

STARWOOD PROPERTY TRUST, INC.

Form 10-Q

August 04, 2016

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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 June 30, 2016

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) 422-7700

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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 July 29, 2016 was 238,048,384.



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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, 2015, this Quarterly Report on Form 10-Q and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, 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;
- 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>June 30,<br>2016 | As of<br>December<br>31, 2015 |
|--|---------------------------|-------------------------------|
| Assets:  |                           |                               |
| Cash and cash equivalents  | \$ 404,820                | \$ 368,815                    |
| Restricted cash  | 41,131                    | 23,069                        |
| Loans held-for-investment, net                                     | 5,693,452                 | 5,973,079                     |
| Loans held-for-sale, at fair value                                 | 237,106                   | 203,865                       |
| Loans transferred as secured borrowings                            | 93,268                    | 86,573                        |
| Investment securities (\$378,461 and \$403,703 held at fair value) | 898,803                   | 724,947                       |
| Properties, net  | 1,232,855                 | 919,225                       |
| Intangible assets (\$83,301 and \$119,698 held at fair value)      | 177,053                   | 201,570                       |
| Investment in unconsolidated entities                              | 200,541                   | 199,201                       |
| Goodwill   | 140,437                   | 140,437                       |
| Derivative assets  | 42,692                    | 45,091                        |
| Accrued interest receivable  | 30,036                    | 34,314                        |
| Other assets   | 118,050                   | 102,479                       |
| Variable interest entity ("VIE") assets, at fair value             | 80,076,117                | 76,675,689                    |
| Total Assets   | \$ 89,386,361             | \$ 85,698,354                 |
| Liabilities and Equity   |                           |                               |
| Liabilities:   |                           |                               |
| Accounts payable, accrued expenses and other liabilities           | \$ 140,612                | \$ 156,805                    |
| Related-party payable  | 20,318                    | 40,955                        |
| Dividends payable  | 115,013                   | 114,947                       |
| Derivative liabilities   | 17,870                    | 5,196                         |
| Secured financing agreements, net                                  | 4,476,221                 | 3,980,699                     |
| Convertible senior notes, net                                      | 1,334,424                 | 1,323,795                     |
| Secured borrowings on transferred loans                            | 94,668                    | 88,000                        |
| VIE liabilities, at fair value                                     | 79,087,142                | 75,817,014                    |
| Total Liabilities  | 85,286,268                | 81,527,411                    |



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, 242,653,861 issued and 238,046,976 outstanding as of June 30, 2016 and 241,044,775 issued and 237,490,779 outstanding as of December 31, 2015 | 2,427         | 2,410         |
| Additional paid-in capital   | 4,220,887     | 4,192,844     |
| Treasury stock (4,606,885 shares and 3,553,996 shares)   | (92,104)      | (72,381)      |
| Accumulated other comprehensive income   | 32,627        | 29,729        |
| Accumulated deficit  | (103,373)     | (12,286)      |
| Total Starwood Property Trust, Inc. Stockholders' Equity   | 4,060,464     | 4,140,316     |
| Non-controlling interests in consolidated subsidiaries   | 39,629        | 30,627        |
| Total Equity   | 4,100,093     | 4,170,943     |
| Total Liabilities and Equity   | \$ 89,386,361 | \$ 85,698,354 |

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>June 30, |            | For the Six Months<br>Ended<br>June 30, |            |
|---|---|------------|---|------------|
|   | 2016                                      | 2015       | 2016                                    | 2015       |
| Revenues:   |   |            |   |            |
| Interest income from loans  | \$ 122,557                                | \$ 118,292 | \$ 240,089                              | \$ 236,721 |
| Interest income from investment securities                                    | 15,301                                    | 23,810     | 34,704                                  | 51,554     |
| Servicing fees  | 23,312                                    | 30,154     | 48,003                                  | 58,411     |
| Rental income   | 37,843                                    | 5,014      | 70,520                                  | 7,686      |
| Other revenues  | 979                                       | 1,390      | 2,169                                   | 3,137      |
| Total revenues  | 199,992                                   | 178,660    | 395,485                                 | 357,509    |
| Costs and expenses:   |   |            |   |            |
| Management fees   | 23,767                                    | 26,821     | 48,730                                  | 54,789     |
| Interest expense  | 57,635                                    | 49,799     | 114,155                                 | 100,333    |
| General and administrative  | 35,409                                    | 41,404     | 68,207                                  | 76,668     |
| Acquisition and investment pursuit costs                                      | 2,888                                     | 4,867      | 4,173                                   | 6,053      |
| Costs of rental operations  | 15,852                                    | 1,211      | 28,507                                  | 2,909      |
| Depreciation and amortization   | 19,073                                    | 5,828      | 37,833                                  | 9,913      |
| Loan loss allowance, net  | 2,029                                     | 2,661      | 1,268                                   | 2,978      |
| Other expense   | —   | —          | 100                                     | 375        |
| Total costs and expenses  | 156,653                                   | 132,591    | 302,973                                 | 254,018    |
| Income before other income (loss), income taxes and non-controlling interests | 43,339                                    | 46,069     | 92,512                                  | 103,491    |
| Other income (loss):  |   |            |   |            |
| Change in net assets related to consolidated VIEs                             | 50,707                                    | 55,873     | 46,540                                  | 103,734    |
| Change in fair value of servicing rights                                      | (12,191)                                  | (2,652)    | (18,930)                                | (4,194)    |
| Change in fair value of investment securities, net                            | 1,319                                     | 1,446      | 2,072                                   | 947        |
| Change in fair value of mortgage loans held-for-sale, net                     | 13,235                                    | 10,831     | 20,126                                  | 31,962     |
| Earnings from unconsolidated entities   | 4,479                                     | 8,951      | 8,544                                   | 15,041     |
| (Loss) gain on sale of investments and other assets, net                      | (90)                                      | 209        | 155                                     | 17,407     |
| Gain (loss) on derivative financial instruments, net                          | 20,253                                    | (19,530)   | (4,465)                                 | 5,093      |
| Foreign currency (loss) gain, net   | (16,988)                                  | 20,854     | (17,366)                                | (9,453)    |
| Total other-than-temporary impairment (“OTTI”)                                | —   | —          | (54)                                    | —          |
| Noncredit portion of OTTI recognized in other comprehensive income            | —   | —          | 54                                      | —          |
| Net impairment losses recognized in earnings                                  | —   | —          | —                                       | —          |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Loss on extinguishment of debt   | —          | (629)      | —          | (5,921)    |
| Other income, net  | 8,714      | 10         | 10,729     | 55         |
| Total other income (loss)  | 69,438     | 75,363     | 47,405     | 154,671    |
| Income before income taxes   | 112,777    | 121,432    | 139,917    | 258,162    |
| Income tax provision   | (706)      | (3,792)    | (800)      | (19,743)   |
| Net income   | 112,071    | 117,640    | 139,117    | 238,419    |
| Net income attributable to non-controlling interests                   | (598)      | (492)      | (987)      | (908)      |
| Net income attributable to Starwood Property Trust, Inc.               | \$ 111,473 | \$ 117,148 | \$ 138,130 | \$ 237,511 |
| Earnings per share data attributable to Starwood Property Trust, Inc.: |            |            |            |            |
| Basic  | \$ 0.47    | \$ 0.49    | \$ 0.58    | \$ 1.03    |
| Diluted  | \$ 0.47    | \$ 0.49    | \$ 0.58    | \$ 1.02    |
| Dividends declared per common share                                    | \$ 0.48    | \$ 0.48    | \$ 0.96    | \$ 0.96    |

