliation of net income from continuing operations and the number of shares of common stock used in the computations of basic EPS and diluted EPS (amounts in thousands, except per share amounts):

|  | For the Three Months<br>Ended<br>September 30, |            | For the Nine Months<br>Ended<br>September 30, |            |
|--|--|------------|---|------------|
|  | 2015   | 2014       | 2015  | 2014       |
| <b>Basic Earnings</b>  |  |            |   |            |
| <b>Continuing Operations:</b>  |  |            |   |            |
| Income from continuing operations attributable to STWD common shareholders                                 | \$ 116,735                                     | \$ 165,044 | \$ 354,246                                    | \$ 405,064 |
| Less: Income attributable to unvested shares   | (1,052)  | (1,742)    | (3,239)                                       | (4,898)    |
| Basic — Income from continuing operations  | \$ 115,683                                     | \$ 163,302 | \$ 351,007                                    | \$ 400,166 |
| <b>Discontinued Operations:</b>  |  |            |   |            |
| Loss from discontinued operations  | \$ —   | \$ —       | \$ —  | \$ (1,551) |
| Basic — Net income attributable to STWD common shareholders after allocation to participating securities   | \$ 115,683                                     | \$ 163,302 | \$ 351,007                                    | \$ 398,615 |
| <b>Diluted Earnings</b>  |  |            |   |            |
| <b>Continuing Operations:</b>  |  |            |   |            |
| Basic — Income from continuing operations attributable to STWD common shareholders                         | \$ 116,735                                     | \$ 165,044 | \$ 354,246                                    | \$ 405,064 |
| Less: Income attributable to unvested shares   | (1,052)  | (1,742)    | (3,239)                                       | (4,898)    |
| Add: Undistributed earnings to unvested shares   | 18   | 653        | 147   | 1,187      |
| Less: Undistributed earnings reallocated to unvested shares  | (18)   | (650)      | (147)   | (1,182)    |
| Diluted — Income from continuing operations  | \$ 115,683                                     | \$ 163,305 | \$ 351,007                                    | \$ 400,171 |
| <b>Discontinued Operations:</b>  |  |            |   |            |
| Basic — Loss from discontinued operations  | \$ —   | \$ —       | \$ —  | \$ (1,551) |
| Diluted — Net income attributable to STWD common shareholders after allocation to participating securities | \$ 115,683                                     | \$ 163,305 | \$ 351,007                                    | \$ 398,620 |
| <b>Number of Shares:</b>   |  |            |   |            |
| Basic — Average shares outstanding   | 237,796  | 222,481    | 232,194                                       | 212,351    |
| Effect of dilutive securities — Convertible Notes  | —  | 966        | —   | 932        |
| Effect of dilutive securities — Contingently issuable shares   | 129  | 96         | 129   | 96         |
| Diluted — Average shares outstanding   | 237,925  | 223,543    | 232,323                                       | 213,379    |
| <b>Earnings Per Share Attributable to STWD Common Stockholders:</b>  |  |            |   |            |

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Basic:

|                                   |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|
| Income from continuing operations | \$ 0.49 | \$ 0.73 | \$ 1.51 | \$ 1.89 |
| Loss from discontinued operations | —       | —       | —       | (0.01)  |
| Net income                        | \$ 0.49 | \$ 0.73 | \$ 1.51 | \$ 1.88 |

Diluted:

|                                   |         |         |         |         |
|-----------------------------------|---------|---------|---------|---------|
| Income from continuing operations | \$ 0.49 | \$ 0.73 | \$ 1.51 | \$ 1.88 |
| Loss from discontinued operations | —       | —       | —       | (0.01)  |
| Net income                        | \$ 0.49 | \$ 0.73 | \$ 1.51 | \$ 1.87 |

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Earnings per share for the nine months ended September 30, 2015 and 2014 may not equal the sum of each quarter's earnings per share due to rounding and other computational factors.

As of September 30, 2015 and 2014, unvested restricted shares of 2.2 million and 2.3 million, respectively, were excluded from the computation of diluted shares as their effect was already considered under the more dilutive two-class method used above.

Also as of September 30, 2015, there were 62.2 million potential shares of common stock contingently issuable upon the conversion of the Convertible Notes. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, this principal amount, representing 62.2 million shares at September 30, 2015, was not included in the computation of diluted EPS. As discussed in Note 10, the conversion options associated with the 2017 Notes, 2018 Notes and 2019 Notes are "out-of-the-money" because the if-converted values of those notes were less than their principal amounts by \$61.9 million, \$35.0 million and \$0.3 million, respectively, at September 30, 2015. Therefore, there was no dilutive effect to EPS for the 2017 Notes, 2018 Notes and 2019 Notes during the three and nine months ended September 30, 2015.

## 18. Accumulated Other Comprehensive Income

The changes in AOCI by component are as follows (amounts in thousands):

|                                       | Effective Portion of<br>Cumulative Loss on<br>Cash Flow Hedges | Cumulative<br>Unrealized Gain<br>(Loss) on<br>Available-for-<br>Sale Securities | Foreign<br>Currency<br>Translation | Total     |
|---------------------------------------|--|---|------------------------------------|-----------|
| Three Months Ended September 30, 2015 |  |   |                                    |           |
| Balance at July 1, 2015               | \$ (237)   | \$ 50,370   | \$ (4,232)                         | \$ 45,901 |
| OCI before reclassifications          | (395)  | (9,095)   | (3,057)                            | (12,547)  |
| Amounts reclassified from AOCI        | 187  | —   | 5,969                              | 6,156     |
| Net period OCI                        | (208)  | (9,095)   | 2,912                              | (6,391)   |
| Balance at September 30, 2015         | \$ (445)   | \$ 41,275   | \$ (1,320)                         | \$ 39,510 |
| Three Months Ended September 30, 2014 |  |   |                                    |           |
| Balance at July 1, 2014               | \$ (575)   | \$ 60,446   | \$ 15,091                          | \$ 74,962 |
| OCI before reclassifications          | 186  | 4,190   | (9,765)                            | (5,389)   |
| Amounts reclassified from AOCI        | 344  | (236)   | —                                  | 108       |
| Net period OCI                        | 530  | 3,954   | (9,765)                            | (5,281)   |
| Balance at September 30, 2014         | \$ (45)  | \$ 64,400   | \$ 5,326                           | \$ 69,681 |
| Nine Months Ended September 30, 2015  |  |   |                                    |           |

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|                                      |          |           |            |           |
|--------------------------------------|----------|-----------|------------|-----------|
| Balance at January 1, 2015           | \$ (97)  | \$ 60,190 | \$ (4,197) | \$ 55,896 |
| OCI before reclassifications         | (933)    | (13,519)  | (3,092)    | (17,544)  |
| Amounts reclassified from AOCI       | 585      | (5,396)   | 5,969      | 1,158     |
| Net period OCI                       | (348)    | (18,915)  | 2,877      | (16,386)  |
| Balance at September 30, 2015        | \$ (445) | \$ 41,275 | \$ (1,320) | \$ 39,510 |
| Nine Months Ended September 30, 2014 |          |           |            |           |
| Balance at January 1, 2014           | \$ (604) | \$ 66,566 | \$ 9,487   | \$ 75,449 |
| OCI before reclassifications         | (522)    | 9,563     | (4,161)    | 4,880     |
| Amounts reclassified from AOCI       | 1,081    | (11,729)  | —          | (10,648)  |
| Net period OCI                       | 559      | (2,166)   | (4,161)    | (5,768)   |
| Balance at September 30, 2014        | \$ (45)  | \$ 64,400 | \$ 5,326   | \$ 69,681 |

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The reclassifications out of AOCI impacted the condensed consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014 as follows (amounts in thousands):

| Details about AOCI Components                               | Amounts Reclassified from AOCI during the Three Months Ended September 30, |          | Amounts Reclassified from AOCI during the Nine Months Ended September 30, |            | Affected Line Item in the Statements of Operations |
|---|--|----------|---|------------|--|
|   | 2015   | 2014     | 2015  | 2014       |  |
| Losses on cash flow hedges:                                 |  |          |   |            |  |
| Interest rate contracts                                     | \$ (187)   | \$ (344) | \$ (585)  | \$ (1,081) | Interest expense                                   |
| Unrealized gains (losses) on available-for-sale securities: |  |          |   |            |  |
| Interest realized upon collection                           | —  | —        | 5,396   | —          | Interest income from investment securities         |
| Net realized gain on sale of investments                    | —  | 236      | —   | 11,942     | Gain on sale of investments and other assets, net  |
| OTTI  | —  | —        | —   | (213)      | OTTI   |
| Total   | —  | 236      | 5,396   | 11,729     |  |
| Foreign currency translation:                               |  |          |   |            |  |
| Foreign currency loss from CMBS redemption                  | (5,969)  | —        | (5,969)   | —          | Foreign currency loss, net                         |
| Total reclassifications for the period                      | \$ (6,156)   | \$ (108) | \$ (1,158)  | \$ 10,648  |  |

## 19. Fair Value

GAAP establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring financial assets and liabilities at fair value. GAAP establishes market-based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy are described below:

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

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

#### Valuation Process

We have valuation control processes in place to validate the fair value of the Company's financial assets and liabilities measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. Refer to Note 20 to the consolidated financial statements included in our Form 10-K for further discussion of our valuation process.

We determine the fair value of our assets and liabilities measured at fair value on a recurring and nonrecurring basis in accordance with the methodology described in our Form 10-K.

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The following tables present our financial assets and liabilities carried at fair value on a recurring basis in the condensed consolidated balance sheets by their level in the fair value hierarchy as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|  | September 30, 2015    |                  |                       |                       |
|--|-----------------------|------------------|-----------------------|-----------------------|
|  | Total                 | Level I          | Level II              | Level III             |
| <b>Financial Assets:</b>               |                       |                  |                       |                       |
| Loans held-for-sale, fair value option | \$ 423,630            | \$ —             | \$ —                  | \$ 423,630            |
| RMBS                                   | 184,785               | —                | —                     | 184,785               |
| CMBS                                   | 222,360               | —                | —                     | 222,360               |
| Equity security                        | 14,311                | 14,311           | —                     | —                     |
| Domestic servicing rights              | 123,892               | —                | —                     | 123,892               |
| Derivative assets                      | 36,307                | —                | 36,307                | —                     |
| VIE assets                             | 82,937,617            | —                | —                     | 82,937,617            |
| <b>Total</b>                           | <b>\$ 83,942,902</b>  | <b>\$ 14,311</b> | <b>\$ 36,307</b>      | <b>\$ 83,892,284</b>  |
| <b>Financial Liabilities:</b>          |                       |                  |                       |                       |
| Derivative liabilities                 | \$ 14,901             | \$ —             | \$ 14,901             | \$ —                  |
| VIE liabilities                        | 82,181,138            | —                | 79,177,561            | 3,003,577             |
| <b>Total</b>                           | <b>\$ 82,196,039</b>  | <b>\$ —</b>      | <b>\$ 79,192,462</b>  | <b>\$ 3,003,577</b>   |
|  |                       |                  |                       |                       |
|  | December 31, 2014     |                  |                       |                       |
|  | Total                 | Level I          | Level II              | Level III             |
| <b>Financial Assets:</b>               |                       |                  |                       |                       |
| Loans held-for-sale, fair value option | \$ 391,620            | \$ —             | \$ —                  | \$ 391,620            |
| RMBS                                   | 207,053               | —                | —                     | 207,053               |
| CMBS                                   | 334,080               | —                | —                     | 334,080               |
| Equity security                        | 15,120                | 15,120           | —                     | —                     |
| Domestic servicing rights              | 132,303               | —                | —                     | 132,303               |
| Derivative assets                      | 26,628                | —                | 26,628                | —                     |
| VIE assets                             | 107,816,065           | —                | —                     | 107,816,065           |
| <b>Total</b>                           | <b>\$ 108,922,869</b> | <b>\$ 15,120</b> | <b>\$ 26,628</b>      | <b>\$ 108,881,121</b> |
| <b>Financial Liabilities:</b>          |                       |                  |                       |                       |
| Derivative liabilities                 | \$ 5,476              | \$ —             | \$ 5,476              | \$ —                  |
| VIE liabilities                        | 107,232,201           | —                | 102,339,081           | 4,893,120             |
| <b>Total</b>                           | <b>\$ 107,237,677</b> | <b>\$ —</b>      | <b>\$ 102,344,557</b> | <b>\$ 4,893,120</b>   |



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The changes in financial assets and liabilities classified as Level III were as follows for the three and nine months ended September 30, 2015 and 2014 (amounts in thousands):

| Three Months Ended<br>September 30,<br>2015   | Loans              |            | Domestic Servicing |            | VIE             |                | Total          |
|---|--------------------|------------|--------------------|------------|-----------------|----------------|----------------|
|   | Held for sale RMBS | CMBS       | Rights             | VIE Assets | Liabilities     |                |                |
| July 1, 2015 balance  | \$ 279,352         | \$ 193,150 | \$ 314,152         | \$ 128,109 | \$ 92,719,092   | \$ (2,111,011) | \$ 91,522,844  |
| Total realized and unrealized gains (losses):   |                    |            |                    |            |                 |                |                |
| Included in earnings:   |                    |            |                    |            |                 |                |                |
| Change in fair value / gain on sale   | 19,082             | —          | (2,835)            | (4,217)    | (10,394,490)    | 615,263        | (9,767,197)    |
| OTTI  | —                  | —          | —                  | —          | —               | —              | —              |
| Net accretion   | —                  | 3,600      | —                  | —          | —               | —              | 3,600          |
| Included in OCI   | —                  | (3,465)    | (2,164)            | —          | —               | —              | (5,629)        |
| Purchases / Originations  | 535,580            | —          | 5,665              | —          | —               | —              | 541,245        |
| Sales   | (410,227)          | —          | (1,203)            | —          | —               | —              | (411,430)      |
| Issuances   | —                  | —          | —                  | —          | —               | (1,619)        | (1,619)        |
| Cash repayments / receipts  | (157)              | (8,500)    | (91,795)           | —          | —               | 96,896         | (3,556)        |
| Transfers into Level III  | —                  | —          | —                  | —          | —               | (1,773,898)    | (1,773,898)    |
| Transfers out of Level III  | —                  | —          | —                  | —          | —               | 232,484        | 232,484        |
| Consolidations of VIEs  | —                  | —          | —                  | —          | 2,410,232       | (80,149)       | 2,330,083      |
| Deconsolidations of VIEs  | —                  | —          | 540                | —          | (1,797,217)     | 18,457         | (1,778,220)    |
| September 30, 2015 balance  | \$ 423,630         | \$ 184,785 | \$ 222,360         | \$ 123,892 | \$ 82,937,617   | \$ (3,003,577) | \$ 80,888,707  |
| Amount of total (losses) gains included in earnings attributable to assets still held | \$ 5,482           | \$ 3,600   | \$ 3,212           | \$ (4,217) | \$ (10,394,490) | \$ 615,263     | \$ (9,771,150) |

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at September 30,  
2015

| Three Months Ended<br>September 30,<br>2014   | Loans         |            | Domestic Servicing |            | VIE            |                | Total          |
|---|---------------|------------|--------------------|------------|----------------|----------------|----------------|
|   | Held for sale | RMBS       | CMBS               | Rights     | VIE Assets     | Liabilities    |                |
| July 1, 2014 balance  | \$ 154,412    | \$ 231,605 | \$ 282,361         | \$ 138,318 | \$ 114,091,158 | \$ (5,186,125) | \$ 109,711,729 |
| Total realized and unrealized gains (losses):   |               |            |                    |            |                |                |                |
| Included in earnings:   |               |            |                    |            |                |                |                |
| Change in fair value / gain on sale   | 15,517        | 535        | 2,471              | (7,898)    | (5,261,507)    | 237,693        | (5,013,189)    |
| Net accretion   | —             | 4,035      | —                  | —          | —              | —              | 4,035          |
| Included in OCI   | —             | 7,602      | (9,662)            | —          | —              | —              | (2,060)        |
| Purchases / Originations  | 577,216       | —          | 13,777             | —          | —              | —              | 590,993        |
| Sales   | (498,789)     | (5,588)    | —                  | —          | —              | —              | (504,377)      |
| Issuances   | —             | —          | —                  | —          | —              | (16,655)       | (16,655)       |
| Cash repayments / receipts  | (191)         | (21,870)   | 23                 | —          | —              | 20,189         | (1,849)        |
| Transfers into Level III  | —             | —          | 1,440              | —          | —              | (770,785)      | (769,345)      |
| Transfers out of Level III  | —             | —          | —                  | —          | —              | 1,940,522      | 1,940,522      |
| Consolidations of VIEs  | —             | —          | —                  | —          | 3,103,150      | (48,745)       | 3,054,405      |
| Deconsolidations of VIEs  | —             | —          | 635                | —          | (2,464,508)    | 12,167         | (2,451,706)    |
| September 30, 2014 balance  | \$ 248,165    | \$ 216,319 | \$ 291,045         | \$ 130,420 | \$ 109,468,293 | \$ (3,811,739) | \$ 106,542,503 |
| Amount of total (losses) gains included in earnings attributable to assets still held at September 30, 2014 | \$ (455)      | \$ 3,963   | \$ 2,471           | \$ (7,898) | \$ (5,261,507) | \$ 237,693     | \$ (5,025,733) |



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| Nine Months Ended<br>September 30,<br>2015  | Loans         |            |            | Domestic Servicing |                 | VIE            |                 |
|---|---------------|------------|------------|--------------------|-----------------|----------------|-----------------|
|   | Held for sale | RMBS       | CMBS       | Rights             | VIE Assets      | Liabilities    | Total           |
| January 1, 2015 balance   | \$ 391,620    | \$ 207,053 | \$ 334,080 | \$ 132,303         | \$ 107,816,065  | \$ (4,893,120) | \$ 103,988,001  |
| Total realized and unrealized gains (losses):   |               |            |            |                    |                 |                |                 |
| Included in earnings:   |               |            |            |                    |                 |                |                 |
| Change in fair value / gain on sale   | 51,044        | —          | (2,059)    | (8,411)            | (27,667,727)    | 3,566,846      | (24,060,307)    |
| OTTI  | —             | —          | —          | —                  | —               | —              | —               |
| Net accretion   | —             | 17,087     | —          | —                  | —               | —              | 17,087          |
| Included in OCI   | —             | (12,241)   | (2,362)    | —                  | —               | —              | (14,603)        |
| Purchases / Originations  | 1,425,499     | —          | 14,653     | —                  | —               | —              | 1,440,152       |
| Sales   | (1,443,871)   | —          | (6,301)    | —                  | —               | —              | (1,450,172)     |
| Issuances   | —             | —          | —          | —                  | —               | (9,132)        | (9,132)         |
| Cash repayments / receipts  | (662)         | (27,114)   | (92,018)   | —                  | —               | 171,884        | 52,090          |
| Transfers into Level III  | —             | —          | —          | —                  | —               | (2,589,916)    | (2,589,916)     |
| Transfers out of Level III  | —             | —          | —          | —                  | —               | 956,230        | 956,230         |
| Consolidations of VIEs  | —             | —          | (24,310)   | —                  | 8,067,859       | (225,354)      | 7,818,195       |
| Deconsolidations of VIEs  | —             | —          | 677        | —                  | (5,278,580)     | 18,985         | (5,258,918)     |
| September 30, 2015 balance  | \$ 423,630    | \$ 184,785 | \$ 222,360 | \$ 123,892         | \$ 82,937,617   | \$ (3,003,577) | \$ 80,888,707   |
| Amount of total gains (losses) included in earnings attributable to assets still held at September 30, 2015 | \$ 5,126      | \$ 11,594  | \$ 4,171   | \$ (8,411)         | \$ (27,667,727) | \$ 3,566,846   | \$ (24,088,401) |

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| Nine Months Ended<br>September 30,<br>2014   | Loans         |            |            | Domestic<br>Servicing | VIE             |                |          |
|--|---------------|------------|------------|-----------------------|-----------------|----------------|----------|
|  | Held for sale | RMBS       | CMBS       | Rights                | VIE Assets      | Liabilities    | Total    |
| January 1, 2014<br>balance   | \$ 206,672    | \$ 296,236 | \$ 208,006 | \$ 150,149            | \$ 103,151,624  | \$ (1,597,984) | \$ 102,4 |
| Total realized<br>and unrealized<br>gains (losses):<br>Included in<br>earnings:<br>Change in fair<br>value / gain on<br>sale     | 47,955        | 11,676     | 12,070     | (18,671)              | (12,275,130)    | 337,529        | (11,8    |
| OTTI   | —             | (214)      | —          | —                     | —               | —              | (214)    |
| Net accretion  | —             | 13,922     | —          | —                     | —               | —              | 13,92    |
| Included in OCI  | —             | 2,988      | (7,455)    | —                     | —               | —              | (4,46    |
| Purchases /<br>Originations  | 1,159,607     | —          | 60,348     | —                     | —               | —              | 1,219    |
| Sales  | (1,052,862)   | (68,134)   | (29,301)   | —                     | —               | —              | (1,15    |
| Issuances  | —             | —          | —          | —                     | —               | (88,412)       | (88,4    |
| Cash repayments<br>/ receipts  | (487)         | (40,155)   | (806)      | —                     | —               | 106,538        | 65,09    |
| Transfers into<br>Level III  | —             | —          | 54,221     | —                     | —               | (3,325,922)    | (3,27    |
| Transfers out of<br>Level III  | (112,720)     | —          | (180)      | (1,058)               | —               | 2,653,379      | 2,539    |
| Consolidations<br>of VIEs  | —             | —          | (6,715)    | —                     | 27,094,681      | (1,941,689)    | 25,14    |
| Deconsolidations<br>of VIEs  | —             | —          | 857        | —                     | (8,502,882)     | 44,822         | (8,45    |
| September 30,<br>2014 balance  | \$ 248,165    | \$ 216,319 | \$ 291,045 | \$ 130,420            | \$ 109,468,293  | \$ (3,811,739) | \$ 106,5 |
| Amount of total<br>(losses) gains<br>included in<br>earnings<br>attributable to<br>assets still held<br>at September 30,<br>2014 | \$ (455)      | \$ 11,742  | \$ 14,907  | \$ (18,671)           | \$ (12,275,130) | \$ 337,529     | \$ (11,9 |

Amounts were transferred from Level II to Level III due to a decrease in the observable relevant market activity and amounts were transferred from Level III to Level II due to an increase in the observable relevant market activity.