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>June 30, |            | For the Six Months<br>Ended<br>June 30, |            |
|--|---|------------|---|------------|
|  | 2016                                      | 2015       | 2016                                    | 2015       |
| Net income   | \$ 112,071                                | \$ 117,640 | \$ 139,117                              | \$ 238,419 |
| Other comprehensive (loss) income (net change by component):         |   |            |   |            |
| Cash flow hedges   | (48)                                      | 123        | (321)                                   | (140)      |
| Available-for-sale securities  | 5,951                                     | (1,857)    | 2,551                                   | (9,820)    |
| Foreign currency remeasurement                                       | (6,733)                                   | 8,273      | 668                                     | (35)       |
| Other comprehensive (loss) gain                                      | (830)                                     | 6,539      | 2,898                                   | (9,995)    |
| Comprehensive income   | 111,241                                   | 124,179    | 142,015                                 | 228,424    |
| Less: Comprehensive income attributable to non-controlling interests | (598)                                     | (492)      | (987)                                   | (908)      |
| Comprehensive income attributable to Starwood Property Trust, Inc.   | \$ 110,643                                | \$ 123,687 | \$ 141,028                              | \$ 227,516 |

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 |          |              |                |             | (Accumulated | Accumulated   | Total         |             |
|--------------|----------|--------------|----------------|-------------|--------------|---------------|---------------|-------------|
| Shares       | Par      | Additional   | Treasury Stock | Amount      | Deficit)     | Other         | Starwood      | Non-        |
|              | Value    | Paid-in      | Shares         |             | Retained     | Comprehensive | Trust, Inc.   | Controlling |
|              |          | Capital      |                |             | Earnings     | Income        | Stockholders' | Interests   |
|              |          |              |                |             |              |               | Equity        |             |
| 241,044,775  | \$ 2,410 | \$ 4,192,844 | 3,553,996      | \$ (72,381) | \$ (12,286)  | \$ 29,729     | \$ 4,140,316  | \$ 30,627   |
| 9,163        | —        | 177          | —              | —           | —            | —             | 177           | —           |
| —            | —        | —            | 1,052,889      | (19,723)    | —            | —             | (19,723)      | —           |
| 876,674      | 9        | 14,651       | —              | —           | —            | —             | 14,660        | —           |
| 723,249      | 8        | 13,215       | —              | —           | —            | —             | 13,223        | —           |
| —            | —        | —            | —              | —           | 138,130      | —             | 138,130       | 987         |
| —            | —        | —            | —              | —           | (229,217)    | —             | (229,217)     | —           |
| —            | —        | —            | —              | —           | —            | 2,898         | 2,898         | —           |
| —            | —        | —            | —              | —           | —            | —             | —             | (52)        |
| —            | —        | —            | —              | —           | —            | —             | —             | 10,417      |
| —            | —        | —            | —              | —           | —            | —             | —             | (2,350)     |
| 242,653,861  | \$ 2,427 | \$ 4,220,887 | 4,606,885      | \$ (92,104) | \$ (103,373) | \$ 32,627     | \$ 4,060,464  | \$ 39,629   |
| 224,752,053  | \$ 2,248 | \$ 3,835,725 | 1,213,750      | \$ (23,635) | \$ (9,378)   | \$ 55,896     | \$ 3,860,856  | \$ 22,056   |

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|             |          |              |           |             |           |           |              |           |
|-------------|----------|--------------|-----------|-------------|-----------|-----------|--------------|-----------|
| 13,800,000  | 138      | 326,004      | —         | —           | —         | —         | 326,142      | —         |
| 6,404       | —        | 154          | —         | —           | —         | —         | 154          | —         |
| —           | —        | (892)        | —         | —           | —         | —         | (892)        | —         |
| —           | —        | —            | 400,000   | (8,829)     | —         | —         | (8,829)      | —         |
| —           | —        | (17,727)     | —         | —           | —         | —         | (17,727)     | —         |
| 1,112,157   | 11       | 17,871       | —         | —           | —         | —         | 17,882       | —         |
| 523,560     | 5        | 12,734       | —         | —           | —         | —         | 12,739       | —         |
| —           | —        | —            | —         | —           | 237,511   | —         | 237,511      | 908       |
| —           | —        | —            | —         | —           | (224,010) | —         | (224,010)    | —         |
| —           | —        | —            | —         | —           | —         | (9,995)   | (9,995)      | —         |
| —           | —        | —            | —         | —           | —         | —         | —            | 1,045     |
| —           | —        | —            | —         | —           | —         | —         | —            | 2,077     |
| —           | —        | —            | —         | —           | —         | —         | —            | (792)     |
| 240,194,174 | \$ 2,402 | \$ 4,173,869 | 1,613,750 | \$ (32,464) | \$ 4,123  | \$ 45,901 | \$ 4,193,831 | \$ 25,294 |

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 Six Months Ended |             |
|--|--------------------------|-------------|
|  | June 30,                 | 2015        |
|  | 2016                     | 2015        |
| Cash Flows from Operating Activities:  |                          |             |
| Net income   | \$ 139,117               | \$ 238,419  |
| Adjustments to reconcile net income to net cash provided by operating activities:                |                          |             |
| Amortization of deferred financing costs, premiums and discounts on secured financing agreements | 8,212                    | 7,159       |
| Amortization of convertible debt discount and deferred costs                                     | 10,628                   | 10,503      |
| Accretion of net discount on investment securities   | (7,349)                  | (16,314)    |
| Accretion of net deferred loan fees and discounts  | (23,362)                 | (18,139)    |
| Amortization of net discount from secured borrowings on transferred loans                        | —                        | 4           |
| Share-based compensation   | 14,660                   | 17,882      |
| Share-based component of incentive fees  | 13,223                   | 12,739      |
| Change in fair value of fair value option investment securities                                  | (2,072)                  | (947)       |
| Change in fair value of consolidated VIEs  | 45,899                   | 3,663       |
| Change in fair value of servicing rights   | 18,930                   | 4,194       |
| Change in fair value of loans held-for-sale  | (20,126)                 | (31,962)    |
| Change in fair value of derivatives  | 2,332                    | (8,782)     |
| Foreign currency loss, net   | 17,169                   | 9,659       |
| Gain on sale of investments and other assets   | (155)                    | (17,407)    |
| Loan loss allowance, net   | 1,268                    | 2,978       |
| Depreciation and amortization  | 34,664                   | 9,079       |
| Earnings from unconsolidated entities  | (8,544)                  | (15,041)    |
| Distributions of earnings from unconsolidated entities   | 9,817                    | 14,752      |
| Bargain purchase gain  | (8,406)                  | —           |
| Loss on extinguishment of debt   | —                        | 5,921       |
| Originations of loans held-for-sale, net of principal collections                                | (488,448)                | (889,413)   |
| Proceeds from sale of loans held-for-sale  | 475,333                  | 1,033,644   |
| Changes in operating assets and liabilities:   |                          |             |
| Related-party payable, net   | (20,749)                 | (16,192)    |
| Accrued and capitalized interest receivable, less purchased interest                             | (41,151)                 | (32,185)    |
| Other assets   | 6,715                    | (11,452)    |
| Accounts payable, accrued expenses and other liabilities   | (29,055)                 | (17,810)    |
| Net cash provided by operating activities  | 148,550                  | 294,952     |
| Cash Flows from Investing Activities:  |                          |             |
| Origination and purchase of loans held-for-investment  | (997,421)                | (1,256,784) |
| Proceeds from principal collections on loans   | 1,193,643                | 698,901     |

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|  |           |           |
|--|-----------|-----------|
| Proceeds from loans sold                                     | 121,276   | 378,576   |
| Purchase of investment securities                            | (350,642) | (147,423) |
| Proceeds from sales of investment securities                 | 1,269     | 5,098     |
| Proceeds from principal collections on investment securities | 47,544    | 247,774   |
| Real estate business combinations, net of cash acquired      | (91,186)  | (95,891)  |
| Proceeds from sale of properties                             | —         | 33,056    |
| Purchase of other assets                                     | (5,521)   | —         |
| Investment in unconsolidated entities                        | (3,854)   | (32,065)  |
| Distribution of capital from unconsolidated entities         | 1,244     | 22,127    |
| Payments for purchase or termination of derivatives          | (15,144)  | (13,894)  |
| Proceeds from termination of derivatives                     | 27,447    | 24,782    |
| Return of investment basis in purchased derivative asset     | 137       | 177       |
| (Increase) decrease in restricted cash, net                  | (17,840)  | 16,090    |
| Net cash used in investing activities                        | (89,048)  | (119,476) |

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 Six Months Ended |              |
|---|--------------------------|--------------|
|   | June 30,                 |              |
|   | 2016                     | 2015         |
| Cash Flows from Financing Activities:                                   |                          |              |
| Borrowings under financing agreements                                   | \$ 2,059,599             | \$ 2,464,018 |
| Principal repayments on and repurchases of borrowings                   | (1,711,117)              | (2,445,916)  |
| Payment of deferred financing costs                                     | (6,437)                  | (7,054)      |
| Proceeds from common stock issuances                                    | 177                      | 326,296      |
| Payment of equity offering costs  | —                        | (892)        |
| Payment of dividends  | (229,151)                | (216,623)    |
| Contributions from non-controlling interests                            | 10,417                   | —            |
| Distributions to non-controlling interests                              | (2,350)                  | (792)        |
| Purchase of treasury stock  | (19,723)                 | (2,268)      |
| Issuance of debt of consolidated VIEs                                   | 596                      | 7,513        |
| Repayment of debt of consolidated VIEs                                  | (147,523)                | (120,529)    |
| Distributions of cash from consolidated VIEs                            | 22,986                   | 14,584       |
| Net cash (used in) provided by financing activities                     | (22,526)                 | 18,337       |
| Net increase in cash and cash equivalents                               | 36,976                   | 193,813      |
| Cash and cash equivalents, beginning of period                          | 368,815                  | 255,187      |
| Effect of exchange rate changes on cash                                 | (971)                    | (2,522)      |
| Cash and cash equivalents, end of period                                | \$ 404,820               | \$ 446,478   |
| Supplemental disclosure of cash flow information:                       |                          |              |
| Cash paid for interest  | \$ 91,961                | \$ 81,208    |
| Income taxes paid   | 2,177                    | 17,663       |
| Supplemental disclosure of non-cash investing and financing activities: |                          |              |
| Fair value of assets acquired, net of cash                              | \$ 270,021               | \$ 393,774   |
| Fair value of liabilities assumed                                       | 170,429                  | 297,883      |
| Net assets acquired from consolidated VIEs                              | 102,976                  | 31,309       |
| Unsettled common stock repurchased                                      | —                        | 6,561        |
| Dividends declared, but not yet paid                                    | 115,013                  | 115,575      |
| Consolidation of VIEs (VIE asset/liability additions)                   | 16,850,221               | 5,657,627    |
| Deconsolidation of VIEs (VIE asset/liability reductions)                | 5,126,980                | 3,481,363    |

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 June 30, 2016

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. (“STWD” and, 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 June 30, 2016:

- 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.

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 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, 2015 (the "Form 10-K"), as filed with the Securities and Exchange Commission ("SEC"). The results of operations for the three and six months ended June 30, 2016 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, 2015 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.

Effective January 1, 2016, we implemented Accounting Standards Update ("ASU") 2015-02, Consolidation (Topic 810) – Amendments to the Consolidation Analysis, which specifies that the right to remove the decision maker in a VIE must be exercisable without cause for the decision maker to not be deemed the party that has the power to direct the activities of a VIE. In connection with the implementation of this ASU, we consolidated VIE assets and VIE liabilities from CMBS trusts as of March 31, 2016 where the right to remove the Company as special servicer was not exercisable without cause.