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The following table presents the fair values (all Level III) of our financial instruments not carried at fair value on the consolidated balance sheets (amounts in thousands):

|  | September 30, 2015 |              | December 31, 2014 |              |
|--|--------------------|--------------|-------------------|--------------|
|  | Carrying Value     | Fair Value   | Carrying Value    | Fair Value   |
| Financial assets not carried at fair value:  |                    |              |                   |              |
| Loans held-for-investment, loans held-for-sale and loans transferred as secured borrowings | \$ 5,984,540       | \$ 6,083,182 | \$ 5,908,665      | \$ 6,034,838 |
| Securities, held-to-maturity   | 365,005            | 362,026      | 441,995           | 440,629      |
| European servicing rights  | 3,772              | 7,684        | 11,849            | 12,741       |
| Financial liabilities not carried at fair value:   |                    |              |                   |              |
| Secured financing agreements and secured borrowings on transferred loans                   | \$ 3,826,200       | \$ 3,815,875 | \$ 3,267,230      | 3,251,035    |
| Convertible senior notes   | 1,320,207          | 1,339,173    | 1,418,022         | 1,444,975    |

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

|  | Carrying Value at Valuation |                      | Unobservable Input           | Range as of (1)                 |  |                  |           |         |                      |           |
|--|-----------------------------|----------------------|------------------------------|---------------------------------|--|------------------|-----------|---------|----------------------|-----------|
|  | September 30, 2015          | Technique            |                              | September 30, 2015              | December 31, 2014                                      |                  |           |         |                      |           |
| Loans held-for-sale, fair value option | \$ 423,630                  | Discounted cash flow | Yield (b)                    | 4.3% - 4.9%                     | 4.2% - 4.9%  |                  |           |         |                      |           |
|  |                             |                      |                              | Duration (c)                    | 5.0 - 10.0 years                                       | 5.0 - 10.0 years |           |         |                      |           |
|  |                             |                      |                              |                                 | 2.6% - 14.7%   | 1.2% - 15.9%     |           |         |                      |           |
| RMBS                                   | 184,785                     | Discounted cash flow | Constant prepayment rate (a) | 0.9% - 9.1%                     | 1.1% - 8.9%  |                  |           |         |                      |           |
|  |                             |                      |                              | Constant default rate (b)       | 9% - 79%   | 15% - 80%        |           |         |                      |           |
|  |                             |                      | Loss severity (b)            |                                 | (e)  | 80% (e)          |           |         |                      |           |
|  |                             |                      | Delinquency rate (c)         |                                 | 2% - 29%   | 2% - 43%         |           |         |                      |           |
|  |                             |                      | Servicer advances (a)        | Annual coupon deterioration (b) | Putback amount per projected total collateral loss (d) | 28% - 92%        | 14% - 75% |         |                      |           |
|  |                             |                      |                              |                                 |  | 0% - 0.5%        | 0% - 0.6% |         |                      |           |
|  |                             |                      |                              |                                 |  | 0% - 11%         | 0% - 11%  |         |                      |           |
|  |                             |                      |                              |                                 |  | Yield (b)        | CMBS      | 222,360 | Discounted cash flow | Yield (b) |
|  |                             |                      |                              |                                 |  |                  |           |         |                      |           |

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|                           |            |                      |                       |                |                |
|---------------------------|------------|----------------------|-----------------------|----------------|----------------|
|                           |            |                      |                       | 0% - 779.7%    | 0% - 421.4%    |
|                           |            |                      | Duration (c)          | 0 - 13.2 years | 0 - 11.8 years |
| Domestic servicing rights | 123,892    | Discounted cash flow | Debt yield (a)        | 8.25%          | 8.25%          |
|                           |            |                      | Discount rate (b)     | 15%            | 15%            |
|                           |            |                      | Control migration (b) | 0% - 80%       | 0% - 80%       |
| VIE assets                | 82,937,617 | Discounted cash flow | Yield (b)             | 907.4%         | 925.0%         |
|                           |            |                      | Duration (c)          | 0 - 18.6 years | 0 - 21.0 years |
| VIE liabilities           | 3,003,577  | Discounted cash flow | Yield (b)             | 907.4%         | 925.0%         |
|                           |            |                      | Duration (c)          | 0 - 18.6 years | 0 - 21.0 years |

(1) The ranges of significant unobservable inputs are represented in percentages and years.

Sensitivity of the Fair Value to Changes in the Unobservable Inputs

- (a) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.
- (b) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.
- (c) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (lower or higher) fair value measurement depending on the structural features of the security in question.
- (d) Any delay in the putback recovery date leads to a decrease in fair value, for the majority of securities in our RMBS portfolio.
- (e) 75% and 85% of the portfolio falls within a range of 45%-80% as of September 30, 2015 and December 31, 2014, respectively.



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## 20. Income Taxes

Certain of our subsidiaries have elected to be treated as taxable REIT subsidiaries (“TRSs”). TRSs permit us to participate in certain activities from which REITs are generally precluded, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Code, and are conducted in entities which elect to be treated as taxable subsidiaries under the Code. To the extent these criteria are met, we will continue to maintain our qualification as a REIT.

Our TRSs engage in various real estate related operations, including special servicing of commercial real estate, originating and securitizing commercial mortgage loans, and investing in entities which engage in real estate related operations. The majority of our TRSs are held within the Investing and Servicing Segment. As of September 30, 2015 and December 31, 2014, approximately \$1.1 billion and \$1.0 billion, respectively, of the Investing and Servicing Segment’s assets were owned by TRS entities, including \$129.6 million and \$88.6 million in cash, respectively. Our TRSs are not consolidated for federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

Our income tax provision consisted of the following for the three and nine months ended September 30, 2015 and 2014 (amounts in thousands):

|                            | For the Three Months<br>Ended<br>September 30, |           | For the Nine Months<br>Ended<br>September 30, |           |
|----------------------------|--|-----------|---|-----------|
|                            | 2015   | 2014      | 2015  | 2014      |
| Current                    |  |           |   |           |
| Federal                    | \$ 6,074                                       | \$ 10,044 | \$ 21,825                                     | \$ 20,668 |
| Foreign                    | 1,718  | 905       | 3,996   | 4,136     |
| State                      | 1,009  | 2,041     | 3,634   | 3,840     |
| Total current              | 8,801  | 12,990    | 29,455  | 28,644    |
| Deferred                   |  |           |   |           |
| Federal                    | (689)  | (7,390)   | (74)  | (10,438)  |
| Foreign                    | (322)  | (539)     | (1,945)                                       | (2,737)   |
| State                      | (115)  | (1,225)   | (18)  | (1,736)   |
| Total deferred             | (1,126)  | (9,154)   | (2,037)                                       | (14,911)  |
| Total income tax provision | \$ 7,675                                       | \$ 3,836  | \$ 27,418                                     | \$ 13,733 |

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are presented net by tax jurisdiction and are reported in other assets and other liabilities, respectively. At September 30, 2015 and December 31, 2014, our U.S. tax jurisdiction was in a net deferred tax asset position, while our European tax jurisdiction was in a net deferred tax liability position. The following table presents each of these tax jurisdictions and the tax effects of temporary differences on their respective net deferred tax assets and liabilities (amounts in thousands):

|  | September<br>30, 2015 | December<br>31, 2014 |
|--|-----------------------|----------------------|
| U.S.   |                       |                      |
| Deferred tax asset, net                      |                       |                      |
| Reserves and accruals                        | \$ 12,790             | \$ 13,818            |
| Domestic intangible assets                   | 12,292                | 9,617                |
| Investment securities and loans              | (2,482)               | (2,327)              |
| Investment in unconsolidated entities        | (412)                 | 883                  |
| Deferred income                              | 432                   | 427                  |
| Net operating and capital loss carryforwards | 5,173                 | 2,498                |
| Valuation allowance                          | (5,173)               | (2,498)              |
| Other U.S. temporary differences             | 405                   | 515                  |
|  | 23,025                | 22,933               |
| Europe                                       |                       |                      |
| Deferred tax liability, net                  |                       |                      |
| European servicing rights                    | (845)                 | (2,681)              |
| Net operating and capital loss carryforwards | 8,149                 | 8,702                |
| Valuation allowance                          | (8,149)               | (8,702)              |
| Other European temporary differences         | (131)                 | (337)                |
|  | (976)                 | (3,018)              |
| Net deferred tax assets                      | \$ 22,049             | \$ 19,915            |

Unrecognized tax benefits were not material as of and during the three and nine months ended September 30, 2015.

The following table is a reconciliation of our federal income tax determined using our statutory federal tax rate to our reported income tax provision for the three and nine months ended September 30, 2015 and 2014 (dollar amounts in thousands):

|                            | For the Three Months Ended September<br>30, |        |           |        | For the Nine Months Ended September<br>30, |        |            |        |
|----------------------------|---|--------|-----------|--------|--|--------|------------|--------|
|                            | 2015  |        | 2014      |        | 2015                                       |        | 2014       |        |
| Federal statutory tax rate | \$ 43,677                                   | 35.0 % | \$ 59,929 | 35.0 % | \$ 134,034                                 | 35.0 % | \$ 147,836 | 35.0 % |

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|   |          |          |          |          |           |          |           |          |
|---|----------|----------|----------|----------|-----------|----------|-----------|----------|
| REIT and other<br>non-taxable income      | (36,250) | (29.0) % | (52,979) | (30.9) % | (111,732) | (29.1) % | (133,483) | (31.6) % |
| State income taxes                        | 937      | 0.8 %    | 930      | 0.5 %    | 3,117     | 0.8 %    | 1,953     | 0.5 %    |
| Federal benefit of state<br>tax deduction | (328)    | (0.3) %  | (326)    | (0.2) %  | (1,091)   | (0.3) %  | (683)     | (0.2) %  |
| Valuation allowance                       | (221)    | (0.2) %  | 712      | 0.4 %    | 2,652     | 0.7 %    | 1,160     | 0.3 %    |
| Other                                     | (140)    | (0.1) %  | (4,430)  | (2.6) %  | 438       | 0.1 %    | (3,050)   | (0.7) %  |
| Effective tax rate                        | \$ 7,675 | 6.2 %    | \$ 3,836 | 2.2 %    | \$ 27,418 | 7.2 %    | \$ 13,733 | 3.3 %    |

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21. Commitments and Contingencies

As of September 30, 2015, we had future funding commitments on 55 loans totaling \$1.7 billion, of which we expect to fund \$1.5 billion. 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 debt service coverage ratios or executions of new leases before advances are made to the borrower.

In the ordinary course of business, we may provide various forms of guarantees. In limited instances, specifically involving construction loans, the Company has guaranteed the future funding obligations of certain third party lenders in the event that such third parties fail to fund their proportionate share of the obligation in a timely manner. We are currently unaware of any circumstances which would require us to make payments under any of these guarantees.

Management is not aware of any other contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business that would have a material adverse effect on our condensed consolidated financial statements.

22. Segment Data

In its operation of the business, management, including our chief operating decision maker, who is our Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis prior to the impact of consolidating VIEs under ASC 810. The segment information within this note is reported on that basis. Effective January 1, 2015, we established a separate presentation for corporate overhead, which includes our corporate debt facilities and the associated expenses, management fee expenses and general and administrative expenses not directly allocable to our segments. Also effective January 1, 2015, we transferred a performing loan with a balance of \$25.0 million as of December 31, 2014 from our Investing and Servicing Segment to our Lending Segment. Effective upon our Ireland Portfolio acquisition discussed in Note 3, we established a third business segment, the Property Segment, and transferred our existing equity method investment in four regional shopping malls (the "Retail Fund") from our Lending Segment to our Property Segment. As of December 31, 2014, the carrying value of the Retail Fund was \$129.5 million. We have retrospectively reclassified prior periods to conform to these changes in presentation.

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The table below presents our results of operations for the three months ended September 30, 2015 by business segment (amounts in thousands):

|   | Lending Segment | Investing and Servicing Segment | Property Segment | Corporate | Subtotal   | Investing and Servicing VIEs | Total      |
|---|-----------------|---------------------------------|------------------|-----------|------------|------------------------------|------------|
| Revenues:   |                 |                                 |                  |           |            |                              |            |
| Interest income from loans  | \$ 116,049      | \$ 4,549                        | \$ —             | \$ —      | \$ 120,598 | \$ —                         | \$ 120,598 |
| Interest income from investment securities                                    | 18,137          | 40,615                          | —                | —         | 58,752     | (34,078)                     | 24,674     |
| Servicing fees  | 114             | 61,394                          | —                | —         | 61,508     | (28,980)                     | 32,528     |
| Rental income   | —               | 2,758                           | 7,287            | —         | 10,045     | —                            | 10,045     |
| Other revenues  | 154             | 4,372                           | —                | —         | 4,526      | (226)                        | 4,300      |
| Total revenues  | 134,454         | 113,688                         | 7,287            | —         | 255,429    | (63,284)                     | 192,145    |
| Costs and expenses:   |                 |                                 |                  |           |            |                              |            |
| Management fees   | 364             | 18                              | —                | 27,614    | 27,996     | 86                           | 28,082     |
| Interest expense  | 20,148          | 2,793                           | 1,713            | 26,034    | 50,688     | —                            | 50,688     |
| General and administrative  | 5,901           | 30,187                          | 226              | 2,201     | 38,515     | 178                          | 38,693     |
| Acquisition and investment pursuit costs                                      | 935             | 552                             | 2,233            | (38)      | 3,682      | —                            | 3,682      |
| Costs of rental operations  | —               | 1,562                           | 790              | —         | 2,352      | —                            | 2,352      |
| Depreciation and amortization   | —               | 2,492                           | 4,742            | —         | 7,234      | —                            | 7,234      |
| Loan loss allowance, net  | (2,667)         | —                               | —                | —         | (2,667)    | —                            | (2,667)    |
| Other expense   | —               | 3                               | —                | —         | 3          | —                            | 3          |
| Total costs and expenses  | 24,681          | 37,607                          | 9,704            | 55,811    | 127,803    | 264                          | 128,067    |
| Income (loss) before other income, income taxes and non-controlling interests | 109,773         | 76,081                          | (2,417)          | (55,811)  | 127,626    | (63,548)                     | 64,078     |
| Other income: Change in net assets related to consolidated                    | —               | —                               | —                | —         | —          | 49,665                       | 49,665     |

|   |            |           |          |             |            |        |            |
|---|------------|-----------|----------|-------------|------------|--------|------------|
| VIEs  |            |           |          |             |            |        |            |
| Change in fair value of servicing rights                        | —          | (13,331)  | —        | —           | (13,331)   | 9,114  | (4,217)    |
| Change in fair value of investment securities, net              | (518)      | (1,941)   | —        | —           | (2,459)    | 5,076  | 2,617      |
| Change in fair value of mortgage loans held-for-sale, net       | —          | 19,082    | —        | —           | 19,082     | —      | 19,082     |
| Earnings from unconsolidated entities                           | 818        | 2,652     | 2,436    | —           | 5,906      | (200)  | 5,706      |
| Gain on sale of investments and other assets, net               | 2,688      | 660       | —        | —           | 3,348      | —      | 3,348      |
| Gain (loss) on derivative financial instruments, net            | 10,693     | (9,582)   | 1,119    | —           | 2,230      | —      | 2,230      |
| Foreign currency (loss) gain, net                               | (18,705)   | 896       | 27       | —           | (17,782)   | —      | (17,782)   |
| Other income, net   | —          | 64        | —        | —           | 64         | —      | 64         |
| Total other (loss) income                                       | (5,024)    | (1,500)   | 3,582    | —           | (2,942)    | 63,655 | 60,713     |
| Income (loss) before income taxes                               | 104,749    | 74,581    | 1,165    | (55,811)    | 124,684    | 107    | 124,791    |
| Income tax provision  | (166)      | (7,509)   | —        | —           | (7,675)    | —      | (7,675)    |
| Net income (loss)   | 104,583    | 67,072    | 1,165    | (55,811)    | 117,009    | 107    | 117,116    |
| Net income attributable to non-controlling interests            | (350)      | 76        | —        | —           | (274)      | (107)  | (381)      |
| Net income (loss) attributable to Starwood Property Trust, Inc. | \$ 104,233 | \$ 67,148 | \$ 1,165 | \$ (55,811) | \$ 116,735 | \$ —   | \$ 116,735 |



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The table below presents our results of operations for the three months ended September 30, 2014 by business segment (amounts in thousands):

|   | Lending<br>Segment | Investing<br>and Servicing<br>Segment | Corporate | Subtotal   | Investing<br>and Servicing<br>VIEs | Total      |
|---|--------------------|---------------------------------------|-----------|------------|------------------------------------|------------|
| Revenues:   |                    |                                       |           |            |                                    |            |
| Interest income from loans  | \$ 106,369         | \$ 4,300                              | \$ —      | \$ 110,669 | \$ —                               | \$ 110,669 |
| Interest income from investment securities                                    | 15,729             | 30,136                                | —         | 45,865     | (17,225)                           | 28,640     |
| Servicing fees  | 63                 | 58,826                                | —         | 58,889     | (24,248)                           | 34,641     |
| Rental income   | —                  | 3,385                                 | —         | 3,385      | —                                  | 3,385      |
| Other revenues  | 130                | 4,219                                 | —         | 4,349      | (316)                              | 4,033      |
| Total revenues  | 122,291            | 100,866                               | —         | 223,157    | (41,789)                           | 181,368    |
| Costs and expenses:   |                    |                                       |           |            |                                    |            |
| Management fees   | 470                | 18                                    | 24,413    | 24,901     | 42                                 | 24,943     |
| Interest expense  | 16,865             | 1,602                                 | 21,272    | 39,739     | —                                  | 39,739     |
| General and administrative  | 8,362              | 37,723                                | 1,378     | 47,463     | 177                                | 47,640     |
| Acquisition and investment pursuit costs                                      | 583                | 176                                   | —         | 759        | —                                  | 759        |
| Costs of rental operations  | —                  | 1,783                                 | —         | 1,783      | —                                  | 1,783      |
| Depreciation and amortization   | —                  | 3,017                                 | —         | 3,017      | —                                  | 3,017      |
| Loan loss allowance, net  | 1,575              | —                                     | —         | 1,575      | —                                  | 1,575      |
| Other expense   | —                  | 918                                   | —         | 918        | —                                  | 918        |
| Total costs and expenses  | 27,855             | 45,237                                | 47,063    | 120,155    | 219                                | 120,374    |
| Income (loss) before other income, income taxes and non-controlling interests | 94,436             | 55,629                                | (47,063)  | 103,002    | (42,008)                           | 60,994     |
| Other income:   |                    |                                       |           |            |                                    |            |
| Change in net assets related to consolidated VIEs                             | —                  | —                                     | —         | —          | 87,778                             | 87,778     |
| Change in fair value of servicing rights                                      | —                  | (18,312)                              | —         | (18,312)   | 10,415                             | (7,897)    |
| Change in fair value of investment securities, net                            | (140)              | 52,067                                | —         | 51,927     | (50,067)                           | 1,860      |
| Change in fair value of mortgage loans held-for-sale, net                     | —                  | 15,517                                | —         | 15,517     | —                                  | 15,517     |
| Earnings from unconsolidated entities   | 1,875              | 5,905                                 | —         | 7,780      | (3,975)                            | 3,805      |
|   | 1,332              | —                                     | —         | 1,332      | —                                  | 1,332      |