Our implementation of the ASU also resulted in the determination that certain entities in which we hold interests, which prior to the implementation of the ASU were not considered VIEs, are now considered VIEs as the limited partners of these entities do not collectively possess (i) the right to remove the general partner without cause or (ii) the right to participate in significant decisions made by the partnership. The application of the ASU to these particular entities did not change our respective conclusions as to whether or not they should be consolidated. We applied the provisions of this ASU using a modified retrospective approach which does not require the restatement of prior period financial statements. There was no cumulative-effect adjustment to equity upon adoption. Refer to Note 14 for further discussion of the impact of our implementation of ASU 2015-02.

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 without cause, 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 securitization 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.



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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 securitization 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 securitization VIEs as individual line items on our condensed consolidated balance sheets. The liabilities of our consolidated securitization 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 consolidated securitization 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 securitization 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 securitization VIE assets as a whole can only be used to settle the obligations of the consolidated VIE. The assets of our securitization 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 securitization VIE assets, with the remaining 96% representing loans. However, it is important to note that the fair value of our securitization VIE assets is determined by reference to our securitization VIE liabilities as permitted under 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 securitization 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 securitization VIEs are presented in the aggregate.

#### 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

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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 securitization 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 securitization VIEs at fair value pursuant to our election of the fair value option. The securitization 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 securitization 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 discussion regarding our fair value measurements.

## Loans Held-for-Investment and Provision for Loan Losses

Loans that are held for investment are carried at cost, net of unamortized acquisition premiums or discounts, loan fees, and origination costs as applicable, unless the loans are deemed impaired. We evaluate each loan classified as held-for-investment for impairment at least quarterly. Impairment occurs 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 considered to be impaired, we record an allowance through the provision for loan losses to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral. 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 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.

#### Deferred Financing Costs

In accordance with ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30), effective January 1, 2016 we modified our presentation of deferred financing costs in our condensed consolidated balance sheets to present such 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. Deferred financing costs will continue to be amortized to

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interest expense over the terms of the respective debt agreements. As required by this ASU, we applied this change retrospectively to our prior period condensed consolidated balance sheet presentation.

## 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 senior 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.

Nearly all of 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 six months ended June 30, 2016 and 2015, 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

In connection with our implementation of ASU 2015-03 discussed above, we reclassified deferred financing costs of \$38.3 million and \$1.4 million previously reported in other assets to secured financing agreements, net and convertible senior notes, net, respectively, within our condensed consolidated balance sheet as of December 31, 2015.

## Recent Accounting Developments

On May 28, 2014, the Financial Accounting Standards Board (“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 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 January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities, which impacts the accounting for equity investments, financial liabilities under the fair value option, and disclosure requirements for financial instruments. The ASU shall be applied prospectively and is effective for annual periods, and interim periods therein, beginning after December 15, 2017. Early application is not permitted. We are in the process of assessing the impact this ASU will have on the Company.

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On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes a right-of-use model for lessee accounting which results in the recognition of most leased assets and lease liabilities on the balance sheet of the lessee. Lessor accounting was not significantly changed. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018 by applying a modified retrospective approach. Early application is permitted. We are in the process of assessing the impact this ASU will have on the Company.

On March 14, 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815) – Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that the change in counterparty to a derivative designated in a hedging relationship, in and of itself, would not require that the hedging relationship be de-designated for hedge accounting purposes. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On March 15, 2016, the FASB issued ASU 2016-07, Investments – Equity Method and Joint Ventures (Topic 323) – Simplifying the Transition to the Equity Method of Accounting, which amends existing guidance to require that in instances where an investee is transitioning from the cost method of accounting to the equity method of accounting due to an increase in ownership level or degree of influence, the investee applies the equity method of accounting prospectively from the date significant influence is obtained, whereas existing guidance requires an investee to retrospectively apply the equity method of accounting for all previous periods in which the investment was held. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On March 17, 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amends the principal-versus-agent implementation guidance and illustrations in the FASB’s revenue recognition standard issued in ASU 2014-09. The ASU provides further guidance to assist an entity in the determination of whether the nature of its promise to its customer is to provide the underlying goods or services, meaning the entity is a principal, or to arrange for a third party to provide the underlying goods or services, meaning the entity is an agent. The ASU is effective for the first interim or annual period beginning after December 15, 2017. Early application is permissible though no earlier than 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 March 30, 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting, which seeks to simplify the accounting for employee share-based payment transactions, including the accounting for associated income taxes and forfeitures. The ASU is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016. Early application is permitted in any interim or annual period. We do not expect the application of this ASU to materially impact the Company.

On April 14, 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing, which amends guidance and illustrations in the FASB's revenue recognition standard issued in ASU 2014-09 regarding the identification of performance obligations and the implementation guidance on licensing arrangements. The ASU is effective for the first interim or annual period beginning after December 15, 2017. Early application is permissible though no earlier than 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 June 16, 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which mandates use of an “expected loss” credit model for estimating future credit losses of certain financial instruments instead of the “incurred loss” credit model that existing GAAP currently mandates. The “expected loss” model requires the consideration of possible credit losses over the life of an instrument compared to only estimating credit losses upon the occurrence of a discrete loss event in accordance with the current “incurred loss” methodology. The ASU is effective for annual reporting periods, and interim periods



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therein, beginning after December 15, 2019. Early application is permissible though no earlier than the first interim or annual period beginning after December 15, 2018. We are in the process of assessing the impact this ASU will have on the Company.

3. Acquisitions

Woodstar Portfolio Acquisition

During the three months ended June 30, 2016, we acquired the final two of the 32 affordable housing communities which comprise our “Woodstar Portfolio.” During the three months ended March 31, 2016, we acquired 12 of the Woodstar Portfolio’s affordable housing communities. The Woodstar Portfolio in its entirety is comprised of 8,948 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas and is 98% occupied.

The two affordable housing communities acquired during the three months ended June 30, 2016 are comprised of 628 units with total assets of \$48.9 million and assumed liabilities of \$22.1 million, which includes state sponsored financing and other assumed debt. The 14 affordable housing communities acquired during the six months ended June 30, 2016 are comprised of 3,710 units with total assets of \$276.3 million and assumed liabilities of \$170.4 million, which includes federal, state and county sponsored financing and other assumed debt. Refer to Note 9 for further discussion of these assumed debt facilities.

For the 14 affordable housing communities acquired during 2016, we recognized revenues of \$14.6 million and net income of \$5.0 million during the six months ended June 30, 2016. Such net income includes (i) bargain purchase gains of \$8.4 million, (ii) depreciation and amortization expense of \$9.0 million and (iii) one-time acquisition-related costs, such as legal and due diligence costs, of approximately \$0.8 million.