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|   |            |            |             |            |         |            |
|---|------------|------------|-------------|------------|---------|------------|
| Gain on sale of investments, net                                |            |            |             |            |         |            |
| Gain on derivative financial instruments, net                   | 26,540     | 2,735      | —           | 29,275     | —       | 29,275     |
| Foreign currency loss, net                                      | (21,019)   | (447)      | —           | (21,466)   | —       | (21,466)   |
| Other income, net   | —          | 28         | —           | 28         | —       | 28         |
| Total other income  | 8,588      | 57,493     | —           | 66,081     | 44,151  | 110,232    |
| Income (loss) before income taxes                               | 103,024    | 113,122    | (47,063)    | 169,083    | 2,143   | 171,226    |
| Income tax benefit (provision)                                  | 233        | (4,069)    | —           | (3,836)    | —       | (3,836)    |
| Net income (loss)   | 103,257    | 109,053    | (47,063)    | 165,247    | 2,143   | 167,390    |
| Net income attributable to non-controlling interests            | (203)      | —          | —           | (203)      | (2,143) | (2,346)    |
| Net income (loss) attributable to Starwood Property Trust, Inc. | \$ 103,054 | \$ 109,053 | \$ (47,063) | \$ 165,044 | \$ —    | \$ 165,044 |

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The table below presents our results of operations for the nine months ended September 30, 2015 by business segment (amounts in thousands):

|   | Lending Segment | Investing and Servicing Segment | Property Segment | Corporate      | Subtotal       | Investing and Servicing VIEs | Total          |
|---|-----------------|---------------------------------|------------------|----------------|----------------|------------------------------|----------------|
| <b>Revenues:</b>  |                 |                                 |                  |                |                |                              |                |
| Interest income from loans  | \$ 343,449      | \$ 13,870                       | \$ —             | \$ —           | \$ 357,319     | \$ —                         | \$ 357,319     |
| Interest income from investment securities                                    | 57,483          | 112,583                         | —                | —              | 170,066        | (93,838)                     | 76,228         |
| Servicing fees  | 296             | 166,691                         | —                | —              | 166,987        | (76,048)                     | 90,939         |
| Rental income   | —               | 6,908                           | 10,823           | —              | 17,731         | —                            | 17,731         |
| Other revenues  | 567             | 7,603                           | —                | —              | 8,170          | (733)                        | 7,437          |
| <b>Total revenues</b>   | <b>401,795</b>  | <b>307,655</b>                  | <b>10,823</b>    | <b>—</b>       | <b>720,273</b> | <b>(170,619)</b>             | <b>549,654</b> |
| <b>Costs and expenses:</b>  |                 |                                 |                  |                |                |                              |                |
| Management fees   | 1,119           | 54                              | —                | 81,511         | 82,684         | 187                          | 82,871         |
| Interest expense  | 61,868          | 7,663                           | 2,590            | 78,900         | 151,021        | —                            | 151,021        |
| General and administrative  | 16,842          | 92,002                          | 402              | 5,573          | 114,819        | 542                          | 115,361        |
| Acquisition and investment pursuit costs                                      | 1,932           | 1,270                           | 6,495            | 38             | 9,735          | —                            | 9,735          |
| Costs of rental operations  | —               | 4,138                           | 1,123            | —              | 5,261          | —                            | 5,261          |
| Depreciation and amortization   | —               | 10,790                          | 6,357            | —              | 17,147         | —                            | 17,147         |
| Loan loss allowance, net  | 311             | —                               | —                | —              | 311            | —                            | 311            |
| Other expense   | —               | 378                             | —                | —              | 378            | —                            | 378            |
| <b>Total costs and expenses</b>   | <b>82,072</b>   | <b>116,295</b>                  | <b>16,967</b>    | <b>166,022</b> | <b>381,356</b> | <b>729</b>                   | <b>382,085</b> |
| Income (loss) before other income, income taxes and non-controlling interests | 319,723         | 191,360                         | (6,144)          | (166,022)      | 338,917        | (171,348)                    | 167,569        |
| Other income: Change in net assets related to                                 | —               | —                               | —                | —              | —              | 153,399                      | 153,399        |

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|  |            |            |          |              |            |         |            |
|--|------------|------------|----------|--------------|------------|---------|------------|
| consolidated<br>VIEs   |            |            |          |              |            |         |            |
| Change in fair<br>value of<br>servicing rights                                 | —          | (26,587)   | —        | —            | (26,587)   | 18,176  | (8,411)    |
| Change in fair<br>value of<br>investment<br>securities, net                    | (347)      | 3,181      | —        | —            | 2,834      | 730     | 3,564      |
| Change in fair<br>value of<br>mortgage loans<br>held-for-sale,<br>net          | —          | 51,044     | —        | —            | 51,044     | —       | 51,044     |
| Earnings from<br>unconsolidated<br>entities                                    | 3,034      | 10,704     | 7,631    | —            | 21,369     | (622)   | 20,747     |
| Gain on sale of<br>investments and<br>other assets, net                        | 2,995      | 17,760     | —        | —            | 20,755     | —       | 20,755     |
| Gain (loss) on<br>derivative<br>financial<br>instruments, net                  | 19,602     | (13,315)   | 1,036    | —            | 7,323      | —       | 7,323      |
| Foreign<br>currency (loss)<br>gain, net  | (26,860)   | (395)      | 20       | —            | (27,235)   | —       | (27,235)   |
| Loss on<br>extinguishment<br>of debt   | —          | —          | —        | (5,921)      | (5,921)    | —       | (5,921)    |
| Other income,<br>net   | —          | 105        | —        | 14           | 119        | —       | 119        |
| Total other<br>(loss) income   | (1,576)    | 42,497     | 8,687    | (5,907)      | 43,701     | 171,683 | 215,384    |
| Income (loss)<br>before income<br>taxes  | 318,147    | 233,857    | 2,543    | (171,929)    | 382,618    | 335     | 382,953    |
| Income tax<br>provision  | (136)      | (27,282)   | —        | —            | (27,418)   | —       | (27,418)   |
| Net income<br>(loss)   | 318,011    | 206,575    | 2,543    | (171,929)    | 355,200    | 335     | 355,535    |
| Net income<br>attributable to<br>non-controlling<br>interests                  | (1,030)    | 76         | —        | —            | (954)      | (335)   | (1,289)    |
| Net income<br>(loss)<br>attributable to<br>Starwood<br>Property<br>Trust, Inc. | \$ 316,981 | \$ 206,651 | \$ 2,543 | \$ (171,929) | \$ 354,246 | \$ —    | \$ 354,246 |



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The table below presents our results of operations for the nine months ended September 30, 2014 by business segment (amounts in thousands):

|   | Lending<br>Segment | Investing<br>and Servicing<br>Segment | Corporate | Single<br>Family<br>Residential | Subtotal   | Investing<br>and Servicing<br>VIEs | Total      |
|---|--------------------|---------------------------------------|-----------|---------------------------------|------------|------------------------------------|------------|
| Revenues:   |                    |                                       |           |                                 |            |                                    |            |
| Interest income from loans  | \$ 311,348         | \$ 9,686                              | \$ —      | \$ —                            | \$ 321,034 | \$ —                               | \$ 321,034 |
| Interest income from investment securities                                    | 49,196             | 83,225                                | —         | —                               | 132,421    | (46,707)                           | 85,714     |
| Servicing fees  | 253                | 172,845                               | —         | —                               | 173,098    | (71,565)                           | 101,533    |
| Rental income   | —                  | 6,520                                 | —         | —                               | 6,520      | —                                  | 6,520      |
| Other revenues  | 318                | 9,917                                 | —         | —                               | 10,235     | (939)                              | 9,296      |
| Total revenues  | 361,115            | 282,193                               | —         | —                               | 643,308    | (119,211)                          | 524,097    |
| Costs and expenses:   |                    |                                       |           |                                 |            |                                    |            |
| Management fees   | 1,653              | 54                                    | 76,022    | —                               | 77,729     | 120                                | 77,849     |
| Interest expense  | 48,310             | 3,529                                 | 63,426    | —                               | 115,265    | —                                  | 115,265    |
| General and administrative  | 18,974             | 112,049                               | 5,268     | —                               | 136,291    | 544                                | 136,835    |
| Acquisition and investment pursuit costs                                      | 1,303              | 606                                   | 15        | —                               | 1,924      | —                                  | 1,924      |
| Costs of rental operations  | —                  | 3,889                                 | —         | —                               | 3,889      | —                                  | 3,889      |
| Depreciation and amortization   | —                  | 12,807                                | —         | —                               | 12,807     | —                                  | 12,807     |
| Loan loss allowance, net  | 1,933              | —                                     | —         | —                               | 1,933      | —                                  | 1,933      |
| Other expense   | 52                 | 6,475                                 | —         | —                               | 6,527      | —                                  | 6,527      |
| Total costs and expenses  | 72,225             | 139,409                               | 144,731   | —                               | 356,365    | 664                                | 357,029    |
| Income (loss) before other income, income taxes and non-controlling interests | 288,890            | 142,784                               | (144,731) | —                               | 286,943    | (119,875)                          | 167,068    |
| Other income: Change in net assets related to                                 | —                  | —                                     | —         | —                               | —          | 190,810                            | 190,810    |

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|  |          |          |           |         |          |          |          |
|--|----------|----------|-----------|---------|----------|----------|----------|
| consolidated<br>VIEs   |          |          |           |         |          |          |          |
| Change in fair<br>value of<br>servicing rights                           | —        | (43,291) | —         | —       | (43,291) | 24,620   | (18,671) |
| Change in fair<br>value of<br>investment<br>securities, net              | 565      | 105,313  | —         | —       | 105,878  | (90,698) | 15,180   |
| Change in fair<br>value of<br>mortgage loans<br>held-for-sale,<br>net    | —        | 48,018   | —         | —       | 48,018   | —        | 48,018   |
| Earnings from<br>unconsolidated<br>entities                              | 6,847    | 9,741    | —         | —       | 16,588   | (3,156)  | 13,432   |
| Gain on sale of<br>investments, net                                      | 12,965   | —        | —         | —       | 12,965   | —        | 12,965   |
| Gain (loss) on<br>derivative<br>financial<br>instruments, net            | 16,142   | (4,523)  | —         | —       | 11,619   | —        | 11,619   |
| Foreign<br>currency loss,<br>net   | (15,376) | (836)    | —         | —       | (16,212) | —        | (16,212) |
| OTTI   | (214)    | (796)    | —         | —       | (1,010)  | —        | (1,010)  |
| Other income,<br>net   | 54       | 684      | —         | —       | 738      | —        | 738      |
| Total other<br>income  | 20,983   | 114,310  | —         | —       | 135,293  | 121,576  | 256,869  |
| Income (loss)<br>from continuing<br>operations<br>before income<br>taxes | 309,873  | 257,094  | (144,731) | —       | 422,236  | 1,701    | 423,937  |
| Income tax<br>provision  | (293)    | (13,440) | —         | —       | (13,733) | —        | (13,733) |
| Income (loss)<br>from continuing<br>operations                           | 309,580  | 243,654  | (144,731) | —       | 408,503  | 1,701    | 410,204  |
| Loss from<br>discontinued<br>operations, net<br>of tax                   | —        | —        | —         | (1,551) | (1,551)  | —        | (1,551)  |
| Net income<br>(loss)   | 309,580  | 243,654  | (144,731) | (1,551) | 406,952  | 1,701    | 408,653  |
| Net income<br>attributable to<br>non-controlling<br>interests            | (3,439)  | —        | —         | —       | (3,439)  | (1,701)  | (5,140)  |

Net income  
(loss)  
attributable to  
Starwood  
Property  
Trust, Inc.

|            |            |              |            |            |      |            |
|------------|------------|--------------|------------|------------|------|------------|
| \$ 306,141 | \$ 243,654 | \$ (144,731) | \$ (1,551) | \$ 403,513 | \$ — | \$ 403,513 |
|------------|------------|--------------|------------|------------|------|------------|

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The table below presents our condensed consolidated balance sheet as of September 30, 2015 by business segment (amounts in thousands):

|                                    | Lending Segment     | Investing and Servicing Segment | Property Segment  | Corporate         | Subtotal            | Investing and Servicing VIEs | Total                |
|------------------------------------|---------------------|---------------------------------|-------------------|-------------------|---------------------|------------------------------|----------------------|
| <b>Assets:</b>                     |                     |                                 |                   |                   |                     |                              |                      |
| Cash and cash equivalents          | \$ 112,635          | \$ 56,454                       | \$ —              | \$ 202,766        | \$ 371,855          | \$ 913                       | \$ 372,768           |
| Restricted cash                    | 15,352              | 23,978                          | 4,290             | —                 | 43,620              | —                            | 43,620               |
| Loans                              |                     |                                 |                   |                   |                     |                              |                      |
| Loans held-for-investment, net     | 5,814,886           | —                               | —                 | —                 | 5,814,886           | —                            | 5,814,886            |
| Loans held-for-sale                | 27,198              | 423,630                         | —                 | —                 | 450,828             | —                            | 450,828              |
| Loans transferred as               |                     |                                 |                   |                   |                     |                              |                      |
| Secured borrowings                 | 142,456             | —                               | —                 | —                 | 142,456             | —                            | 142,456              |
| Investment securities              | 564,101             | 927,315                         | —                 | —                 | 1,491,416           | (704,955)                    | 786,461              |
| Properties, net                    | —                   | 84,558                          | 445,880           | —                 | 530,438             | —                            | 530,438              |
| Intangible assets                  | —                   | 162,343                         | 56,616            | —                 | 218,959             | (27,879)                     | 191,080              |
| Investment in                      |                     |                                 |                   |                   |                     |                              |                      |
| consolidated entities              | 30,155              | 54,627                          | 121,733           | —                 | 206,515             | (7,344)                      | 199,171              |
| Goodwill                           | —                   | 140,437                         | —                 | —                 | 140,437             | —                            | 140,437              |
| Derivative assets                  | 26,102              | 4,389                           | 5,816             | —                 | 36,307              | —                            | 36,307               |
| Accrued interest                   |                     |                                 |                   |                   |                     |                              |                      |
| Receivable                         | 35,214              | 828                             | —                 | —                 | 36,042              | —                            | 36,042               |
| Other assets                       | 21,722              | 64,086                          | 40,604            | 12,784            | 139,196             | (1,900)                      | 137,296              |
| Other assets, at fair value        | —                   | —                               | —                 | —                 | —                   | 82,937,617                   | 82,937,617           |
| <b>Total Assets</b>                | <b>\$ 6,789,821</b> | <b>\$ 1,942,645</b>             | <b>\$ 674,939</b> | <b>\$ 215,550</b> | <b>\$ 9,622,955</b> | <b>\$ 82,196,452</b>         | <b>\$ 91,819,402</b> |
| <b>Liabilities and Equity</b>      |                     |                                 |                   |                   |                     |                              |                      |
| <b>Liabilities:</b>                |                     |                                 |                   |                   |                     |                              |                      |
| Accounts payable, accrued expenses |                     |                                 |                   |                   |                     |                              |                      |
| and other liabilities              | \$ 17,143           | \$ 85,208                       | \$ 10,344         | \$ 24,431         | \$ 137,126          | \$ 660                       | \$ 137,786           |
| Related-party payable              | —                   | 120                             | —                 | 22,684            | 22,804              | —                            | 22,804               |
| Dividends payable                  | —                   | —                               | —                 | 115,191           | 115,191             | —                            | 115,191              |
| Derivative liabilities             | 8,387               | 6,359                           | 155               | —                 | 14,901              | —                            | 14,901               |
| Secured financing                  |                     |                                 |                   |                   |                     |                              |                      |
| commitments, net                   | 2,209,851           | 485,662                         | 328,602           | 658,159           | 3,682,274           | —                            | 3,682,274            |
| Convertible senior notes,          |                     |                                 |                   |                   |                     |                              |                      |
| and other                          | —                   | —                               | —                 | 1,320,207         | 1,320,207           | —                            | 1,320,207            |
| Secured borrowings on              |                     |                                 |                   |                   |                     |                              |                      |
| transferred loans                  | 143,926             | —                               | —                 | —                 | 143,926             | —                            | 143,926              |
| Other liabilities, at fair value   | —                   | —                               | —                 | —                 | —                   | 82,181,138                   | 82,181,138           |
| <b>Total Liabilities</b>           | <b>2,379,307</b>    | <b>577,349</b>                  | <b>339,101</b>    | <b>2,140,672</b>  | <b>5,436,429</b>    | <b>82,181,798</b>            | <b>87,618,250</b>    |
| <b>Equity:</b>                     |                     |                                 |                   |                   |                     |                              |                      |



|  |              |              |            |             |              |               |               |               |
|--|--------------|--------------|------------|-------------|--------------|---------------|---------------|---------------|
| Starwood Property Trust, Inc.                            |              |              |            |             |              |               |               |               |
| Stockholders' Equity:                                    |              |              |            |             |              |               |               |               |
| Common stock   | —            | —            | —          | 2,407       | 2,407        | —             | —             | 2,407         |
| Additional paid-in capital                               | 2,689,426    | 1,183,262    | 329,960    | (18,110)    | 4,184,538    | —             | —             | 4,184,538     |
| Treasury stock   | —            | —            | —          | (61,525)    | (61,525)     | —             | —             | (61,525)      |
| Accumulated other comprehensive income (loss)            | 40,830       | (2,478)      | 1,158      | —           | 39,510       | —             | —             | 39,510        |
| Retained earnings (accumulated deficit)                  | 1,668,561    | 180,456      | 4,720      | (1,847,894) | 5,843        | —             | —             | 5,843         |
| Total Starwood Property Trust, Inc. Stockholders' Equity | 4,398,817    | 1,361,240    | 335,838    | (1,925,122) | 4,170,773    | —             | —             | 4,170,773     |
| Non-controlling interests                                |              |              |            |             |              |               |               |               |
| Consolidated subsidiaries                                | 11,697       | 4,056        | —          | —           | 15,753       | 14,654        | 14,654        | 30,407        |
| Total Equity   | 4,410,514    | 1,365,296    | 335,838    | (1,925,122) | 4,186,526    | 14,654        | 14,654        | 4,201,180     |
| Total Liabilities and Equity                             | \$ 6,789,821 | \$ 1,942,645 | \$ 674,939 | \$ 215,550  | \$ 9,622,955 | \$ 82,196,452 | \$ 82,196,452 | \$ 91,819,405 |