No goodwill was recognized in connection with the Woodstar Portfolio acquisition as the purchase price did not exceed the fair value of the net assets acquired. During the three months ended June 30, 2016, a bargain purchase gain of \$8.4 million was recognized within other income, net in our condensed consolidated statements of operations as the fair value of the net assets acquired during the three months ended June 30, 2016 exceeded the purchase price due to favorable changes in net asset fair values occurring between the date the purchase price was negotiated and the closing date.

Investing and Servicing Segment Property Portfolio

During the three and six months ended June 30, 2016, our Investing and Servicing Segment acquired controlling interests in commercial real estate properties as well as a non-performing loan from CMBS trusts for \$58.0 million and \$87.8 million, respectively. In addition, during the three months ended June 30, 2016, we foreclosed on a non-performing loan that was previously acquired from a CMBS trust for \$8.2 million. These properties, aggregated with the controlling interests in 14 U.S. commercial real estate properties acquired from CMBS trusts during the year ended December 31, 2015 for \$138.7 million, comprise the Investing and Servicing Segment Property Portfolio (the "REO Portfolio"). When the properties are acquired from CMBS trusts that are consolidated as VIEs on our balance sheet, the acquisitions are reflected as repayment of debt of consolidated VIEs in our consolidated statements of cash flows. No goodwill or bargain purchase gain was recognized in connection with the REO Portfolio acquisitions as the purchase price equaled the fair value of the net assets acquired.

#### Ireland Portfolio Acquisition

During 2015, we acquired 12 net leased fully occupied office properties and one multi-family property all located in Dublin, Ireland. Collectively, these 13 properties comprise our "Ireland Portfolio".

The Ireland Portfolio, which collectively is comprised of approximately 600,000 square feet, included total assets of \$518.2 million and assumed debt of \$283.0 million at acquisition. Following our acquisition, all assumed debt was immediately extinguished and replaced with new financing of \$328.6 million from the Ireland Portfolio Mortgage (as set forth in Note 9). All properties within the Ireland Portfolio were acquired from entities controlled by the same

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third party investment fund. No goodwill or bargain purchase gain was recognized in connection with the Ireland Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

## Purchase Price Allocations of Acquisitions

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

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

|  | 2016                  |                  | 2015                  |                  |                      |
|--|-----------------------|------------------|-----------------------|------------------|----------------------|
|  | Woodstar<br>Portfolio | REO<br>Portfolio | Woodstar<br>Portfolio | REO<br>Portfolio | Ireland<br>Portfolio |
| Assets acquired:   |                       |                  |                       |                  |                      |
| Cash and cash equivalents                                | \$ 6,254              | \$ —             | \$ —                  | \$ —             | \$ —                 |
| Restricted cash  | —                     | —                | —                     | —                | 10,829               |
| Properties   | 245,430               | 68,096           | 339,040               | 128,218          | 445,369              |
| Intangible assets  | 8,174                 | 25,387           | 11,337                | 19,381           | 59,529               |
| Other assets   | 16,417                | 2,858            | 652                   | 4,973            | 2,508                |
| Total assets acquired                                    | 276,275               | 96,341           | 351,029               | 152,572          | 518,235              |
| Liabilities assumed:                                     |                       |                  |                       |                  |                      |
| Accounts payable, accrued expenses and other liabilities | 19,666                | 3,063            | 18,030                | 6,998            | 17,552               |
| Secured financing agreements                             | 150,763               | —                | 8,982                 | —                | 283,010              |
| Total liabilities assumed                                | 170,429               | 3,063            | 27,012                | 6,998            | 300,562              |
| Non-controlling interests                                | —                     | 5,492            | —                     | 6,904            | —                    |
| Net assets acquired                                      | \$ 105,846            | \$ 87,786        | \$ 324,017            | \$ 138,670       | \$ 217,673           |

## Pro-Forma Operating Data

The pro-forma revenues and net income attributable to the Company for the three and six months ended June 30, 2016 and 2015, assuming all the properties acquired within the Woodstar Portfolio, REO Portfolio and the Ireland Portfolio were acquired on January 1, 2014 for the 2015 acquisitions and January 1, 2015 for the 2016 acquisitions, are as

follows (amounts in thousands, except per share amounts):

|                                 | For the Three Months<br>Ended<br>June 30, |            | For the Six Months<br>Ended<br>June 30, |            |
|---------------------------------|---|------------|---|------------|
|                                 | 2016                                      | 2015       | 2016                                    | 2015       |
| Revenues                        | \$ 202,304                                | \$ 212,251 | \$ 405,577                              | \$ 428,261 |
| Net income attributable to STWD | 102,983                                   | 115,354    | 131,819                                 | 237,563    |
| Net income per share - Basic    | 0.43                                      | 0.49       | 0.55                                    | 1.03       |
| Net income per share - Diluted  | 0.43                                      | 0.48       | 0.55                                    | 1.02       |

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

|                                 | For the Three<br>Months Ended<br>June 30, |          | For the Six<br>Months Ended<br>June 30, |          |
|---------------------------------|---|----------|---|----------|
|                                 | 2016                                      | 2015     | 2016                                    | 2015     |
| Management fee expense addition | \$ 175                                    | \$ 1,966 | \$ 663                                  | \$ 4,335 |

## 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 June 30, 2016 and December 31, 2015 (dollars in thousands):

|   | Carrying<br>Value | Face<br>Amount | Weighted<br>Average<br>Coupon | Weighted<br>Average Life<br>("WAL")<br>(years)(3) |
|---|-------------------|----------------|-------------------------------|---|
| June 30, 2016                                   |                   |                |                               |   |
| First mortgages (1)                             | \$ 4,538,986      | \$ 4,592,601   | 5.8                           | % 2.4   |
| Subordinated mortgages (2)                      | 392,208           | 413,228        | 8.5                           | % 3.0   |
| Mezzanine loans (1)                             | 769,555           | 756,400        | 9.9                           | % 2.1   |
| Total loans held-for-investment                 | 5,700,749         | 5,762,229      |                               |   |
| Loans held-for-sale, fair value option elected  | 237,106           | 235,296        | 5.0                           | % 9.8   |
| Loans transferred as secured borrowings         | 93,268            | 94,668         | 6.1                           | % 2.0   |
| Total gross loans                               | 6,031,123         | 6,092,193      |                               |   |
| Loan loss allowance (loans held-for-investment) | (7,297)           | —              |                               |   |
| Total net loans                                 | \$ 6,023,826      | \$ 6,092,193   |                               |   |
| December 31, 2015                               |                   |                |                               |   |
| First mortgages (1)                             | \$ 4,723,852      | \$ 4,776,576   | 6.0                           | % 2.7   |