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The table below presents our condensed consolidated balance sheet as of December 31, 2014 by business segment (amounts in thousands):

|                                    | Lending Segment | Investing and Servicing Segment | Property Segment | Corporate | Subtotal     | Investing and Servicing VIEs | Total          |
|------------------------------------|-----------------|---------------------------------|------------------|-----------|--------------|------------------------------|----------------|
| Assets:                            |                 |                                 |                  |           |              |                              |                |
| Cash and cash equivalents          | \$ 125,132      | \$ 85,252                       | \$ —             | \$ 44,017 | \$ 254,401   | \$ 786                       | \$ 255,187     |
| Restricted cash                    | 34,941          | 13,763                          | —                | —         | 48,704       | —                            | 48,704         |
| Investments                        |                 |                                 |                  |           |              |                              |                |
| Held-for-investment, net           | 5,771,307       | 7,931                           | —                | —         | 5,779,238    | —                            | 5,779,238      |
| Held-for-sale                      | —               | 391,620                         | —                | —         | 391,620      | —                            | 391,620        |
| Transferred as                     |                 |                                 |                  |           |              |                              |                |
| Secured borrowings                 | 129,427         | —                               | —                | —         | 129,427      | —                            | 129,427        |
| Investment securities              | 764,517         | 753,553                         | —                | —         | 1,518,070    | (519,822)                    | 998,248        |
| Real estate properties, net        | —               | 39,854                          | —                | —         | 39,854       | —                            | 39,854         |
| Intangible assets                  | —               | 190,207                         | —                | —         | 190,207      | (46,055)                     | 144,152        |
| Investment in                      |                 |                                 |                  |           |              |                              |                |
| Consolidated entities              | 22,537          | 48,693                          | 129,475          | —         | 200,705      | (6,722)                      | 193,983        |
| Goodwill                           | —               | 140,437                         | —                | —         | 140,437      | —                            | 140,437        |
| Intangible assets                  | 23,579          | 3,049                           | —                | —         | 26,628       | —                            | 26,628         |
| Secured                            |                 |                                 |                  |           |              |                              |                |
| Interest receivable                | 39,188          | 914                             | —                | —         | 40,102       | —                            | 40,102         |
| Other assets                       | 21,329          | 61,048                          | —                | 14,739    | 97,116       | (1,464)                      | 95,652         |
| Other assets, at fair value        | —               | —                               | —                | —         | —            | 107,816,065                  | 107,816,065    |
| Total Assets                       | \$ 6,931,957    | \$ 1,736,321                    | \$ 129,475       | \$ 58,756 | \$ 8,856,509 | \$ 107,242,788               | \$ 116,099,068 |
| Liabilities and Equity             |                 |                                 |                  |           |              |                              |                |
| Liabilities:                       |                 |                                 |                  |           |              |                              |                |
| Accounts payable, accrued expenses |                 |                                 |                  |           |              |                              |                |
| Other liabilities                  | \$ 23,015       | \$ 97,424                       | \$ —             | \$ 23,620 | \$ 144,059   | \$ 457                       | \$ 144,516     |
| Related-party payable              | —               | 4,405                           | —                | 36,346    | 40,751       | —                            | 40,751         |
| Dividends payable                  | —               | —                               | —                | 108,189   | 108,189      | —                            | 108,189        |
| Intangible liabilities             | 3,662           | 1,814                           | —                | —         | 5,476        | —                            | 5,476          |
| Secured financing                  |                 |                                 |                  |           |              |                              |                |
| Commitments, net                   | 2,252,493       | 222,363                         | —                | 662,933   | 3,137,789    | —                            | 3,137,789      |
| Convertible senior notes,          | —               | —                               | —                | 1,418,022 | 1,418,022    | —                            | 1,418,022      |
| Secured borrowings on              |                 |                                 |                  |           |              |                              |                |
| Transferred loans                  | 129,441         | —                               | —                | —         | 129,441      | —                            | 129,441        |
| Other liabilities, at fair value   | —               | —                               | —                | —         | —            | 107,232,201                  | 107,232,201    |
| Total Liabilities                  | 2,408,611       | 326,006                         | —                | 2,249,110 | 4,983,727    | 107,232,658                  | 112,216,391    |

|                                |              |              |            |             |              |                |                |                |
|--------------------------------|--------------|--------------|------------|-------------|--------------|----------------|----------------|----------------|
| ity:                           |              |              |            |             |              |                |                |                |
| Starwood Property              |              |              |            |             |              |                |                |                |
| Trust, Inc.                    |              |              |            |             |              |                |                |                |
| Stockholders' Equity:          |              |              |            |             |              |                |                |                |
| Common stock                   | —            | —            | —          | 2,248       | 2,248        | —              | —              | 2,248          |
| Additional paid-in capital     | 3,126,845    | 1,413,608    | 127,299    | (832,027)   | 3,835,725    | —              | —              | 3,835,725      |
| Treasury stock                 | —            | —            | —          | (23,635)    | (23,635)     | —              | —              | (23,635)       |
| Accumulated other              |              |              |            |             |              |                |                |                |
| comprehensive income           | 55,781       | 115          | —          | —           | 55,896       | —              | —              | 55,896         |
| Retained earnings              |              |              |            |             |              |                |                |                |
| (accumulated deficit)          | 1,328,794    | (3,408)      | 2,176      | (1,336,940) | (9,378)      | —              | —              | (9,378)        |
| Total Starwood Property        |              |              |            |             |              |                |                |                |
| Trust, Inc. Stockholders'      |              |              |            |             |              |                |                |                |
| Equity                         | 4,511,420    | 1,410,315    | 129,475    | (2,190,354) | 3,860,856    | —              | —              | 3,860,856      |
| Less: noncontrolling interests |              |              |            |             |              |                |                |                |
| Consolidated subsidiaries      | 11,926       | —            | —          | —           | 11,926       | 10,130         | 10,130         | 22,056         |
| Total Equity                   | 4,523,346    | 1,410,315    | 129,475    | (2,190,354) | 3,872,782    | 10,130         | 10,130         | 3,882,912      |
| Total Liabilities and          |              |              |            |             |              |                |                |                |
| Equity                         | \$ 6,931,957 | \$ 1,736,321 | \$ 129,475 | \$ 58,756   | \$ 8,856,509 | \$ 107,242,788 | \$ 107,242,788 | \$ 116,099,700 |

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23. Subsequent Events

Our significant events subsequent to September 30, 2015 were as follows:

Affordable Housing Property Acquisitions

On October 20, 2015, we acquired seven of the properties comprising the Affordable Housing Portfolio for \$143.2 million. These acquisitions were financed in part by newly established property specific debt facilities with an aggregate outstanding balance of \$101.0 million, a 10-year term and a fixed interest rate of 3.7%. The remaining 22 properties remain subject to customary closing conditions.

On October 26, 2015, we entered into an agreement to acquire a 450-unit affordable housing community in Tampa, Florida for \$29.1 million.

Secured Financing Agreements

In October 2015, we amended the Lender 2 Repo 1 facility to upsize available borrowings from \$325.0 million to \$500.0 million and extend the maturity from October 2018 to October 2020, assuming exercise of available extension options.

In October 2015, we exercised a one-year extension option on the Conduit Repo 2 facility extending the maturity from November 2015 to November 2016.

Dividend Declaration

On November 5, 2015, our board of directors declared a dividend of \$0.48 per share for the fourth quarter of 2015, which is payable on January 15, 2016 to common stockholders of record as of December 31, 2015.



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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the information included elsewhere in this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Form 10-K"). This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements. See "Special Note Regarding Forward-Looking Statements" at the beginning of this Quarterly Report on Form 10-Q.

Overview

Starwood Property Trust, Inc. ("STWD" together with its subsidiaries, "we" or the "Company") is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering ("IPO"). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities ("CMBS"), and other commercial real estate investments in both the U.S. and Europe. We refer to the following as our target assets: commercial real estate mortgage loans, preferred equity interests, CMBS and other commercial real estate-related debt investments.

Our target assets may also include residential mortgage-backed securities ("RMBS"), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have three reportable business segments as of September 30, 2015:

- Real estate lending (the "Lending Segment")—engages primarily in originating, acquiring, financing and managing commercial first mortgages, subordinated mortgages, mezzanine loans, preferred equity, CMBS, RMBS and other real estate and real estate-related debt investments in both the U.S. and Europe that are held-for-investment.
- Real estate investing and servicing (the "Investing and Servicing Segment")—includes (i) servicing businesses in both the U.S. and Europe that manage and work out problem assets, (ii) an investment business that selectively acquires and manages unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions, and (iv) an investment business that selectively acquires commercial real estate assets, including properties acquired from CMBS trusts. This segment excludes the consolidation of securitization variable interest entities ("VIEs").

- Real estate property (the “Property Segment”)— engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multi-family properties, that are held for investment.

Refer to Note 1 of our condensed consolidated financial statements included herein for further discussion of our business and organization.

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Developments during the Third Quarter of 2015

Affordable Housing Portfolio Acquisition

In August 2015, we entered into an agreement to acquire 29 affordable housing communities located throughout Florida (the “Affordable Housing Portfolio”) for an aggregate acquisition price of \$524.1 million. The acquisition will be fully funded with existing cash on hand and debt totaling \$362.8 million, including third party debt and the assumption of pre-existing federal, state and county sponsored financing.

The Affordable Housing Portfolio is comprised of 7,870 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas. The communities are 98% occupied. Due to the lack of supply and resulting high demand for affordable housing product generally, coupled with the fact that these properties represent some of the highest quality low income properties in the state, we expect occupancy levels in this portfolio to remain high.

The transaction is expected to close in phases, the first of which closed on October 20, 2015 and comprised seven properties with an aggregate acquisition price of \$143.2 million. The remaining properties are expected to close during the fourth quarter and are subject to customary closing conditions.

In October 2015, we entered into an agreement to acquire a 450-unit affordable housing community in Tampa, Florida for \$29.1 million. We also expect this transaction to close during the fourth quarter.

Other Developments

- Acquired a fully occupied, net leased office property located in Dublin, Ireland for approximately \$121.9 million. This property, with the 12 Ireland properties acquired during the second quarter of 2015, comprise the “Ireland Portfolio.”
- Admitted as a member of the Federal Home Loan Bank (“FHLB”) of Des Moines.
- The Lending Segment originated the following loans during the quarter:



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- \$156.2 million first mortgage and mezzanine loan for the acquisition and renovation of a 29-property, 1.6 million square foot portfolio of office buildings located in the Greater Philadelphia area, of which the Company funded \$133.4 million during the third quarter.
  
- \$86.5 million first mortgage and mezzanine loan for the acquisition and renovation of a 548-room hotel and 6-story parking garage located in Las Vegas, Nevada, which the Company fully funded at closing.
  
- \$67.2 million first mortgage and mezzanine loan for the refinancing of a 30-story office building and adjacent 12-story parking garage located in Miami, Florida, of which the Company funded \$63.0 million during the third quarter.
  - Funded \$132.7 million of previously originated loan commitments during the third quarter.
  
- Received proceeds of \$356.6 million and \$91.8 million from maturities and principal repayments on loans and available-for-sale CMBS, respectively, during the third quarter.
  
- Sold \$220.9 million of previously originated senior loans while retaining the subordinated loan.

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- Named special servicer on four new issue CMBS deals, two of which we acquired a portion of the B-pieces, with a total unpaid principal balance of \$4.2 billion.
- Purchased \$115.0 million of CMBS, including \$65.2 million in new issue B-pieces.
- Originated new conduit loans of \$535.6 million.
- Received proceeds of \$410.2 million from sales of conduit loans.
- Acquired \$32.5 million of commercial real estate from CMBS trusts.
- Repurchased 1,393,223 shares of common stock at a total cost of \$29.1 million.

Developments during the Second Quarter of 2015

- Acquired eleven office properties and one multi-family residential property within the Ireland Portfolio, all located in Dublin, Ireland. The aggregate purchase price for all twelve properties, which collectively comprise approximately 520,000 square feet, was \$106.7 million net of debt refinanced. We executed a €294.0 million, five year mortgage facility to finance the acquisition, of which €220.5 million was drawn down during the quarter.
- The Lending Segment originated or acquired the following loans during the quarter:
  - \$257.9 million first mortgage for the development of a 194-acre coastal residential community in Orange County, California, of which the Company funded \$76.3 million during the second quarter.
  - \$175.0 million first mortgage and mezzanine loan for the refinancing of a 1,054-room, five-property hotel portfolio located in California, of which the Company funded \$170.0 million during the second quarter.
  - \$83.5 million first mortgage and mezzanine loan for the refinancing and development of a 77-acre retail center located in Albuquerque, New Mexico, of which the Company funded \$33.7 million during the second quarter.
  - \$82.8 million first mortgage and mezzanine loan for the refinancing of a 270-unit luxury condominium tower located in Philadelphia, Pennsylvania, which the Company fully funded during the second quarter.

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Funded \$131.9 million of previously originated loan commitments during the second quarter.

- Received proceeds of \$373.5 million and \$228.9 million from maturities and principal repayments on loans and held-to-maturity investment securities, respectively, during the second quarter.
  - Sold \$293.2 million of loans and loan commitments during the second quarter.
- Named special servicer on one new issue CMBS deal with a total unpaid principal balance of \$1.1 billion.
- Purchased \$37.9 million of CMBS, including \$17.5 million in new issue B-pieces.
- Originated new conduit loans of \$476.7 million.
- Acquired \$33.4 million of commercial real estate from CMBS trusts.
- Received proceeds of \$551.6 million from sales of conduit loans.

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- Sold 13.8 million shares of common stock for gross proceeds of \$326.1 million.
- Repurchased 400,000 shares of common stock at a total cost of \$8.8 million.
- Repurchased \$14.5 million par value of our 2019 Notes for \$16.5 million, recognizing a loss on extinguishment of debt of \$0.6 million.

Developments during the First Quarter of 2015

- Entered into agreements to acquire the Ireland Portfolio.
- The Lending Segment originated or acquired the following loans during the quarter:
  - \$111.6 million first mortgage and mezzanine loan for the acquisition of a 129-acre office park in Boca Raton, Florida, of which the Company funded \$85.0 million during the first quarter.
  - \$105.6 million mezzanine loan secured by a 6,530-room, 24-property U.S. hotel portfolio.
  - \$73.3 million first mortgage and mezzanine loan for the acquisition of a 367-room full service hotel in New Orleans, Louisiana, of which the Company funded \$64.6 million during the first quarter.
  - \$61.6 million first mortgage and mezzanine loan for the acquisition of a 499-room full service hotel in Indianapolis, Indiana, of which the Company funded \$55.0 million during the first quarter.
  - \$58.9 million first mortgage and mezzanine loan for the acquisition of an 11-building office portfolio in Sonoma County, California, of which the Company funded \$55.7 million during the first quarter.
    - Funded \$130.4 million of previously originated loan commitments during the first quarter.
    - Sold \$85.5 million of loans and loan commitments during the first quarter.
  - Sold a commercial real estate asset from our Investing and Servicing Segment for a gain of \$17.1 million.

- Named special servicer on three new issue CMBS deals with total unpaid principal balances of \$3.0 billion.
- Purchased \$60.3 million of CMBS, including \$47.5 million in new issue B-pieces.
- Originated new conduit loans of \$413.2 million.
- Received proceeds of \$482.0 million from sales of conduit loans.
- Executed a \$150.0 million repurchase facility with an existing lender to fund the origination of commercial mortgage loans for future securitization through the Investing and Servicing Segment's conduit platform. The facility carries a three year initial term with a one year extension option and an annual interest rate of LIBOR +2.10%.
- Executed a repurchase facility with a new lender to finance certain CMBS holdings. There is no maximum facility size specified under the facility as the lender will evaluate all eligible collateral on an individual basis. The facility carries a rolling twelve month term which may reset monthly with the lender's consent and an annual interest rate of LIBOR +1.40% to LIBOR +1.85% depending on the CMBS collateral.
- Repurchased \$104.1 million par value of our 2019 Notes for \$119.9 million, recognizing a loss on extinguishment of debt of \$5.3 million.

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Subsequent Events

Refer to Note 23 of our condensed consolidated financial statements included herein for disclosure regarding significant transactions that occurred subsequent to September 30, 2015.

Results of Operations

The discussion below is based on accounting principles generally accepted in the United States of America (“GAAP”) and therefore reflects the elimination of certain key financial statement line items related to the consolidation of variable interest entities (“VIEs”), particularly within revenues and other income, as discussed in Note 2 to the condensed consolidated financial statements included herein. For a discussion of our results of operations excluding the impact of Accounting Standards Codification (“ASC”) Topic 810 as it relates to the consolidation of VIEs, refer to the Non-GAAP Financial Measures section herein.

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The following table compares our summarized results of operations for the three and nine months ended September 30, 2015 and 2014 by business segment (amounts in thousands):

|  | For the Three Months<br>Ended<br>September 30, |            |           | For the Nine Months Ended<br>September 30, |            |           |
|--|--|------------|-----------|--|------------|-----------|
|  | 2015   | 2014       | \$ Change | 2015                                       | 2014       | \$ Change |
| <b>Revenues:</b>   |  |            |           |  |            |           |
| Lending Segment  | \$ 134,454                                     | \$ 122,291 | \$ 12,163 | \$ 401,795                                 | \$ 361,115 | \$ 40,680 |
| Investing and Servicing<br>Segment   | 113,688  | 100,866    | 12,822    | 307,655                                    | 282,193    | 25,462    |
| Property Segment   | 7,287  | —          | 7,287     | 10,823                                     | —          | 10,823    |
| Investing and Servicing<br>VIEs  | (63,284)                                       | (41,789)   | (21,495)  | (170,619)                                  | (119,211)  | (51,408)  |
|  | 192,145  | 181,368    | 10,777    | 549,654                                    | 524,097    | 25,557    |
| <b>Costs and expenses (1):</b>   |  |            |           |  |            |           |
| Lending Segment  | 24,681   | 27,855     | (3,174)   | 82,072                                     | 72,225     | 9,847     |
| Investing and Servicing<br>Segment   | 37,607   | 45,237     | (7,630)   | 116,295                                    | 139,409    | (23,114)  |
| Property Segment   | 9,704  | —          | 9,704     | 16,967                                     | —          | 16,967    |
| Corporate  | 55,811   | 47,063     | 8,748     | 166,022                                    | 144,731    | 21,291    |
| Investing and Servicing<br>VIEs  | 264  | 219        | 45        | 729  | 664        | 65        |
|  | 128,067  | 120,374    | 7,693     | 382,085                                    | 357,029    | 25,056    |
| <b>Other income (expense):</b>   |  |            |           |  |            |           |
| Lending Segment  | (5,024)  | 8,588      | (13,612)  | (1,576)                                    | 20,983     | (22,559)  |
| Investing and Servicing<br>Segment   | (1,500)  | 57,493     | (58,993)  | 42,497                                     | 114,310    | (71,813)  |
| Property Segment   | 3,582  | —          | 3,582     | 8,687                                      | —          | 8,687     |
| Corporate  | —  | —          | —         | (5,907)                                    | —          | (5,907)   |
| Investing and Servicing<br>VIEs  | 63,655   | 44,151     | 19,504    | 171,683                                    | 121,576    | 50,107    |
|  | 60,713   | 110,232    | (49,519)  | 215,384                                    | 256,869    | (41,485)  |
| <b>Income (loss) from<br/>continuing operations<br/>before income taxes:</b> |  |            |           |  |            |           |
| Lending Segment  | 104,749  | 103,024    | 1,725     | 318,147                                    | 309,873    | 8,274     |
| Investing and Servicing<br>Segment   | 74,581   | 113,122    | (38,541)  | 233,857                                    | 257,094    | (23,237)  |
| Property Segment   | 1,165  | —          | 1,165     | 2,543                                      | —          | 2,543     |
| Corporate  | (55,811)                                       | (47,063)   | (8,748)   | (171,929)                                  | (144,731)  | (27,198)  |
| Investing and Servicing<br>VIEs  | 107  | 2,143      | (2,036)   | 335  | 1,701      | (1,366)   |
|  | 124,791  | 171,226    | (46,435)  | 382,953                                    | 423,937    | (40,984)  |
| Income tax provision   | (7,675)  | (3,836)    | (3,839)   | (27,418)                                   | (13,733)   | (13,685)  |
|  | —  | —          | —         | —  | (1,551)    | 1,551     |

|  |            |            |             |            |            |             |
|--|------------|------------|-------------|------------|------------|-------------|
| Loss from discontinued operations, net of tax            |            |            |             |            |            |             |
| Net income attributable to non-controlling interests     | (381)      | (2,346)    | 1,965       | (1,289)    | (5,140)    | 3,851       |
| Net income attributable to Starwood Property Trust, Inc. | \$ 116,735 | \$ 165,044 | \$ (48,309) | \$ 354,246 | \$ 403,513 | \$ (49,267) |

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(1) Allocations of certain prior period costs and expenses among segments have been reclassified to a newly-established separate presentation for corporate overhead to conform to our current period presentation of both GAAP and non-GAAP financial measures. Refer to Note 22 of our condensed consolidated financial statements included herein for further information.