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|   |              |              |     |   |     |
|---|--------------|--------------|-----|---|-----|
| Subordinated mortgages (2)                      | 392,563      | 416,713      | 8.5 | % | 3.4 |
| Mezzanine loans (1)                             | 862,693      | 850,024      | 9.9 | % | 2.5 |
| Total loans held-for-investment                 | 5,979,108    | 6,043,313    |     |   |     |
| Loans held-for-sale, fair value option elected  | 203,865      | 203,710      | 4.9 | % | 9.8 |
| Loans transferred as secured borrowings         | 86,573       | 88,000       | 6.1 | % | 2.4 |
| Total gross loans                               | 6,269,546    | 6,335,023    |     |   |     |
| Loan loss allowance (loans held-for-investment) | (6,029)      | —            |     |   |     |
| Total net loans                                 | \$ 6,263,517 | \$ 6,335,023 |     |   |     |

- 
- (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 \$949.2 million and \$930.0 million being classified as first mortgages as of June 30, 2016 and December 31, 2015, 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.
  - (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.

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As of June 30, 2016, approximately \$5.1 billion, or 89.1%, of our loans held-for-investment were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 5.9%. The following table summarizes our investments in floating rate loans (dollars in thousands):

| Index                 | June 30, 2016     |                | December 31, 2015 |                |
|-----------------------|-------------------|----------------|-------------------|----------------|
|                       | Base Rate         | Carrying Value | Base Rate         | Carrying Value |
| One-month LIBOR USD   | 0.4651 %          | \$ 572,062     | 0.4295 %          | \$ 438,641     |
| Three-month LIBOR GBP | N/A               | —              | 0.5904 %          | 375,467        |
| LIBOR floor           | 0.15 - 3.00 % (1) | 4,508,359      | 0.15 - 3.00 % (1) | 4,237,947      |
| Total                 |                   | \$ 5,080,421   |                   | \$ 5,052,055   |

(1) The weighted-average LIBOR floor was 0.32% and 0.31% as of June 30, 2016 and December 31, 2015, 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 June 30, 2016, 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 (dollars in thousands):

| Risk Rating Category | Balance Sheet Classification<br>Loans Held-For-Investment |                        |                 |                     | Loans Transferred     |              | % of        |   |
|----------------------|---|------------------------|-----------------|---------------------|-----------------------|--------------|-------------|---|
|                      | First Mortgages   | Subordinated Mortgages | Mezzanine Loans | Loans Held-For-Sale | As Secured Borrowings | Total        | Total Loans |   |
| 1                    | \$ 3,070  | \$ —                   | \$ —            | \$ —                | \$ —                  | \$ 3,070     | 0.1         | % |
| 2                    | 606,666   | 86,069                 | 96,404          | —                   | —                     | 789,139      | 13.1        | % |
| 3                    | 3,728,584   | 285,921                | 552,692         | —                   | 93,268                | 4,660,465    | 77.3        | % |
| 4                    | 200,666   | 20,218                 | 58,262          | —                   | —                     | 279,146      | 4.6         | % |
| 5                    | —   | —                      | 62,197          | —                   | —                     | 62,197       | 1.0         | % |
| N/A                  | —   | —                      | —               | 237,106             | —                     | 237,106      | 3.9         | % |
|                      | \$ 4,538,986  | \$ 392,208             | \$ 769,555      | \$ 237,106          | \$ 93,268             | \$ 6,031,123 | 100.0       | % |

As of December 31, 2015, the risk ratings for loans subject to our rating system by class of loan were as follows (dollars in thousands):

| Risk Rating Category | Balance Sheet Classification<br>Loans Held-For-Investment |                        |                 |                     | Loans Transferred     |              | % of        |   |
|----------------------|---|------------------------|-----------------|---------------------|-----------------------|--------------|-------------|---|
|                      | First Mortgages   | Subordinated Mortgages | Mezzanine Loans | Loans Held-For-Sale | As Secured Borrowings | Total        | Total Loans |   |
| 1                    | \$ 664  | \$ —                   | \$ —            | \$ —                | \$ —                  | \$ 664       | —           | % |
| 2                    | 496,372   | 88,857                 | 90,449          | —                   | —                     | 675,678      | 10.8        | % |
| 3                    | 3,979,247   | 270,435                | 651,204         | —                   | 86,573                | 4,987,459    | 79.6        | % |
| 4                    | 247,569   | 33,271                 | 121,040         | —                   | —                     | 401,880      | 6.4         | % |
| 5                    | —   | —                      | —               | —                   | —                     | —            | —           | % |
| N/A                  | —   | —                      | —               | 203,865             | —                     | 203,865      | 3.2         | % |
|                      | \$ 4,723,852  | \$ 392,563             | \$ 862,693      | \$ 203,865          | \$ 86,573             | \$ 6,269,546 | 100.0       | % |

After completing our impairment evaluation process, we concluded that no impairment charges were required on any individual loans held-for-investment as of June 30, 2016 or December 31, 2015, as we expect to collect all outstanding principal and interest. None of our loans were 90 days or greater past due as of June 30, 2016.

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 Six Months<br>Ended<br>June 30, |            |
|---|---|------------|
|   | 2016                                    | 2015       |
| Allowance for loan losses at January 1                              | \$ 6,029                                | \$ 6,031   |
| Provision for loan losses   | 1,268                                   | 2,978      |
| Charge-offs   | —                                       | —          |
| Recoveries  | —                                       | —          |
| Allowance for loan losses at June 30                                | \$ 7,297                                | \$ 9,009   |
| Recorded investment in loans related to the allowance for loan loss | \$ 341,343                              | \$ 493,274 |

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

|  | For the Six Months Ended |              |
|--|--------------------------|--------------|
|  | June 30,                 |              |
|  | 2016                     | 2015         |
| Balance at January 1                           | \$ 6,263,517             | \$ 6,300,285 |
| Acquisitions/originations/additional funding   | 1,492,845                | 2,150,080    |
| Capitalized interest (1)                       | 44,875                   | 33,509       |
| Basis of loans sold (2)                        | (596,454)                | (1,411,912)  |
| Loan maturities/principal repayments           | (1,199,205)              | (695,750)    |
| Discount accretion/premium amortization        | 23,362                   | 18,139       |
| Changes in fair value                          | 20,126                   | 31,962       |
| Unrealized foreign currency remeasurement loss | (33,325)                 | (4,419)      |
| Change in loan loss allowance, net             | (1,268)                  | (2,978)      |
| Transfer to/from other asset classifications   | 9,353                    | (172)        |
| Balance at June 30                             | \$ 6,023,826             | \$ 6,418,744 |

(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.

## 5. Investment Securities

Investment securities were comprised of the following as of June 30, 2016 and December 31, 2015 (amounts in thousands):

|                                     | Carrying Value as of |            |
|-------------------------------------|----------------------|------------|
|                                     | June 30,             | December   |
|                                     | 2016                 | 31, 2015   |
| RMBS, available-for-sale            | \$ 251,260           | \$ 176,224 |
| CMBS, fair value option (1)         | 1,050,909            | 1,038,200  |
| Held-to-maturity (“HTM”) securities | 520,342              | 321,244    |
| Equity security, fair value option  | 12,861               | 14,498     |
| Subtotal—Investment securities      | 1,835,372            | 1,550,166  |
| VIE eliminations (1)                | (936,569)            | (825,219)  |
| Total investment securities         | \$ 898,803           | \$ 724,947 |

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

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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 June 30,<br>2016 |                    |      |              |            |          |            |
| Purchases                           | \$ 46,866          | \$ — | \$ 24,403    | \$ 195,036 | \$ —     | \$ 266,305 |
| Sales                               | —                  | —    | 1,269        | —          | —        | 1,269      |
| Principal collections               | 16,197             | —    | 7,142        | 1,861      | —        | 25,200     |
| Three Months Ended June 30,<br>2015 |                    |      |              |            |          |            |
| Purchases                           | \$ —               | \$ — | \$ 250       | \$ 79,926  | \$ —     | \$ 80,176  |
| Sales                               | —                  | —    | 385          | —          | —        | 385        |
| Principal collections               | 7,127              | —    | —            | 228,910    | —        | 236,037    |

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|                                | Available-for-sale |      | CMBS, fair   | HTM        | Equity   |            |
|--------------------------------|--------------------|------|--------------|------------|----------|------------|
|                                | RMBS               | CMBS | value option | Securities | Security | Total      |
| Six Months Ended June 30, 2016 |                    |      |              |            |          |            |
| Purchases                      | \$ 88,336          | \$ — | \$ 57,576    | \$ 204,730 | \$ —     | \$ 350,642 |
| Sales                          | —                  | —    | 1,269        | —          | —        | 1,269      |
| Principal collections          | 23,008             | —    | 19,445       | 5,091      | —        | 47,544     |
| Six Months Ended June 30, 2015 |                    |      |              |            |          |            |
| Purchases                      | \$ —               | \$ — | \$ 8,988     | \$ 138,435 | \$ —     | \$ 147,423 |
| Sales                          | —                  | —    | 5,098        | —          | —        | 5,098      |
| Principal collections          | 18,614             | 224  | 1            | 228,935    | —        | 247,774    |

## RMBS, Available-for-Sale

The Company classified all of its RMBS as available-for-sale as of June 30, 2016 and December 31, 2015. These RMBS are reported at fair value in the balance sheet with changes in fair value recorded in accumulated other comprehensive income (“AOCI”).

The tables below summarize various attributes of our investments in available-for-sale RMBS as of June 30, 2016 and December 31, 2015 (dollars in thousands):

|                   | Purchase Amortized Cost | Credit OTTI | Recorded Amortized Cost | Unrealized Gains or (Losses) Recognized in AOCI |                        |                         | Net Fair Value Adjustment | Fair Value |
|-------------------|-------------------------|-------------|-------------------------|---|------------------------|-------------------------|---------------------------|------------|
|                   |                         |             |                         | Non-Credit OTTI                                 | Gross Unrealized Gains | Gross Unrealized Losses |                           |            |
| June 30, 2016     |                         |             |                         |   |                        |                         |                           |            |
| RMBS              | \$ 221,587              | \$ (10,185) | \$ 211,402              | \$ (151)  | \$ 40,146              | \$ (137)                | \$ 39,858                 | \$ 251,260 |
| December 31, 2015 |                         |             |                         |   |                        |                         |                           |            |
| RMBS              | \$ 149,102              | \$ (10,185) | \$ 138,917              | \$ (340)  | \$ 37,647              | \$ —                    | \$ 37,307                 | \$ 176,224 |

|                    | Weighted Average Coupon (1) | Weighted Average Rating | WAL (Years) (2) |
|--------------------|-----------------------------|-------------------------|-----------------|
| June 30, 2016 RMBS | 1.8                         | % CCC                   | 6.0             |

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December 31, 2015

RMBS

1.3

% B-

6.2

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- (1) Calculated using the June 30, 2016 and December 31, 2015 one-month LIBOR rate of 0.465% and 0.430%, 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 June 30, 2016, approximately \$205.0 million, or 81.6%, of our RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.25%. As of December 31, 2015, approximately \$122.7 million, or 69.7%, of our RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.43%. 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.

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The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS as of June 30, 2016 and December 31, 2015 (amounts in thousands):

|                           | June 30,<br>2016 | December<br>31, 2015 |
|---------------------------|------------------|----------------------|
| Principal balance         | \$ 408,521       | \$ 233,976           |
| Accretable yield          | (78,116)         | (68,345)             |
| Non-accretable difference | (119,003)        | (26,714)             |
| Total discount            | (197,119)        | (95,059)             |
| Amortized cost            | \$ 211,402       | \$ 138,917           |

The principal balance of credit deteriorated RMBS was \$377.0 million and \$199.0 million as of June 30, 2016 and December 31, 2015, respectively. Accretable yield related to these securities totaled \$68.4 million and \$57.7 million as of June 30, 2016 and December 31, 2015, respectively.