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Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014

## Lending Segment

## Revenues

For the three months ended September 30, 2015, revenues of our Lending Segment increased \$12.2 million to \$134.5 million, compared to \$122.3 million for the three months ended September 30, 2014. This increase was primarily due to (i) a \$9.7 million increase in interest income from loans, which reflects a \$647.2 million net increase in loan investments of our Lending Segment between September 30, 2014 and 2015, mainly resulting from new loan originations exceeding maturities, and (ii) a \$2.4 million increase in interest income from investment securities principally due to CMBS.

## Costs and Expenses

For the three months ended September 30, 2015, costs and expenses of our Lending Segment decreased \$3.2 million to \$24.7 million, compared to \$27.9 million for the three months ended September 30, 2014. This decrease was primarily due to a \$4.2 million decrease in our loan loss allowance due to the repayment in full of certain loans risk rated in the 4 and 5 rating categories and a \$2.5 million decrease in general and administrative (“G&A”) expenses primarily due to lower incentive compensation and legal fees. These were both partially offset by a \$3.3 million increase in interest expense associated with the various secured financing facilities used to fund the growth of our investment portfolio. The outstanding balance under the secured financing facilities increased \$336.8 million between September 30, 2014 and 2015.

## Net Interest Income (amounts in thousands)

|  | For the Three Months<br>Ended<br>September 30, |            |          |
|--|--|------------|----------|
|  | 2015   | 2014       | Change   |
| Interest income from loans                 | \$ 116,049                                     | \$ 106,369 | \$ 9,680 |
| Interest income from investment securities | 18,137   | 15,729     | 2,408    |
| Interest expense                           | (20,148)                                       | (16,865)   | (3,283)  |
| Net interest income                        | \$ 114,038                                     | \$ 105,233 | \$ 8,805 |

For the three months ended September 30, 2015, net interest income of our Lending Segment increased \$8.8 million to \$114.0 million compared to \$105.2 million for the three months ended September 30, 2014. This increase primarily reflects a \$502.0 million net increase in investments of our Lending Segment between September 30, 2014 and 2015, which was financed in part by unallocated corporate-level debt.

During the three months ended September 30, 2015, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 8.0% and 10.7%, respectively. During the three months ended September 30, 2014, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 8.3% and 10.7%, respectively. The slight decrease in the weighted average unlevered yields is primarily due to a gradual tightening of interest rate spreads in credit markets over the last twelve months. Corresponding decreases in our borrowing rates resulted in the weighted average levered yields remaining unchanged.

During the three months ended September 30, 2015 and 2014, the Lending Segment's weighted average secured borrowing rates, inclusive of interest rate hedging costs and the amortization of deferred financing fees, were 3.3% and 3.5%, respectively. This decrease in borrowing rates primarily reflects lower interest rate spreads on both our new and amended debt facilities over the last twelve months.

#### Other Income (Loss)

For the three months ended September 30, 2015, other income (loss) of our Lending Segment decreased \$13.6 million to a loss of \$5.0 million, compared to income of \$8.6 million for the three months ended September 30, 2014. The decrease was primarily due to a lower gain of \$15.8 million on derivatives partially offset by a \$2.3 million decrease in

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foreign currency loss. The lower gain on derivatives reflects a \$10.3 million decrease in gain on foreign currency hedges and a \$5.5 million increased loss on interest rate swaps. The foreign currency hedges are used to fix the U.S. dollar amounts of cash flows (both interest and principal payments) we expect to receive from our foreign currency denominated loans and CMBS investments. The interest rate swaps are used primarily to fix our interest rate payments on variable rate borrowings. The decrease in gain on foreign currency hedges is greater than the offsetting decrease in foreign currency loss mainly because the portion of unrealized foreign currency loss associated with investment securities was reported in accumulated other comprehensive income (“AOCI”) rather than earnings, in accordance with GAAP, whereas the full change in fair value of the related currency hedge was reported in earnings since it was not a designated hedge.

## Investing and Servicing Segment and VIEs

### Revenues

For the three months ended September 30, 2015, revenues of our Investing and Servicing Segment decreased \$8.7 million to \$50.4 million after consolidated VIE eliminations of \$63.3 million, compared to \$59.1 million after consolidated VIE eliminations of \$41.8 million for the three months ended September 30, 2014. The VIE eliminations are merely a function of the number of CMBS trusts consolidated in any given period, and as such, are not a meaningful indicator of the operating results for this segment. The decrease in revenues in the third quarter of 2015 was primarily due to decreases of \$6.4 million in interest income from CMBS investments and \$2.2 million in servicing fees. The \$6.4 million decrease in CMBS interest income was due to a \$16.9 million increase in VIE eliminations related to the CMBS trusts we consolidate. Excluding the effect of these eliminations, CMBS interest income increased by \$10.5 million.

### Costs and Expenses

For the three months ended September 30, 2015, costs and expenses of our Investing and Servicing Segment decreased \$7.6 million to \$37.9 million, compared to \$45.5 million for the three months ended September 30, 2014. The VIE eliminations were nominal for both periods. The decrease in costs and expenses was primarily due to lower incentive compensation and legal fees.

### Other Income (Loss)

For the three months ended September 30, 2015, other income of our Investing and Servicing Segment decreased \$39.4 million to \$62.2 million including additive net VIE eliminations of \$63.7 million, from \$101.6 million including

additive net VIE eliminations of \$44.2 million for the three months ended September 30, 2014. The decrease in other income (loss) in the third quarter of 2015 compared to the third quarter of 2014 was primarily due to a lesser increase of \$38.1 million in the value of net assets related to consolidated VIEs. The change in net assets related to consolidated VIEs reflects amounts associated with the Investing and Servicing Segment's variable interests in CMBS trusts it consolidates, including special servicing fees, interest income, and changes in fair value of CMBS and servicing rights. As noted above, this number is merely a function of the number of CMBS trusts consolidated in any given period, and as such, is not a meaningful indicator of the operating results for this segment. Before VIE eliminations, there was a decrease in fair value of CMBS securities of \$1.9 million and an increase of \$52.1 million in the three months ended September 30, 2015 and 2014, respectively.

#### Income Tax Provision

Most of our consolidated income tax provision relates to the taxable nature of the Investing and Servicing Segment's loan servicing and loan conduit businesses which are housed in TRSs. Our tax provision for the three months ended September 30, 2015, as well as the overall effective tax rate, is higher than for the three months ended September 30, 2014 primarily due to an increase in our TRS income.

#### Property Segment

During the three months ended September 30, 2014, there was no activity in the Property Segment. Therefore a comparison of results of this segment for the three months ended September 30, 2014 to the three months ended September 30, 2015 is not meaningful.

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Revenues

For the three months ended September 30, 2015, revenues of our Property Segment consisted of \$7.3 million of rental income relating to our Ireland Portfolio.

Costs and Expenses

For the three months ended September 30, 2015, costs and expenses of our Property Segment of \$9.7 million consisted of \$2.2 million of acquisition and investment pursuit costs, of which \$1.5 million relate to the Affordable Housing Portfolio, and \$7.5 million of other rental related costs, including \$4.7 million of depreciation and amortization and \$1.7 million of interest expense on the secured financing for the Ireland Portfolio.

Other Income

For the three months ended September 30, 2015, other income of our Property Segment of \$3.6 million consisted primarily of \$2.4 million of equity in earnings from our investment in four regional shopping malls (the “Retail Fund”) which we acquired in the fourth quarter of 2014 and a \$2.2 million gain on foreign currency contracts that economically hedge our Euro currency exposure with respect to the Ireland Portfolio partially offset by a \$1.1 million loss on interest rate derivatives associated with the debt financing for the Ireland Portfolio.

Corporate

For the three months ended September 30, 2015, corporate expenses increased \$8.7 million to \$55.8 million, compared to \$47.1 million for the three months ended September 30, 2014. The increase was primarily due to a \$4.8 million increase in interest expense related to our October 2014 issuance of Convertible Notes due 2017 and a \$3.2 million increase in management fees. The increase in management fees reflects the impacts of (i) higher levels of invested capital which resulted in an increased base management fee, (ii) higher levels of Core Earnings (see “Non-GAAP Financial Measures” section below) which resulted in an increased incentive fee and (iii) higher manager stock compensation expense resulting from awards granted during the second quarter of 2015.

Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014

## Lending Segment

### Revenues

For the nine months ended September 30, 2015, revenues of our Lending Segment increased \$40.7 million to \$401.8 million, compared to \$361.1 million for the nine months ended September 30, 2014. This increase was primarily due to (i) a \$32.1 million increase in interest income from loans, which reflects a \$647.2 million net increase in loan investments of our Lending Segment between September 30, 2014 and 2015, mainly resulting from new loan originations exceeding maturities, and (ii) an \$8.3 million increase in interest income from investment securities.

### Costs and Expenses

For the nine months ended September 30, 2015, costs and expenses of our Lending Segment increased \$9.9 million to \$82.1 million, compared to \$72.2 million for the nine months ended September 30, 2014. The increase was primarily due to a \$13.6 million increase in interest expense associated with the various secured financing facilities used to fund the growth of our investment portfolio, partially offset by decreases of \$2.1 million in G&A expenses and \$1.6 million in our loan loss allowance. The outstanding balance under the secured financing facilities increased \$336.8 million between September 30, 2014 and 2015.

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## Net Interest Income (amounts in thousands)

|  | For the Nine Months |            |           |
|--|---------------------|------------|-----------|
|  | Ended               |            |           |
|  | September 30,       |            |           |
|  | 2015                | 2014       | Change    |
| Interest income from loans                 | \$ 343,449          | \$ 311,348 | \$ 32,101 |
| Interest income from investment securities | 57,483              | 49,196     | 8,287     |
| Interest expense                           | (61,868)            | (48,310)   | (13,558)  |
| Net interest income                        | \$ 339,064          | \$ 312,234 | \$ 26,830 |

For the nine months ended September 30, 2015, net interest income of our lending segment increased \$26.8 million to \$339.1 million compared to \$312.2 million for the nine months ended September 30, 2014. The increase primarily reflects a \$502.0 million net increase in investments of our Lending Segment between September 30, 2014 and 2015 which was financed in part by unallocated corporate-level debt.

During the nine months ended September 30, 2015, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 8.1% and 10.7%, respectively. During the nine months ended September 30, 2014, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 8.4% and 10.5%, respectively. The slight decrease in the weighted average unlevered yields is primarily due to a gradual tightening of interest rate spreads in credit markets over the last twelve months. Corresponding decreases in our borrowing rates and modest increases in leverage more than offset the impact of spread tightening, resulting in increased weighted average levered yields.

During the nine months ended September 30, 2015 and 2014, the Lending Segment's weighted average secured borrowing rates, inclusive of interest rate hedging costs and the amortization of deferred financing fees, were 3.4% and 3.7%, respectively. This decrease in borrowing rates reflects lower interest rate spreads on both our new and amended debt facilities over the last twelve months.

## Other Income (Loss)

For the nine months ended September 30, 2015, other income (loss) of our Lending Segment decreased \$22.6 million to a loss of \$1.6 million, from income of \$21.0 million for the nine months ended September 30, 2014. The decrease was primarily due to an \$11.5 million increase in foreign currency loss, a \$10.0 million decrease in gain on sale of investments due to higher sales activity, particularly of RMBS, in 2014 and a \$3.8 million decrease in equity in

earnings of unconsolidated entities. These decreases were partially offset by a \$3.5 million increased net gain on derivatives.

#### Investing and Servicing Segment and VIEs

##### Revenues

For the nine months ended September 30, 2015, revenues of our Investing and Servicing Segment decreased \$26.0 million to \$137.0 million after consolidated VIE eliminations of \$170.6 million, compared to \$163.0 million after consolidated VIE eliminations of \$119.2 million for the nine months ended September 30, 2014. The VIE eliminations are merely a function of the number of CMBS trusts consolidated in any given period, and as such, are not a meaningful indicator of the operating results for this segment. The decrease in revenues was due to decreases of \$17.8 million in interest income from CMBS investments, \$10.6 million in servicing fees and \$1.7 million in rental and other revenues, all partially offset by an increase of \$4.1 million in interest income from loans. The \$17.8 million decrease in CMBS interest income was due to a \$47.1 million increase in VIE eliminations related to the CMBS trusts we consolidate. Excluding the effect of these eliminations, CMBS interest income increased by \$29.3 million.



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### Costs and Expenses

For the nine months ended September 30, 2015, costs and expenses of our Investing and Servicing Segment decreased \$23.1 million to \$117.0 million, compared to \$140.1 million for the nine months ended September 30, 2014. The VIE eliminations were nominal for both periods. The decrease in costs and expenses was primarily due to (i) lower incentive and other compensation and (ii) accruals for contingencies and legal fees incurred in the 2014 period which did not recur in the 2015 period, partially offset by a \$4.1 million increase in interest expense related to higher balances under our conduit loan and CMBS financing facilities.

### Other Income

For the nine months ended September 30, 2015, other income of our Investing and Servicing Segment decreased \$21.7 million to \$214.2 million including additive net VIE eliminations of \$171.7 million, from \$235.9 million including additive net VIE eliminations of \$121.6 million for the nine months ended September 30, 2014. The decrease in other income was primarily due to a lesser increase of \$37.4 million in the value of net assets related to consolidated VIEs partially offset by a \$17.1 million gain on sale of a commercial real estate asset. The change in net assets related to consolidated VIEs reflects amounts associated with the Investing and Servicing Segment's variable interests in CMBS trusts it consolidates, including special servicing fees, interest income, and changes in fair value of CMBS and servicing rights. As noted above, this number is merely a function of the number of CMBS trusts consolidated in any given period, and as such, is not a meaningful indicator of the operating results for this segment. Before VIE eliminations, there were increases in fair value of CMBS securities of \$3.2 million and \$105.3 million in the nine months ended September 30, 2015 and 2014, respectively.

### Income Tax Provision

Most of our consolidated income tax provision relates to the taxable nature of the Investing and Servicing Segment's loan servicing and loan conduit businesses which are housed in TRSs. Our tax provision for the nine months ended September 30, 2015, as well as the overall effective tax rate, is higher than for the nine months ended September 30, 2014 primarily due to the taxable gain on sale of a commercial real estate asset and other increases in our TRS income.

### Property Segment

During the nine months ended September 30, 2014, there was no activity in the Property Segment. Therefore a comparison of results of this segment for the nine months ended September 30, 2014 to the nine months ended

September 30, 2015 is not meaningful.

#### Revenues

For the nine months ended September 30, 2015, revenues of our Property Segment consisted of \$10.8 million of rental income relating to our Ireland Portfolio.

#### Costs and Expenses

For the nine months ended September 30, 2015, costs and expenses of our Property Segment of \$17.0 million consisted of \$6.5 million of acquisition and investment pursuit costs, of which \$3.3 million and \$1.8 million relate to the acquisitions of the Ireland Portfolio and Affordable Housing Portfolio, respectively, and \$10.5 million of other rental related costs, including \$6.4 million of depreciation and amortization and \$2.6 million of interest expense on the secured financing for the Ireland Portfolio.

#### Other Income

For the nine months ended September 30, 2015, other income of our Property Segment of \$8.7 million consisted primarily of \$7.6 million of equity in earnings from the Retail Fund which we acquired in the fourth quarter of 2014 and

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a \$2.2 million gain on foreign currency contracts that economically hedge our Euro currency exposure with respect to the Ireland Portfolio, partially offset by a \$1.2 million loss on interest rate derivatives related to the debt financing for the Ireland Portfolio.

### Corporate

For the nine months ended September 30, 2015, corporate expenses increased \$21.3 million to \$166.0 million, compared to \$144.7 million for the nine months ended September 30, 2014. The increase was primarily due to a \$15.5 million increase in interest expense related to our October 2014 issuance of Convertible Notes due 2017 and a \$5.5 million increase in management fees. The increase in management fees reflects the impacts of (i) higher levels of invested capital which resulted in an increased base management fee, (ii) higher levels of Core Earnings (see “Non-GAAP Financial Measures” section below) which resulted in an increased incentive fee and (iii) higher manager stock compensation expense resulting from awards granted during the second quarter of 2015. Corporate other expense of \$5.9 million for the nine months ended September 30, 2015 represents a loss on the repurchase of \$118.6 million principal amount of our Convertible Notes due 2019.

### Non-GAAP Financial Measures

Core Earnings is a non-GAAP financial measure. We calculate Core Earnings as GAAP net income (loss) excluding non-cash equity compensation expense, the incentive fee due under our management agreement, depreciation and amortization of real estate, any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income. The amount is adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash adjustments as determined by our Manager and approved by a majority of our independent directors.

We believe that Core Earnings provides an additional measure of our core operating performance by eliminating the impact of certain non-cash expenses and facilitating a comparison of our financial results to those of other comparable REITs with fewer or no non-cash adjustments and comparison of our own operating results from period to period. Our management uses Core Earnings in this way, and also uses Core Earnings to compute the incentive fee due under our management agreement. The Company believes that its investors also use Core Earnings or a comparable supplemental performance measure to evaluate and compare the performance of the Company and its peers, and as such, the Company believes that the disclosure of Core Earnings is useful to (and expected by) its investors.

However, the Company cautions that Core Earnings does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with

GAAP), or an indication of our cash flows from operating activities (determined in accordance with GAAP), a measure of our liquidity, or an indication of funds available to fund our cash needs, including our ability to make cash distributions. In addition, 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 accordingly, our reported Core Earnings may not be comparable to the Core Earnings reported by other REITs.

In assessing the appropriate weighted average diluted share count to apply to Core Earnings for purposes of determining Core earnings per share (“EPS”), management considered the following attributes of our current GAAP diluted share methodology: (i) our participating securities were determined to be anti-dilutive and were thus excluded from the denominator of the EPS calculation; and (ii) the portion of the convertible notes that are “in-the-money” (referred to as the “conversion spread value”), representing the value that would be delivered to investors in shares upon an assumed conversion, is included in the denominator. Because compensation expense related to participating securities is added back for Core Earnings purposes pursuant to the definition above, there is no dilution to Core Earnings resulting from the associated expense recognition. As a result, for purposes of determining Core EPS, our GAAP EPS methodology was adjusted to include (instead of exclude) participating securities. Further, conversion of the convertible notes is an event that is contingent upon numerous factors, none of which are in our control, and is an event that may or may not occur. Consistent with the treatment of other unrealized adjustments to Core Earnings, our GAAP EPS methodology was adjusted to exclude (instead of include) the conversion spread value in determining Core EPS

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until a conversion actually occurs. We have adjusted prior periods to conform to the above definition. The following table presents our diluted weighted average shares used in our GAAP EPS calculation reconciled to our diluted weighted average shares used in our Core EPS calculation (amounts in thousands):

|  | For the Three<br>Months Ended<br>September 30, |         | For the Nine<br>Months Ended<br>September 30, |         |
|--|--|---------|---|---------|
|  | 2015   | 2014    | 2015  | 2014    |
| Diluted weighted average shares - GAAP | 237,925  | 223,543 | 232,323                                       | 213,379 |
| Add: Participating securities          | 2,500  | 2,577   | 2,271   | 2,776   |
| Less: Conversion spread value          | —  | (966)   | —   | (932)   |
| Diluted weighted average shares - Core | 240,425  | 225,154 | 234,594                                       | 215,223 |

The definition of Core Earnings allows management to make adjustments, subject to the approval of a majority of the independent directors, in situations where such adjustments are considered appropriate in order for Core Earnings to be calculated in a manner consistent with its definition and objective. We encountered this type of situation during the first quarter of 2015 when we incurred a loss on extinguishment of debt associated with our convertible notes. The definition of Core Earnings did not contemplate the treatment of a loss on extinguishment of debt, so we modified the definition during the first quarter of 2015 to incorporate this type of transaction.

For the nine months ended September 30, 2015, we repurchased \$118.6 million of our 2019 Notes for total consideration of \$136.3 million. We did not repurchase any 2019 Notes during the three months ended September 30, 2015. The resulting GAAP loss for the nine months ended September 30, 2015 of \$5.9 million reflects the difference between the book value of the liability component and the related allocable liability component of the repurchase price. The portion of the repurchase price attributable to the equity component during the nine months ended September 30, 2015 totaled \$17.7 million, of which \$3.8 million reflects a write-off of the unamortized conversion discount. For the nine months ended September 30, 2015, the \$3.8 million write-off is already included in the GAAP loss of \$5.9 million and as such, is already reflected in Core Earnings.

For the remaining \$13.9 million reduction to equity for the nine months ended September 30, 2015, we believe this amount is effectively a reduction of the \$20.4 million equity balance that was recognized upon issuance of the 2019 Notes. This portion will not be considered realized until the earlier of (i) the entire issuance of the 2019 Notes has been extinguished; or (2) the \$20.4 million has been fully amortized. As a result, for the nine months ended September 30, 2015, we reflected the \$13.9 million as accelerated amortization of our original \$20.4 million. If and when the original equity balance is fully amortized, the incremental equity component differential, if any, will be reflected as an adjustment to Core Earnings.

We also encountered this type of situation during the third quarter of 2015. Our continued expansion of the Property Segment has resulted in our incurring significant acquisition and pursuit costs. GAAP requires these costs to be

expensed as incurred, although they arguably benefit the asset over a longer period. The current definition of Core Earnings does not contemplate the treatment of property acquisition costs, so we modified the definition during the third quarter of 2015 to allow these costs to be capitalized and amortized over the property's estimated useful life. During the quarter ended September 30, 2015, we incurred costs of \$1.5 million related to successful acquisitions that were added back to Core Earnings pursuant to this modified definition.

The following table summarizes our quarterly Core Earnings per weighted average diluted share for the nine months ended September 30, 2015 and 2014:

|      | Core Earnings For the Three-Month Periods Ended |         |              |
|------|---|---------|--------------|
|      | March 31  | June 30 | September 30 |
| 2015 | \$ 0.55   | \$ 0.53 | \$ 0.56      |
| 2014 | 0.61  | 0.52    | 0.55         |

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Three Months Ended September 30, 2015 Compared to the Three Months Ended September 30, 2014

The following table presents our summarized results of operations and reconciliation to Core Earnings for the three months ended September 30, 2015, by business segment (amounts in thousands):

|   | Lending<br>Segment | Investing<br>and<br>Servicing<br>Segment | Property<br>Segment | Corporate   | Total      |
|---|--------------------|--|---------------------|-------------|------------|
| Revenues  | \$ 134,454         | \$ 113,688                               | \$ 7,287            | \$ —        | \$ 255,429 |
| Costs and expenses  | (24,681)           | (37,607)                                 | (9,704)             | (55,811)    | (127,803)  |
| Other (loss) income   | (5,024)            | (1,500)                                  | 3,582               | —           | (2,942)    |
| Income (loss) before income taxes                               | 104,749            | 74,581                                   | 1,165               | (55,811)    | 124,684    |
| Income tax provision  | (166)              | (7,509)                                  | —                   | —           | (7,675)    |
| Income attributable to non-controlling interests                | (350)              | 76                                       | —                   | —           | (274)      |
| Net income (loss) attributable to Starwood Property Trust, Inc. | 104,233            | 67,148                                   | 1,165               | (55,811)    | 116,735    |
| Add / (Deduct):   |                    |  |                     |             |            |
| Non-cash equity compensation expense                            | 676                | 850                                      | —                   | 7,106       | 8,632      |
| Management incentive fee  | —                  | —  | —                   | 5,359       | 5,359      |
| Acquisition and investment pursuit costs                        | —                  | —  | 1,465               | —           | 1,465      |
| Depreciation and amortization                                   | —                  | 1,099                                    | 4,658               | —           | 5,757      |
| Loan loss allowance, net  | (2,667)            | —  | —                   | —           | (2,667)    |
| Interest income adjustment for securities                       | (290)              | 2,618                                    | —                   | —           | 2,328      |
| Other non-cash items  | —                  | —  | —                   | —           | —          |
| Reversal of unrealized (gains) / losses on:                     |                    |  |                     |             |            |
| Loans held-for-sale   | —                  | (19,082)                                 | —                   | —           | (19,082)   |
| Securities  | 518                | 1,941                                    | —                   | —           | 2,459      |
| Derivatives   | (11,482)           | 8,618                                    | (1,119)             | —           | (3,983)    |
| Foreign currency  | 18,707             | (896)                                    | (27)                | —           | 17,784     |
| Earnings from unconsolidated entities                           | —                  | (2,652)                                  | —                   | —           | (2,652)    |
| Recognition of realized gains / (losses) on:                    |                    |  |                     |             |            |
| Loans held-for-sale   | —                  | 11,573                                   | —                   | —           | 11,573     |
| Securities  | —                  | (6,669)                                  | —                   | —           | (6,669)    |
| Derivatives   | 4,339              | (2,281)                                  | —                   | —           | 2,058      |
| Foreign currency  | (6,203)            | 896                                      | 27                  | —           | (5,280)    |
| Earnings from unconsolidated entities                           | —                  | 1,611                                    | —                   | —           | 1,611      |
| Core Earnings (Loss)  | \$ 107,831         | \$ 64,774                                | \$ 6,169            | \$ (43,346) | \$ 135,428 |
| Core Earnings (Loss) per Weighted Average Diluted Share         | \$ 0.44            | \$ 0.27                                  | \$ 0.03             | \$ (0.18)   | \$ 0.56    |





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The following table presents our summarized results of operations and reconciliation to Core Earnings for the three months ended September 30, 2014, by business segment (amounts in thousands):

|   | Lending<br>Segment | Investing<br>and<br>Servicing<br>Segment | Corporate   | Total      |
|---|--------------------|--|-------------|------------|
| Revenues  | \$ 122,291         | \$ 100,866                               | \$ —        | \$ 223,157 |
| Costs and expenses (1)  | (27,855)           | (45,237)                                 | (47,063)    | (120,155)  |
| Other income  | 8,588              | 57,493                                   | —           | 66,081     |
| Income (loss) before income taxes                               | 103,024            | 113,122                                  | (47,063)    | 169,083    |
| Income tax benefit (provision)                                  | 233                | (4,069)                                  | —           | (3,836)    |
| Income attributable to non-controlling interests                | (203)              | —  | —           | (203)      |
| Net income (loss) attributable to Starwood Property Trust, Inc. | 103,054            | 109,053                                  | (47,063)    | 165,044    |
| Add / (Deduct):   |                    |  |             |            |
| Non-cash equity compensation expense                            | 142                | 272                                      | 6,356       | 6,770      |
| Management incentive fee  | —                  | —  | 4,288       | 4,288      |
| Depreciation and amortization                                   | —                  | 532                                      | —           | 532        |
| Loan loss allowance, net  | 1,575              | —  | —           | 1,575      |
| Interest income adjustment for securities                       | 542                | 3,085                                    | —           | 3,627      |
| Other non-cash items  | —                  | 338                                      | —           | 338        |
| Reversal of unrealized (gains) / losses on:                     |                    |  |             |            |
| Loans held-for-sale   | —                  | (15,517)                                 | —           | (15,517)   |
| Securities  | (396)              | (52,067)                                 | —           | (52,463)   |
| Derivatives   | (27,088)           | (4,001)                                  | —           | (31,089)   |
| Foreign currency  | 21,020             | —  | —           | 21,020     |
| Earnings from unconsolidated entities                           | —                  | (4,671)                                  | —           | (4,671)    |
| Recognition of realized gains / (losses) on:                    |                    |  |             |            |
| Loans held-for-sale   | —                  | 16,660                                   | —           | 16,660     |
| Securities  | 413                | 8,175                                    | —           | 8,588      |
| Derivatives   | 12                 | 947                                      | —           | 959        |
| Foreign currency  | (858)              | —  | —           | (858)      |
| Earnings from unconsolidated entities                           | —                  | —  | —           | —          |
| Core Earnings (Loss)  | \$ 98,416          | \$ 62,806                                | \$ (36,419) | \$ 124,803 |
| Core Earnings (Loss) per Weighted Average Diluted Share (2)     | \$ 0.43            | \$ 0.28                                  | \$ (0.16)   | \$ 0.55    |

(1) Allocations of certain prior period costs and expenses among segments have been reclassified to a newly-established separate presentation for corporate overhead to conform to our current period presentation of both GAAP and non-GAAP financial measures. Refer to Note 22 of our condensed consolidated financial statements included herein for further information.

- (2) We have conformed our calculation of weighted average diluted shares to our current methodology of excluding the conversion spread value of our convertible notes.

#### Lending Segment

The Lending Segment's Core Earnings increased by \$9.4 million, from \$98.4 million during the third quarter of 2014 to \$107.8 million in the third quarter of 2015. After making adjustments for the calculation of Core Earnings, revenues were \$134.2 million, costs and expenses were \$26.7 million and other income was \$0.9 million.

Core revenues, consisting principally of interest income on loans, increased by \$11.3 million in the third quarter of 2015 due to growth of \$647.2 million in our loan portfolio since September 30, 2014 and, to a lesser extent, increased interest income on investment securities.

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Core costs and expenses increased by \$0.5 million in the third quarter of 2015 primarily due to an increase in interest expense associated with the various facilities utilized to fund the growth of our investment portfolio partially offset by lower incentive compensation and legal fees. The outstanding balance of the Lending Segment's secured financing agreements increased by \$336.8 million since September 30, 2014.

Core other income decreased by \$0.8 million, principally due to a decrease in income from unconsolidated entities partially offset by an increase in gains on sold loans.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings increased by \$2.0 million, from \$62.8 million during the third quarter of 2014 to \$64.8 million in the third quarter of 2015. After making adjustments for the calculation of Core Earnings, revenues were \$116.4 million, costs and expenses were \$35.7 million, other loss was \$8.4 million and income taxes were \$7.5 million.

Core revenues increased by \$12.4 million in the third quarter of 2015, primarily due to increases of \$10.0 million in interest income from our CMBS portfolio and \$2.6 million in servicing fees.

Core costs and expenses decreased by \$8.4 million in the third quarter of 2015, primarily due to lower incentive compensation and legal fees partially offset by an increase of \$1.2 million in interest expense on our conduit loan and CMBS financing facilities.

Core other income decreased by \$15.5 million to a loss in the third quarter of 2015, primarily reflecting a \$10.4 million decrease in gains on sales of CMBS and a \$5.1 million decrease in gains on sales of conduit loans.

Income taxes, which principally relate to the operating results of our servicing and conduit businesses which are held in TRSs, increased \$3.4 million due to an increase in our TRS income.

Property Segment

During the three months ended September 30, 2014, there was no activity in the Property Segment. Therefore a comparison of results of this segment for the three months ended September 30, 2015 to the three months ended September 30, 2014 is not meaningful.

The Property Segment contributed Core Earnings of \$6.2 million during the third quarter of 2015. After making adjustments for the calculation of Core Earnings, revenues were \$7.2 million, costs and expenses were \$3.5 million and other income was \$2.5 million.

Core revenues consisted of \$7.2 million of rental income from the Ireland Portfolio acquired in May 2015.

Core costs and expenses of \$3.5 million consisted of (i) \$1.7 million of interest expense on secured financing for the Ireland Portfolio, (ii) \$1.0 million of other rental related costs and (iii) \$0.8 million of costs related to unsuccessful acquisitions.

Core other income of \$2.5 million consisted primarily of equity in earnings of the Retail Fund.

#### Corporate

Core corporate costs and expenses increased by \$6.9 million, from \$36.4 million in the third quarter of 2014 to \$43.3 million in the third quarter of 2015. This increase was primarily due to a \$4.8 million increase in interest expense primarily related to our October 2014 issuance of Convertible Notes due 2017 and a \$1.4 million increase in base management fees.

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Nine Months Ended September 30, 2015 Compared to the Nine Months Ended September 30, 2014

The following table presents our summarized results of operations and reconciliation to Core Earnings for the nine months ended September 30, 2015, by business segment (amounts in thousands):

|   | Lending<br>Segment | Investing<br>and<br>Servicing<br>Segment | Property<br>Segment | Corporate    | Total      |
|---|--------------------|--|---------------------|--------------|------------|
| Revenues  | \$ 401,795         | \$ 307,655                               | \$ 10,823           | \$ —         | \$ 720,273 |
| Costs and expenses  | (82,072)           | (116,295)                                | (16,967)            | (166,022)    | (381,356)  |
| Other (loss) income   | (1,576)            | 42,497                                   | 8,687               | (5,907)      | 43,701     |
| Income (loss) before income taxes                               | 318,147            | 233,857                                  | 2,543               | (171,929)    | 382,618    |
| Income tax provision  | (136)              | (27,282)                                 | —                   | —            | (27,418)   |
| Income attributable to non-controlling interests                | (1,030)            | 76                                       | —                   | —            | (954)      |
| Net income (loss) attributable to Starwood Property Trust, Inc. | 316,981            | 206,651                                  | 2,543               | (171,929)    | 354,246    |
| Add / (Deduct):   |                    |  |                     |              |            |
| Non-cash equity compensation expense                            | 1,988              | 3,404                                    | —                   | 21,641       | 27,033     |
| Management incentive fee  | —                  | —  | —                   | 16,126       | 16,126     |
| Acquisition and investment pursuit costs                        | —                  | —  | 1,465               | —            | 1,465      |
| Depreciation and amortization                                   | —                  | 1,955                                    | 6,195               | —            | 8,150      |
| Loan loss allowance, net  | 311                | —  | —                   | —            | 311        |
| Interest income adjustment for securities                       | (654)              | (827)                                    | —                   | —            | (1,481)    |
| Other non-cash items  | —                  | (775)                                    | —                   | —            | (775)      |
| Reversal of unrealized (gains) / losses on:                     |                    |  |                     |              |            |
| Loans held-for-sale   | —                  | (51,044)                                 | —                   | —            | (51,044)   |
| Securities  | 347                | (3,181)                                  | —                   | —            | (2,834)    |
| Derivatives   | (21,989)           | 10,260                                   | (1,036)             | —            | (12,765)   |
| Foreign currency  | 26,861             | 395                                      | (20)                | —            | 27,236     |
| Earnings from unconsolidated entities                           | —                  | (10,704)                                 | —                   | —            | (10,704)   |
| Recognition of realized gains / (losses) on:                    |                    |  |                     |              |            |
| Loans held-for-sale   | —                  | 47,196                                   | —                   | —            | 47,196     |
| Securities  | —                  | (16,790)                                 | —                   | —            | (16,790)   |
| Derivatives   | 15,845             | (6,776)                                  | —                   | —            | 9,069      |
| Foreign currency  | (16,442)           | (669)                                    | 20                  | —            | (17,091)   |
| Earnings from unconsolidated entities                           | —                  | 7,674                                    | —                   | —            | 7,674      |
| Core Earnings (Loss)  | \$ 323,248         | \$ 186,769                               | \$ 9,167            | \$ (134,162) | \$ 385,022 |
| Core Earnings (Loss) per Weighted Average Diluted Share         | \$ 1.38            | \$ 0.79                                  | \$ 0.04             | \$ (0.57)    | \$ 1.64    |



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The following table presents our summarized results of operations and reconciliation to Core Earnings for the nine months ended September 30, 2014, by business segment (amounts in thousands):

|   | Lending<br>Segment | Investing<br>and<br>Servicing<br>Segment | Corporate    | Single Family<br>Residential | Total      |
|---|--------------------|--|--------------|------------------------------|------------|
| Revenues  | \$ 361,115         | \$ 282,193                               | \$ —         | \$ —                         | \$ 643,308 |
| Costs and expenses (1)  | (72,225)           | (139,409)                                | (144,731)    | —                            | (356,365)  |
| Other income  | 20,983             | 114,310                                  | —            | —                            | 135,293    |
| Income (loss) from continuing operations before income taxes    | 309,873            | 257,094                                  | (144,731)    | —                            | 422,236    |
| Income tax provision  | (293)              | (13,440)                                 | —            | —                            | (13,733)   |
| Loss from discontinued operations, net of tax                   | —                  | —  | —            | (1,551)                      | (1,551)    |
| Income attributable to non-controlling interests                | (3,439)            | —  | —            | —                            | (3,439)    |
| Net income (loss) attributable to Starwood Property Trust, Inc. | 306,141            | 243,654                                  | (144,731)    | (1,551)                      | 403,513    |
| Add / (Deduct):   |                    |  |              |                              |            |
| Non-cash equity compensation expense                            | 734                | 714                                      | 20,053       | —                            | 21,501     |
| Management incentive fee  | —                  | —  | 15,511       | —                            | 15,511     |
| Change in Control Plan  | —                  | 1,279                                    | —            | —                            | 1,279      |
| Depreciation and amortization                                   | —                  | 1,602                                    | —            | 1,540                        | 3,142      |
| Loan loss allowance, net  | 1,933              | —  | —            | —                            | 1,933      |
| Interest income adjustment for securities                       | (808)              | 8,940                                    | —            | —                            | 8,132      |
| Other non-cash items  | —                  | 587                                      | —            | —                            | 587        |
| Reversal of unrealized (gains) / losses on:                     |                    |  |              |                              |            |
| Loans held-for-sale   | —                  | (48,018)                                 | —            | —                            | (48,018)   |
| Securities  | (12,027)           | (105,313)                                | —            | —                            | (117,340)  |
| Derivatives   | (16,408)           | 2,082                                    | —            | —                            | (14,326)   |
| Foreign currency  | 15,376             | —  | —            | —                            | 15,376     |
| Earnings from unconsolidated entities                           | —                  | (5,263)                                  | —            | —                            | (5,263)    |
| Recognition of realized gains / (losses) on:                    |                    |  |              |                              |            |
| Loans held-for-sale   | —                  | 46,045                                   | —            | —                            | 46,045     |
| Securities  | 10,992             | 22,306                                   | —            | —                            | 33,298     |
| Derivatives   | (851)              | (1,810)                                  | —            | —                            | (2,661)    |
| Foreign currency  | (1,139)            | —  | —            | —                            | (1,139)    |
| Earnings from unconsolidated entities                           | —                  | —  | —            | —                            | —          |
| Core Earnings (Loss)  | \$ 303,943         | \$ 166,805                               | \$ (109,167) | \$ (11)                      | \$ 361,570 |
| Core Earnings (Loss) per Weighted Average Diluted Share (2)     | \$ 1.41            | \$ 0.78                                  | \$ (0.51)    | \$ —                         | \$ 1.68    |

- (1) Allocations of certain prior period costs and expenses among segments have been reclassified to a newly-established separate presentation for corporate overhead to conform to our current period presentation of both GAAP and non-GAAP financial measures. Refer to Note 22 of our condensed consolidated financial statements included herein for further information.
  
- (2) We have conformed our calculation of weighted average diluted shares to our current methodology of excluding the conversion spread value of our convertible notes.

#### Lending Segment

The Lending Segment's Core Earnings increased by \$19.3 million, from \$303.9 million during the nine months ended September 30, 2014 to \$323.2 million during the nine months ended September 30, 2015. After making adjustments for the calculation of Core Earnings, revenues were \$401.1 million, costs and expenses were \$79.8 million and other income was \$3.0 million.



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Core revenues, consisting principally of interest income on loans, increased by \$40.8 million in 2015 due to growth of \$647.2 million in our loan portfolio since September 30, 2014 and, to a lesser extent, increased interest income on investment securities.

Core costs and expenses increased by \$10.2 million due to an increase in interest expense associated with the various facilities utilized to fund the growth of our investment portfolio partially offset by lower incentive compensation and legal fees. The outstanding balance of the Lending Segment's secured financing agreements increased by \$336.8 million since September 30, 2014.

Core other income decreased by \$13.9 million, principally due to gains on sales of RMBS during the 2014 period not recurring during the 2015 period.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings increased by \$20.0 million, from \$166.8 million during the nine months ended September 30, 2014 to \$186.8 million during the nine months ended September 30, 2015. After making adjustments for the calculation of Core Earnings, revenues were \$306.9 million, costs and expenses were \$111.2 million, other income was \$18.3 million and income taxes were \$27.3 million.

Core revenues increased by \$15.7 million, primarily due to increases of \$19.6 million in interest income from our CMBS portfolio and \$4.2 million in interest income on our conduit loans partially offset by a decrease of \$6.2 million in servicing fees and \$1.9 million in rental and other revenues.

Core costs and expenses decreased by \$24.0 million, primarily due to accruals for contingencies and legal fees incurred in the 2014 period, which did not recur in the 2015 period, and lower incentive and other compensation, all partially offset by an increase of \$4.1 million in interest expense on our conduit loan and CMBS financing facilities.

Core other income decreased by \$6.0 million, primarily due to lower gains on CMBS sales partially offset by a gain on sale of a commercial real estate asset.

Income taxes, which principally relate to the operating results of our servicing and conduit businesses which are held in TRSs, increased \$13.8 million due to a taxable gain on the sale of a commercial real estate asset as well as other increases in our TRS income.

#### Property Segment

During the nine months ended September 30, 2014, there was no activity in the Property Segment. Therefore a comparison of results of this segment for the nine months ended September 30, 2015 to the nine months ended September 30, 2014 is not meaningful.

The Property Segment contributed Core Earnings of \$9.2 million during the nine months ended September 30, 2015. After making adjustments for the calculation of Core Earnings, revenues were \$10.7 million, costs and expenses were \$9.1 million and other income was \$7.6 million.

Core revenues consisted of \$10.7 million of rental income from the Ireland Portfolio following its acquisition in May 2015.

Core costs and expenses of \$9.1 million consisted of (i) acquisition and investment pursuit costs of \$5.0 million, of which \$3.3 million related to the Ireland Portfolio, (ii) \$2.6 million of interest expense on secured financing for the Ireland Portfolio and (iii) \$1.5 million of other rental related costs.

Core other income of \$7.6 million consisted primarily of equity in earnings of the Retail Fund.

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Corporate

Core corporate costs and expenses increased by \$25.0 million, from \$109.2 million during the nine months ended September 30, 2014 to \$134.2 million during the nine months ended September 30, 2015. This increase was primarily due to a \$15.5 million increase in interest expense primarily related to our October 2014 issuance of Convertible Notes due 2017, a \$5.9 million loss on extinguishment of a portion of our Convertible Notes due 2019 and a \$3.3 million increase in base management fees.

Single Family Residential Segment

As discussed in Note 3 to our condensed consolidated financial statements included herein, our former single family residential (“SFR”) segment was spun off to our stockholders on January 31, 2014.

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## Liquidity and Capital Resources

Liquidity is a measure of our ability to meet our cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make new investments where appropriate, pay dividends to our stockholders, and other general business needs. We closely monitor our liquidity position and believe that we have sufficient current liquidity and access to additional liquidity to meet our financial obligations for at least the next 12 months. Our strategy for managing liquidity and capital resources has not changed since December 31, 2014, other than as set forth below. Refer to our Form 10-K for a description of these strategies.

## Cash and Cash Equivalents

As of September 30, 2015, we had cash and cash equivalents of \$372.8 million.

## Cash Flows for the Nine Months Ended September 30, 2015 (amounts in thousands)

|  | GAAP        | VIE<br>Adjustments | Excluding<br>Investing<br>and Servicing<br>VIEs |
|--|-------------|--------------------|---|
| Net cash provided by operating activities                    | \$ 259,687  | \$ (127)           | \$ 259,560                                      |
| Cash Flows from Investing Activities:                        |             |                    |   |
| Origination and purchase of loans held-for-investment        | (1,670,124) | (8,670)            | (1,678,794)                                     |
| Proceeds from principal collections and sale of loans        | 1,657,204   | —                  | 1,657,204                                       |
| Purchase of investment securities                            | (163,018)   | (198,574)          | (361,592)                                       |
| Proceeds from sales and collections of investment securities | 354,391     | 36,342             | 390,733   |
| Real estate business combinations, net of cash acquired      | (239,933)   | (39,506)           | (279,439)                                       |
| Proceeds from sale of properties                             | 33,056      | —                  | 33,056  |
| Net cash flows from other investments and assets             | 8,814       | —                  | 8,814   |
| Decrease in restricted cash, net                             | 9,404       | —                  | 9,404   |
| Net cash used in investing activities                        | (10,206)    | (210,408)          | (220,614)                                       |
| Cash Flows from Financing Activities:                        |             |                    |   |
| Borrowings under financing agreements                        | 3,423,328   | —                  | 3,423,328                                       |
| Principal repayments on and repurchases of borrowings        | (3,289,937) | —                  | (3,289,937)                                     |
| Payment of deferred financing costs                          | (13,876)    | —                  | (13,876)  |
| Proceeds from common stock issuances, net of offering costs  | 325,416     | —                  | 325,416   |
| Payment of dividends   | (332,023)   | —                  | (332,023)                                       |

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|   |            |          |            |
|---|------------|----------|------------|
| Distributions to non-controlling interests          | (1,259)    | —        | (1,259)    |
| Purchase of treasury stock                          | (29,792)   | —        | (29,792)   |
| Issuance of debt of consolidated VIEs               | 9,132      | (9,132)  | —          |
| Repayment of debt of consolidated VIEs              | (246,230)  | 246,230  | —          |
| Distributions of cash from consolidated VIEs        | 26,690     | (26,690) | —          |
| Net cash (used in) provided by financing activities | (128,551)  | 210,408  | 81,857     |
| Net increase in cash and cash equivalents           | 120,930    | (127)    | 120,803    |
| Cash and cash equivalents, beginning of period      | 255,187    | (786)    | 254,401    |
| Effect of exchange rate changes on cash             | (3,349)    | —        | (3,349)    |
| Cash and cash equivalents, end of period            | \$ 372,768 | \$ (913) | \$ 371,855 |

The discussion below is on a non-GAAP basis, after removing adjustments principally resulting from the consolidation of Investing and Servicing Segment's VIEs under ASC 810. These adjustments principally relate to (i) purchase of CMBS related to consolidated VIEs, which are reflected as repayments of VIE debt on a GAAP basis and (ii) sales of CMBS related to consolidated VIEs, which are reflected as VIE distributions on a GAAP basis. There is no significant net impact to cash flows from operations or to overall cash resulting from these consolidations. Refer to Note 2 to our condensed consolidated financial statements included herein for further discussion.

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Cash and cash equivalents increased by \$120.8 million during the nine months ended September 30, 2015, reflecting net cash provided by operating activities of \$259.6 million and net cash provided by financing activities of \$81.8 million partially offset by net cash used in investing activities of \$220.6 million.

Net cash provided by operating activities of \$259.6 million for the nine months ended September 30, 2015 related primarily to cash interest income of \$296.9 million from our loan origination and conduit programs, plus cash interest income on investment securities of \$154.2 million. Servicing fees provided cash of \$167.0 million, rental income provided cash of \$12.5 million and other revenues provided \$21.7 million. Offsetting these revenues were cash interest expense of \$126.7 million, general and administrative expenses of \$89.5 million, a net change in operating assets and liabilities of \$80.9 million, management fees of \$58.6 million, income tax payments of \$27.3 million and acquisition and investment pursuit costs of \$9.7 million.

Net cash used in investing activities of \$220.6 million for the nine months ended September 30, 2015 related primarily to the origination and acquisition of new loans held-for-investment of \$1.7 billion, the purchase of investment securities of \$361.6 million and the purchase of real estate property of \$279.4 million, partially offset by proceeds received from principal repayments and sales of loans of \$1.7 billion and investment securities of \$390.7 million.

Net cash provided by financing activities of \$81.8 million for the nine months ended September 30, 2015 related primarily to proceeds from the issuance of common stock of \$325.4 million, net borrowings after repayments and repurchases of our secured debt and convertible notes of \$133.4 million, partially offset by dividend distributions of \$332.0 million, payment of deferred financing costs of \$13.9 million and share repurchases of \$29.8 million.

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## Our Investment Portfolio

## Lending Segment

The following table sets forth the amount of each category of investments we owned across various property types within our Lending Segment as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|  | Face Amount  | Carrying Value | Asset Specific Financing | Net Investment | Vintage   | Unlevered Return on Asset |   |
|--|--------------|----------------|--------------------------|----------------|-----------|---------------------------|---|
| September 30, 2015                                     |              |                |                          |                |           |                           |   |
| First mortgages (1)                                    | \$ 4,588,988 | \$ 4,533,689   | \$ 2,034,748             | \$ 2,498,941   | 1989-2015 | 7.0                       | % |
| Subordinated mortgages                                 | 424,957      | 399,381        | 2,000                    | 397,381        | 1998-2015 | 11.3                      | % |
| Mezzanine loans (1)                                    | 873,081      | 888,158        | —                        | 888,158        | 2006-2015 | 10.9                      | % |
| Loans held-for-sale                                    | 28,700       | 27,198         | —                        | 27,198         | 2007      |                           |   |
| Loans transferred as secured borrowings                | 143,926      | 142,456        | 143,926                  | (1,470)        | N/A       |                           |   |
| Loan loss allowance                                    | —            | (6,342)        | —                        | (6,342)        | N/A       |                           |   |
| RMBS—AFS (2)   | 242,219      | 184,785        | 6,948                    | 177,837        | 2003-2007 | 11.6                      | % |
| HTM securities (3)                                     | 364,529      | 365,005        | 166,155                  | 198,850        | 2013-2015 | 7.2                       | % |
| Equity security Investments in unconsolidated entities | 13,827       | 14,311         | —                        | 14,311         | N/A       |                           |   |
|  | N/A          | 30,155         | —                        | 30,155         | N/A       |                           |   |
|  | \$ 6,680,227 | \$ 6,578,796   | \$ 2,353,777             | \$ 4,225,019   |           |                           |   |
| December 31, 2014                                      |              |                |                          |                |           |                           |   |
| First mortgages (1)                                    | \$ 4,599,841 | \$ 4,531,030   | \$ 1,861,633             | \$ 2,669,397   | 1989-2014 | 6.9                       | % |
| Subordinated mortgages                                 | 374,859      | 345,091        | 2,000                    | 343,091        | 1998-2014 | 11.0                      | % |

|   |              |              |              |              |           |      |   |
|---|--------------|--------------|--------------|--------------|-----------|------|---|
| Mezzanine loans<br>(1)  | 889,948      | 901,217      | —            | 901,217      | 2006-2014 | 11.4 | % |
| Loans transferred<br>as secured<br>borrowings                       | 129,570      | 129,427      | 129,441      | (14)         | N/A       |      |   |
| Loan loss<br>allowance  | —            | (6,031)      | —            | (6,031)      | N/A       |      |   |
| RMBS—AFS (2)  | 270,783      | 207,053      | 101,886      | 105,167      | 2003-2007 | 12.3 | % |
| CMBS—AFS (2)  | 93,686       | 100,349      | —            | 100,349      | 2012-2013 | 12.1 | % |
| HTM securities<br>(3)   | 440,253      | 441,995      | 97,103       | 344,892      | 2013-2014 | 8.6  | % |
| Equity security<br>Investments in<br>unconsolidated<br>entities (4) | 14,237       | 15,120       | —            | 15,120       | N/A       |      |   |
|   | N/A          | 22,537       | —            | 22,537       | N/A       |      |   |
|   | \$ 6,813,177 | \$ 6,687,788 | \$ 2,192,063 | \$ 4,495,725 |           |      |   |

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- (1) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The application of this methodology resulted in mezzanine loans with carrying values of \$892.3 million and \$704.2 million being classified as first mortgages as of September 30, 2015 and December 31, 2014, respectively.
- (2) RMBS and CMBS available-for-sale (“AFS”) securities.
- (3) Mandatorily redeemable preferred equity interests in commercial real estate entities and CMBS held-to-maturity (“HTM”).
- (4) Retrospectively reclassified our \$129,475 investment in the Retail Fund to our newly established Property Segment.



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As of September 30, 2015 and December 31, 2014, our Lending Segment's investment portfolio, excluding RMBS and other investments, had the following characteristics based on carrying values:

| Collateral Property Type | September 30, 2015 |   | December 31, 2014 |   |
|--------------------------|--------------------|---|-------------------|---|
| Office                   | 43.2               | % | 42.1              | % |
| Hospitality              | 24.9               | % | 24.7              | % |
| Multi-family             | 11.7               | % | 13.1              | % |
| Mixed Use                | 10.0               | % | 8.8               | % |
| Retail                   | 6.3                | % | 8.3               | % |
| Industrial               | 2.0                | % | 1.9               | % |
| Residential              | 1.9                | % | 1.1               | % |
|                          | 100.0              | % | 100.0             | % |

| Geographic Location | September 30, 2015 |   | December 31, 2014 |   |
|---------------------|--------------------|---|-------------------|---|
| North East          | 30.3               | % | 26.8              | % |
| West                | 25.8               | % | 25.6              | % |
| South East          | 14.6               | % | 12.4              | % |
| International       | 13.4               | % | 14.2              | % |
| Midwest             | 5.8                | % | 8.5               | % |
| South West          | 5.5                | % | 6.1               | % |
| Mid Atlantic        | 4.6                | % | 6.4               | % |
|                     | 100.0              | % | 100.0             | % |

## Investing and Servicing Segment

The following table sets forth the amount of each category of investments we owned within our Investing and Servicing Segment as of September 30, 2015 and December 31, 2014 (amounts in thousands):

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|  | Face<br>Amount | Carrying<br>Value |     | Asset<br>Specific<br>Financing | Net<br>Investment |
|--|----------------|-------------------|-----|--------------------------------|-------------------|
| September 30, 2015                     |                |                   |     |                                |                   |
| CMBS, fair value option                | \$ 4,525,287   | \$ 927,315        | (1) | \$ 166,575                     | \$ 760,740        |
| Intangible assets - servicing rights   | N/A            | 155,543           | (2) | —                              | 155,543           |
| Intangible assets - lease intangibles  | N/A            | 6,800             |     | —                              | 6,800             |
| Loans held-for-sale, fair value option | 418,504        | 423,630           |     | 287,252                        | 136,378           |
| Investment in unconsolidated entities  | N/A            | 54,627            |     | —                              | 54,627            |
| Properties, net                        | N/A            | 84,558            |     | 31,835                         | 52,723            |
|  | \$ 4,943,791   | \$ 1,652,473      |     | \$ 485,662                     | \$ 1,166,811      |
| December 31, 2014                      |                |                   |     |                                |                   |
| CMBS, fair value option                | \$ 4,281,364   | \$ 753,553        | (1) | \$ —                           | \$ 753,553        |
| Intangible assets - servicing rights   | N/A            | 190,207           | (2) | —                              | 190,207           |
| Loans held-for-sale, fair value option | 390,342        | 391,620           |     | 208,363                        | 183,257           |
| Loans held-for-investment              | 9,685          | 7,931             |     | —                              | 7,931             |
| Investment in unconsolidated entities  | N/A            | 48,693            |     | —                              | 48,693            |
| Properties, net                        | N/A            | 39,854            |     | 14,000                         | 25,854            |
|  | \$ 4,681,391   | \$ 1,431,858      |     | \$ 222,363                     | \$ 1,209,495      |

(1) Includes \$705.0 million and \$519.8 million of CMBS reflected in “VIE liabilities” in accordance with ASC 810 as of September 30, 2015 and December 31, 2014, respectively.

(2) Includes \$27.9 million and \$46.1 million of servicing rights intangibles reflected in “VIE assets” in accordance with ASC 810 as of September 30, 2015 and December 31, 2014, respectively.

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## Property Segment

The following table sets forth the amount of each category of investments, which are comprised of properties, the Retail Fund and intangible lease assets, held within our Property Segment as of September 30, 2015 and December 31, 2014 (amounts in thousands):

|                                       | September 30, 2015 | December 31, 2014 |
|---------------------------------------|--------------------|-------------------|
| Properties, net                       | \$ 445,880         | \$ —              |
| Intangible assets - lease intangibles | 56,616             | —                 |
| Investment in unconsolidated entities | 121,733            | 129,475           |
|                                       | \$ 624,229         | \$ 129,475        |

The following table sets forth our net investment and other information regarding the Property Segment's properties and intangible lease assets as of September 30, 2015 (dollar amounts in thousands):

|                          | Net Carrying Value | Asset Specific Financing | Net Investment | Occupancy Rate | Weighted Average Lease Term |
|--------------------------|--------------------|--------------------------|----------------|----------------|-----------------------------|
| Office                   | \$ 485,108         | \$ 317,227               | \$ 167,881     | 99.8 %         | 10.0 years                  |
| Multi-family residential | 17,388             | 11,375                   | 6,013          | 100.0 %        | 0.3 years                   |
|                          | \$ 502,496         | \$ 328,602               | \$ 173,894     |                |                             |

## New Credit Facilities and Amendments

Refer to Note 9 of our condensed consolidated financial statements herein for a detailed discussion of new credit facilities and amendments to existing credit facilities executed since December 31, 2014.

## Borrowings under Various Secured Financing Arrangements

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The following table is a summary of our secured financing facilities as of September 30, 2015 (dollar amounts in thousands):

|  | Current Maturity      | Extended Maturity(a) | Pricing                        | Pledged Asset Carrying Value | Maximum Facility Size | Outstanding Balance | Approved but Undrawn Capacity(b) | Unallocated Financing Amount(c) |
|--|-----------------------|----------------------|--------------------------------|------------------------------|-----------------------|---------------------|----------------------------------|---------------------------------|
| Lender 1 Repo 1                                    | (d)                   | (d)                  | LIBOR + 1.85% to 5.25%         | \$ 1,471,791                 | \$ 1,600,000          | \$ 916,310          | \$ 126,556                       | \$ 557,134                      |
| Lender 1 Repo 2                                    | (e)                   | N/A                  | LIBOR + 1.90%                  | 184,785                      | 125,000               | 6,948               | 99,158                           | 18,894                          |
| Lender 2 Repo 1                                    | Oct 2015              | Oct 2018             | LIBOR + 1.75% to 2.75%         | 373,917                      | 325,000               | 272,824             | —                                | 52,176                          |
| Lender 3 Repo 1                                    | May 2017              | May 2019             | LIBOR + 2.85%                  | 229,983                      | 162,917               | 162,917             | —                                | —                               |
| Conduit Repo 1                                     | Sep 2016              | N/A                  | LIBOR + 1.95% to 3.35%         | 116,084                      | 150,000               | 85,849              | —                                | 64,151                          |
| Conduit Repo 2                                     | Nov 2015              | Nov 2016             | LIBOR + 2.10%                  | 164,310                      | 150,000               | 121,556             | —                                | 28,444                          |
| Conduit Repo 3                                     | Feb 2018              | Feb 2019             | LIBOR + 2.10%                  | 107,389                      | 150,000               | 79,847              | —                                | 70,153                          |
| Lender 4 Repo 1                                    | Oct 2016              | Oct 2017             | LIBOR + 2.00%                  | 405,195                      | 317,688               | 317,688             | —                                | —                               |
| Lender 6 Repo 1                                    | Aug 2018              | N/A                  | LIBOR + 2.50% to 3.00%         | 733,579                      | 500,000               | 367,010             | 67,212                           | 65,778                          |
| Lender 6 Mortgage                                  | May 2020              | N/A                  | EURIBOR + 1.69%                | 502,497                      | 328,602               | 328,602             | —                                | —                               |
| Lender 7 Repo 1                                    | Dec 2016              | N/A                  | LIBOR + 2.35% to 2.70%         | 140,274                      | 107,416               | 107,416             | —                                | —                               |
| Investing and Servicing Segment Property Mortgages | June 2018 to Nov 2024 | N/A                  | Various LIBOR + 1.40% to 1.85% | 43,688                       | 38,975                | 31,835              | —                                | 7,140                           |
| Lender 9 Repo 1                                    | (f)<br>Jul 2018       | (f)<br>Jul 2019      | 1.85%                          | 319,853<br>222,770           | 225,313<br>450,000    | 225,313<br>(h) —    | —<br>—                           | —<br>450,000                    |

|                          |          |     |                  |              |              |              |            |              |
|--------------------------|----------|-----|------------------|--------------|--------------|--------------|------------|--------------|
| Borrowing Base Term Loan |          |     | LIBOR + 2.75%(g) |              |              |              |            |              |
|                          | Apr 2020 | N/A | LIBOR + 2.75%(g) | 3,296,673    | 659,962      | 658,159 (i)  | —          | —            |
| FHLB Advances            | N/A      | N/A | Various          | —            | 1,000,000    | —            | —          | 1,000,000    |
|                          |          |     |                  | \$ 8,312,788 | \$ 6,290,873 | \$ 3,682,274 | \$ 292,926 | \$ 2,313,870 |

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- (a) Subject to certain conditions as defined in the respective facility agreement.
- (b) Approved but undrawn capacity represents the total draw amount that has been approved by the lender related to those assets that have been pledged as collateral, less the drawn amount.
- (c) Unallocated financing amount represents the maximum facility size less the total draw capacity that has been approved by the lender.
- (d) Maturity date for borrowings collateralized by loans of January 2017 before extension options and January 2019 assuming initial extension options. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions and not to exceed January 2023.

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- (e) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 2017.
- (f) Facility carries a rolling twelve month term which may reset monthly with the lender’s consent. Current maturity is September 2016.
- (g) Subject to borrower’s option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The Term Loan is also subject to a 75 basis point floor.
- (h) Subject to certain conditions defined in the facility agreement, the maximum facility size may be increased to \$650.0 million.
- (i) Term loan outstanding balance is net of \$1.8 million of unamortized discount.

As of September 30, 2015, Wells Fargo Bank, N.A. (“Lender 1”) is our largest creditor through two repurchase facilities.

Refer to Note 9 of our condensed consolidated financial statements included herein for further disclosure regarding the terms of our financing arrangements.

Borrowings under Convertible Senior Notes

The following table is a summary of our unsecured convertible senior notes outstanding as of September 30, 2015 (amounts in thousands, except rates):

|            | Principal<br>Amount | Coupon<br>Rate | Effective<br>Rate | Conversion<br>Rate | Maturity<br>Date | Remaining<br>Period of<br>Amortization |
|------------|---------------------|----------------|-------------------|--------------------|------------------|--|
| 2017 Notes | \$ 431,250          | 3.75           | % 5.87            | % 41.7397          | 10/15/2017       | 2.0 years                              |
| 2018 Notes | \$ 599,981          | 4.55           | % 6.10            | % 45.8850          | 3/1/2018         | 2.4 years                              |
| 2019 Notes | \$ 341,363          | 4.00           | % 5.37            | % 48.6931          | 1/15/2019        | 3.3 years                              |

During both the three and nine months ended September 30, 2015, the weighted average effective borrowing rate on our convertible notes was 5.7%. During both the three and nine months ended September 30, 2014, the weighted average effective borrowing rate on our convertible notes was 5.5%. These effective borrowing rates include the effects of underwriter purchase discount and the adjustment for the conversion option, the initial value of which reduced the balance of the notes.

Refer to Note 10 of our condensed consolidated financial statements included herein for further disclosure regarding the terms of our convertible senior notes.

#### Variance between Average and Quarter-End Credit Facility Borrowings Outstanding

The following table compares the average amount outstanding of our secured financing agreements during each quarter and the amount outstanding as of the end of each quarter, together with an explanation of significant variances (dollar amounts in thousands):

| Quarter Ended      | Quarter-End<br>Balance | Weighted-Average<br>Balance During<br>Quarter | Variance   | Explanations<br>for Significant<br>Variances |
|--------------------|------------------------|---|------------|--|
| December 31, 2014  | \$ 3,137,789           | \$ 2,745,631                                  | \$ 392,158 | (a)  |
| March 31, 2015     | 3,711,834              | 3,455,082                                     | 256,752    | (b)  |
| June 30, 2015      | 3,579,503              | 3,509,209                                     | 70,294     | (c)  |
| September 30, 2015 | 3,682,274              | 3,581,082                                     | 101,192    | (d)  |

- (a) Variance primarily due to the following: (i) \$125.8 million drawn on the Lender 1 Repo 1 facility in December 2014; (ii) \$153.7 million drawn on the Borrowing Base facility in December 2014; (iii) \$87.0 million drawn on the Conduit Repo 2 facility in December 2014; and (iv) \$71.0 million drawn on the Lender 6 Repo 1 facility in December 2014; offset by (v) \$119.4 million repayment of the Lender 1 Repo 3 facility in December 2014; and (vi) \$89.1 million repayment of the Borrowing Base facility in November 2014.

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- (b) Variance primarily due to the following: (i) \$131.7 million drawn on the Lender 9 Repo 1 facility in March 2015; (ii) \$67.7 million drawn on the Lender 1 Repo 1 facility in March 2015; and (iii) \$63.1 million drawn on Lender 2 Repo 1 facility in March 2015.
- (c) Variance primarily due to the following: (i) \$245.6 million drawn on the Lender 6 Mortgage in May 2015; partially offset by (ii) \$82.0 million repaid on the Borrowing Base facility in May 2015.
- (d) Variance primarily due to the following: (i) \$83.0 million drawn on Lender 6 Mortgage in July 2015; and (ii) \$40.6 million draw on Conduit Repo 1 in September 2015.

## Scheduled Principal Repayments on Investments and Overhang on Financing Facilities

The following scheduled and/or projected principal repayments on our investments were based upon the amounts outstanding and contractual terms of the financing facilities in effect as of September 30, 2015 (amounts in thousands):

|                     | Scheduled Principal Repayments on Loans and Preferred Interests | Scheduled/Projected Principal Repayments on RMBS and CMBS | Projected/Required Repayments of Financing | Scheduled Principal Inflows Net of Financing Outflows |
|---------------------|---|---|--|---|
| Fourth Quarter 2015 | \$ 459,403  | \$ 28,803   | \$ (303,796)                               | \$ 184,410  |
| First Quarter 2016  | 138,593   | 36,726  | (5,371)                                    | 169,948   |
| Second Quarter 2016 | 57,962  | 17,709  | (5,367)                                    | 70,304  |
| Third Quarter 2016  | 379,941   | 30,085  | (128,476)                                  | 281,550   |
| Total               | \$ 1,035,899  | \$ 113,323  | \$ (443,010)                               | \$ 706,212  |

In the normal course of business, the Company is in discussions with its lenders to extend or amend any financing facilities which contain near term expirations.

## Issuances of Equity Securities

We may raise funds through capital market transactions by issuing capital stock. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have authorized 100,000,000 shares of preferred stock and 500,000,000 shares of common stock. At September 30, 2015, we had



100,000,000 shares of preferred stock available for issuance and 262,341,385 shares of common stock available for issuance.

Refer to Note 16 of our condensed consolidated financial statements included herein for a discussion of our issuances of equity securities during the nine months ended September 30, 2015.

#### Other Potential Sources of Financing

In the future, we may use other sources of financing to fund the acquisition of our target assets, including other secured as well as unsecured forms of borrowing and sale of certain investment securities which no longer meet our return requirements.

#### Repurchases of Equity Securities and Convertible Notes

In September 2014, our board of directors authorized and announced the repurchase of up to \$250 million of our outstanding common stock over a period of one year. In December 2014, our board of directors amended the repurchase program to allow for the repurchase of our outstanding convertible senior notes. In June 2015, our board of directors amended the repurchase program to increase the authorized purchase amount to \$450 million and provide for a one year extension through June 2016. Purchases made pursuant to the program will be made in either the open market or in privately negotiated transactions from time to time as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases are discretionary and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be

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suspended or discontinued at any time. There were no repurchases of outstanding convertible senior notes during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we repurchased \$118.6 million aggregate principal of our 2019 Notes for \$136.3 million plus related transaction expenses of \$0.1 million.

During the three and nine months ended September 30, 2015, we also repurchased \$29.1 million and \$37.9 million, respectively, of common stock under the repurchase program. As of September 30, 2015, we have \$262.6 million of remaining capacity to repurchase common stock or convertible notes under the repurchase program.

## Off-Balance Sheet Arrangements

We have relationships with unconsolidated entities and financial partnerships, such as entities often referred to as VIEs. We are not obligated to provide, nor have we provided, any financial support for any VIEs. As such, the risk associated with our involvement is limited to the carrying value of our investment in the entity. Refer to Note 14 of our condensed consolidated financial statements included herein for further discussion.

## Dividends

We intend to continue to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We intend to continue to pay regular quarterly dividends to our stockholders in an amount approximating our net taxable income, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating and debt service requirements. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. Refer to our Form 10-K for a detailed dividend history.

The Company's board of directors declared the following dividends during the nine months ended September 30, 2015:

| Declare Date | Record Date | Payment Date | Amount  | Frequency |
|--------------|-------------|--------------|---------|-----------|
| 8/4/15       | 9/30/15     | 10/15/15     | \$ 0.48 | Quarterly |
| 5/5/15       | 6/30/15     | 7/15/15      | \$ 0.48 | Quarterly |
| 2/25/15      | 3/31/15     | 4/15/15      | \$ 0.48 | Quarterly |

On November 5, 2015, our board of directors declared a dividend of \$0.48 per share for the fourth quarter of 2015, which is payable on January 15, 2016 to common stockholders of record as of December 31, 2015.

#### Leverage Policies

Our strategies with regards to use of leverage have not changed significantly since December 31, 2014. Refer to our Form 10-K for a description of our strategies regarding use of leverage.

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## Contractual Obligations and Commitments

Contractual obligations as of September 30, 2015 are as follows (amounts in thousands):

|   | Total        | Less than<br>1 year | 1 to 3 years | 3 to 5 years | More than<br>5 years |
|---|--------------|---------------------|--------------|--------------|----------------------|
| Secured financings(a)                         | \$ 3,684,078 | \$ 443,010          | \$ 1,553,911 | \$ 1,673,157 | \$ 14,000            |
| Convertible senior notes                      | 1,372,594    | —                   | 1,031,231    | 341,363      | —                    |
| Secured borrowings on transferred<br>loans(b) | 195,000      | —                   | 95,000       | 100,000      | —                    |
| Loan funding commitments(c)                   | 1,528,994    | 979,429             | 549,565      | —            | —                    |
| Future lease commitments                      | 37,111       | 7,122               | 13,566       | 12,453       | 3,970                |
| Total   | \$ 6,817,777 | \$ 1,429,561        | \$ 3,243,273 | \$ 2,126,973 | \$ 17,970            |

(a) Includes available extension options.

(b) These amounts relate to financial asset sales that were required to be accounted for as secured borrowings. As a result, the assets we sold remain on our consolidated balance sheet for financial reporting purposes. Such assets are expected to provide match funding for these liabilities.

(c) Excludes \$173.4 million of loan funding commitments which management projects the Company will not be obligated to fund in the future due to repayments made by the borrower either earlier than, or in excess of, expectations. In addition, this amount excludes any funding commitments which may be required pursuant to Company guarantees. In limited instances, specifically with loans involving multiple construction lenders, the Company has guaranteed the future funding obligations of certain third party lenders in the event that such third parties fail to fund their proportionate share of the obligation in a timely manner. We are currently unaware of any circumstances which would require us to make payments under any of these guarantees and, as a result, have not included any such amounts in the above table.

The table above does not include interest payable, amounts due under our management agreement or derivative agreements as those contracts do not have fixed and determinable payments.

## Critical Accounting Estimates

Refer to the section of our Form 10-K entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” for a full discussion of our critical accounting estimates. Our critical accounting estimates have not materially changed since December 31, 2014.



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## 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 speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake. Our strategies for managing risk and our exposure to such risks have not changed materially since December 31, 2014. Refer to our Form 10-K Item 7A for further discussion.

## Credit Risk

Our loans and investments are subject to credit risk. The performance and value of our loans and investments depend upon the owners' 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's asset management team reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary.

We seek to further manage credit risk associated with our Investing and Servicing Segment loans held-for-sale through the purchase of credit index instruments. The following table presents our credit index instruments as of September 30, 2015 and December 31, 2014 (dollar amounts in thousands):

|                    | Face Value of<br>Loans<br>Held-for-Sale | Aggregate<br>Notional<br>Value of<br>Credit Index<br>Instruments | Number of<br>Credit Index Instruments |
|--------------------|---|--|---------------------------------------|
| September 30, 2015 | \$ 418,504                              | \$ 40,000  | 11                                    |
| December 31, 2014  | \$ 390,342                              | \$ 45,000  | 12                                    |

Refer to Note 5 of our condensed consolidated financial statements for a discussion of weighted average ratings of our investment securities.

## Capital Market Risk

We are exposed to risks related to the equity capital markets, and our related ability to raise capital through the issuance of our common stock or other equity instruments. We are also exposed to risks related to the debt capital markets, and our related ability to finance our business through borrowings under repurchase obligations or other debt instruments. As a REIT, we are required to distribute a significant portion of our taxable income annually, which constrains our ability to accumulate operating cash flow and therefore requires us to utilize debt or equity capital to finance our business. We seek to mitigate these risks by monitoring the debt and equity capital markets to inform our decisions on the amount, timing, and terms of capital we raise.

## Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our investments and the related financing obligations. In general, we seek to match the interest rate characteristics of our investments with the interest rate characteristics of any related financing obligations such as repurchase agreements, bank credit facilities, term loans, revolving facilities and securitizations. In instances where the interest rate characteristics of an investment and the related financing obligation are not matched, we mitigate such interest rate risk through the utilization of interest rate swaps of the same duration. The following table

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presents financial instruments where we have utilized interest rate derivatives to hedge interest rate risk and the related interest rate derivatives as of September 30, 2015 and December 31, 2014 (dollar amounts in thousands):

|  | Face Value<br>of<br>Hedged<br>Instruments | Aggregate Notional                    |  |
|--|---|---------------------------------------|--|
|  |   | Value of Interest<br>Rate Derivatives | Number of Interest<br>Rate Derivatives |
| Instrument hedged as of September 30, 2015 |   |                                       |  |
| Loans held-for-investment                  | \$ 9,000                                  | \$ 9,000                              | 2                                      |
| Loans held-for-sale                        | 418,504                                   | 355,800                               | 71                                     |
| RMBS, available-for-sale                   | 242,219                                   | 74,000                                | 3                                      |
| Secured financing agreements               | 532,655                                   | 522,610                               | 13                                     |
|  | \$ 1,202,378                              | \$ 961,410                            | 89                                     |
| Instrument hedged as of December 31, 2014  |   |                                       |  |
| Loans held-for-investment                  | \$ 9,000                                  | \$ 9,000                              | 2                                      |
| Loans held-for-sale                        | 390,342                                   | 338,500                               | 54                                     |
| RMBS, available-for-sale                   | 270,783                                   | 74,000                                | 3                                      |
| Secured financing agreements               | 220,729                                   | 218,165                               | 8                                      |
|  | \$ 890,854                                | \$ 639,665                            | 67                                     |

The following table summarizes the estimated annual change in net investment income for our LIBOR-based investments and our LIBOR-based debt assuming increases or a decrease in LIBOR and adjusted for the effects of our interest rate hedging activities (amounts in thousands, except per share amounts):

|   | Variable-rate<br>investments and<br>indebtedness | 3.0%<br>Increase | 2.0%<br>Increase | 1.0%<br>Increase | 1.0%<br>Decrease (1) |
|---|--|------------------|------------------|------------------|----------------------|
| Income (Expense) Subject to Interest Rate Sensitivity |  |                  |                  |                  |                      |
| Investment income from variable-rate investments      | \$ 5,134,440                                     | \$ 173,102       | \$ 112,813       | \$ 52,767        | \$ (9,731)           |
| Interest expense from variable-rate debt              | (3,670,077)                                      | (110,102)        | (73,402)         | (36,701)         | 8,777                |
| Net investment income from variable rate instruments  | \$ 1,464,363                                     | \$ 63,000        | \$ 39,411        | \$ 16,066        | \$ (954)             |
| Impact per diluted average shares outstanding         |  | \$ 0.26          | \$ 0.17          | \$ 0.07          | \$ —                 |

(1) Assumes LIBOR does not go below 0%.

## Foreign Currency Risk



We intend to hedge our currency exposures in a prudent manner. However, our currency hedging strategies may not eliminate all of our currency risk due to, among other things, uncertainties in the timing and/or amount of payments received on the related investments, and/or unequal, inaccurate, or unavailability of hedges to perfectly offset changes in future exchange rates. Additionally, we may be required under certain circumstances to collateralize our currency hedges for the benefit of the hedge counterparty, which could adversely affect our liquidity.

Consistent with our strategy of hedging foreign currency exposure on certain investments, we typically enter into a series of forwards to fix the U.S. dollar amount of foreign currency denominated cash flows (interest income, rental income and principal payments) we expect to receive from our foreign currency denominated investments. Accordingly, the notional values and expiration dates of our foreign currency hedges approximate the amounts and timing of future payments we expect to receive on the related investments.

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The following table represents our currency hedge exposure as it relates to our investments denominated in foreign currencies, along with the aggregate notional amount of the hedges in place (amounts in thousands except for number of contracts, using the September 30, 2015 pound sterling (“GBP”) closing rate of 1.5128, Euro (“EUR”) closing rate of 1.1177, Swedish Krona (“SEK”) closing rate of 0.1195, Norwegian Krone (“NOK”) closing rate of 0.1174, Danish Krone (“DKK”) closing rate of 0.1498):

| Carrying Value of Local |                | Number of Foreign Exchange | Aggregate Notional Value | Expiration Range of Contracts |
|-------------------------|----------------|----------------------------|--------------------------|-------------------------------|
| Net Investment          | Currency       | Contracts                  | of Hedges Applied        |                               |
| \$ 116,365              | GBP            | 9                          | \$ 131,727               | July 2016                     |
| 33,809                  | GBP            | 10                         | 40,236                   | January 2017                  |
| 10,504                  | GBP            | 11                         | 10,463                   | October 2015 – March 2016     |
| 41,067                  | GBP            | 6                          | 51,348                   | January 2018                  |
|                         | EUR, DKK, NOK, |                            |                          |                               |
| 6,395                   | SEK            | 6                          | 11,313                   | December 2015                 |
| 90,041                  | GBP            | 7                          | 103,938                  | October 2015 – April 2017     |
| 26,407                  | GBP            | 6                          | 30,706                   | November 2015 – February 2017 |
| 3,153                   | GBP            | 3                          | 4,431                    | June 2016 – March 2018        |
| 178,948                 | EUR            | 59                         | (1) 290,237              | October 2015 – June 2020      |
| 14,311                  | GBP            | 11                         | 16,247                   | October 2015 – January 2018   |
| 40,928                  | EUR            | 11                         | 39,744                   | October 2015 – October 2016   |
| 50,811                  | EUR            | 16                         | 56,008                   | February 2016 – October 2016  |
| \$ 612,739              |                | 155                        | \$ 786,398               |                               |

(1) During the nine months ended September 30, 2015, we entered into 59 foreign exchange contracts to hedge our Euro currency exposure created by our acquisition of the Ireland Portfolio. As of September 30, 2015, these contracts have an aggregate notional of \$290.2 million and varying maturities through June 2020.

#### Item 4. Controls and Procedures.

**Disclosure Controls and Procedures.** We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including the Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our

Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting. No change in internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings.

Currently, no material legal proceedings are pending or, to our knowledge, threatened or contemplated against us, that could have a material adverse effect on our business, financial position or results of operations.

## Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

## Issuer Purchases of Equity Securities

The following table provides information regarding our purchases of common stock during the three months ended September 30, 2015:

| Period         | Total number of shares purchased | Average repurchase price per share | Number of shares purchased as part of publicly announced program (1) | Value of shares available for purchase under the program (in thousands) |
|----------------|----------------------------------|------------------------------------|--|---|
| September 2015 | 1,393,223                        | \$ 20.86                           | 1,393,223  | \$ 262,649  |

(1) In September 2014, our board of directors authorized and announced the repurchase of up to \$250 million of our outstanding common stock over a period of one year. In December 2014, our board of directors amended the

repurchase program to include the repurchase of our outstanding convertible senior notes. In June 2015, our board of directors amended the repurchase program to increase the authorized purchase amount to \$450 million and provide for a one-year extension through June 2016.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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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.

STARWOOD PROPERTY TRUST, INC.

Date: November 5, 2015 By: /s/ BARRY S. STERNLICHT

Barry S. Sternlicht  
Chief Executive Officer  
Principal Executive Officer

Date: November 5, 2015 By: /s/ RINA PANIRY

Rina Paniry  
Chief Financial Officer, Treasurer, Chief Accounting Officer and Principal Financial  
Officer

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Item 6. Exhibits.

(a)Index to Exhibits

INDEX TO EXHIBITS

| Exhibit No. | Description  |
|-------------|--|
| 10.1        | Fourth Amended and Restated Master Repurchase and Securities Contract, dated August 3, 2015, between and among Starwood Property Mortgage Sub 2, L.L.C., Starwood Property Mortgage Sub-2-A, L.L.C. and Wells Fargo Bank, National Association |
| 31.1        | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002   |
| 31.2        | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002   |
| 32.1        | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2        | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101.INS     | XBRL Instance Document   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document  |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document   |