The following table discloses the changes to accretable yield and non-accretable difference for our RMBS during the three and six months ended June 30, 2016 (amounts in thousands):

|  | Accretable Yield | Non-Accretable<br>Difference |
|--|------------------|------------------------------|
| Three Months Ended June 30, 2016           |                  |                              |
| Balance as of April 1, 2016                | \$ 67,626        | \$ 82,550                    |
| Accretion of discount                      | (3,742)          | —                            |
| Principal recoveries, net                  | —                | 4,283                        |
| Purchases                                  | 9,765            | 36,637                       |
| Sales                                      | —                | —                            |
| OTTI                                       | —                | —                            |
| Transfer to/from non-accretable difference | 4,467            | (4,467)                      |
| Balance as of June 30, 2016                | \$ 78,116        | \$ 119,003                   |
| Six Months Ended June 30, 2016             |                  |                              |
| Balance as of January 1, 2016              | \$ 68,345        | \$ 26,714                    |
| Accretion of discount                      | (7,157)          | —                            |
| Principal recoveries, net                  | —                | 3,994                        |
| Purchases                                  | 9,147            | 96,076                       |
| Sales                                      | —                | —                            |
| OTTI                                       | —                | —                            |
| Transfer to/from non-accretable difference | 7,781            | (7,781)                      |
| Balance as of June 30, 2016                | \$ 78,116        | \$ 119,003                   |



We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was \$0.3 million and \$0.4 million for the three months ended June 30, 2016 and 2015, respectively, and \$0.7 million for both the six months ended June 30, 2016 and 2015, which has been recorded as management fees in the accompanying condensed consolidated statements of operations.

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The following table presents the gross unrealized losses and estimated fair value of any available-for-sale securities that were in an unrealized loss position as of June 30, 2016 and December 31, 2015, and 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 June 30, 2016     |  |   |  |   |
| RMBS                    | \$ 14,602                                  | \$ 639  | \$ (157)                                   | \$ (131)                                      |
| As of December 31, 2015 |  |   |  |   |
| RMBS                    | \$ 17,026                                  | \$ 653  | \$ (180)                                   | \$ (160)                                      |

As of June 30, 2016 and December 31, 2015, there were four securities and five securities, respectively, with unrealized losses reflected in the table above. After evaluating these securities and recording adjustments for credit-related OTTI, 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 OTTI 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 June 30, 2016, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were \$1.1 billion and \$4.7 billion, respectively. The \$1.1 billion fair value balance represents our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value (\$936.6 million at June 30, 2016) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS.

During the three and six months ended June 30, 2016, we purchased \$54.8 million and \$101.3 million of CMBS, respectively, for which we elected the fair value option. Due to our consolidation of securitization VIEs, \$30.3 million and \$43.7 million, respectively, of this amount is eliminated and reflected primarily as repayment of debt of

consolidated VIEs in our condensed consolidated statement of cash flows.

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As of June 30, 2016, 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 June 30, 2016 and December 31, 2015:

|                         | Weighted Average Coupon | Weighted Average Rating (1) | WAL (Years) (2) |
|-------------------------|-------------------------|-----------------------------|-----------------|
| June 30, 2016           |                         |                             |                 |
| CMBS, fair value option | 5.7                     | % B-                        | 1.8             |
| December 31, 2015       |                         |                             |                 |
| CMBS, fair value option | 3.9                     | % CCC+                      | 7.4             |

(1) As of June 30, 2016 and December 31, 2015, excludes \$6.2 million and \$51.3 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.

## HTM Securities

The table below summarizes unrealized gains and losses of our investments in HTM securities as of June 30, 2016 and December 31, 2015 (amounts in thousands):

|                     | Net Carrying Amount (Amortized Cost) | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---------------------|--------------------------------------|--------------------------------|---------------------------------|------------|
| June 30, 2016       |                                      |                                |                                 |            |
| CMBS                | \$ 500,711                           | \$ —                           | \$ (14,502)                     | \$ 486,209 |
| Preferred interests | 19,631                               | —                              | (192)                           | 19,439     |
| Total               | \$ 520,342                           | \$ —                           | \$ (14,694)                     | \$ 505,648 |
| December 31, 2015   |                                      |                                |                                 |            |
| CMBS                | \$ 301,858                           | \$ 257                         | \$ (5,651)                      | \$ 296,464 |
| Preferred interests | 19,386                               | —                              | (595)                           | 18,791     |
| Total               | \$ 321,244                           | \$ 257                         | \$ (6,246)                      | \$ 315,255 |

The table below summarizes the maturities of our HTM CMBS and our HTM preferred equity interests in limited liability companies that own commercial real estate as of June 30, 2016 (amounts in thousands):

|                     | CMBS       | Preferred<br>Interests | Total      |
|---------------------|------------|------------------------|------------|
| Less than one year  | \$ 210,834 | \$ —                   | \$ 210,834 |
| One to three years  | 106,112    | —                      | 106,112    |
| Three to five years | 183,765    | —                      | 183,765    |
| Thereafter          | —          | 19,631                 | 19,631     |
| Total               | \$ 500,711 | \$ 19,631              | \$ 520,342 |

#### Equity Security, Fair Value Option

During 2012, we acquired 9,140,000 ordinary shares from a related-party 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 \$12.9 million and \$14.5 million as of June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, our shares represent an approximate 3% interest in SEREF.

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## 6. Properties

Our properties include the Woodstar Portfolio, the REO Portfolio and the Ireland Portfolio as discussed in Note 3. The table below summarizes our properties held as of June 30, 2016 and December 31, 2015 (dollars in thousands):

|                                     | Depreciable Life | June 30,<br>2016 | December<br>31, 2015 |
|-------------------------------------|------------------|------------------|----------------------|
| Property Segment                    |                  |                  |                      |
| Land and land improvements          | 0 – 10 years     | \$ 324,616       | \$ 247,589           |
| Buildings and building improvements | 10 – 40 years    | 686,214          | 516,117              |
| Furniture & fixtures                | 2 – 7 years      | 21,607           | 11,980               |
| Investing and Servicing Segment     |                  |                  |                      |
| Land and land improvements          | 0 – 10 years     | 67,187           | 39,103               |
| Buildings and building improvements | 10 – 40 years    | 156,146          | 112,524              |
| Furniture & fixtures                | 3 – 7 years      | 1,227            | 747                  |
| Properties, cost                    |                  | 1,256,997        | 928,060              |
| Less: accumulated depreciation      |                  | (24,142)         | (8,835)              |
| Properties, net                     |                  | \$ 1,232,855     | \$ 919,225           |

In March 2015, the Investing and Servicing Segment sold an operating property that we had previously acquired from a CMBS trust, which resulted in a \$17.1 million gain on sale of investments and other assets in our condensed consolidated statement of operations for the six months ended June 30, 2015. There were no properties sold during the six months ended June 30, 2016.

## 7. Investment in Unconsolidated Entities

The table below summarizes our investments in unconsolidated entities as of June 30, 2016 and December 31, 2015 (dollars in thousands):

| Participation /<br>Ownership % (1) | Carrying value as of |                      |
|------------------------------------|----------------------|----------------------|
|                                    | June 30,<br>2016     | December<br>31, 2015 |

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|   |           |            |            |
|---|-----------|------------|------------|
| Equity method:  |           |            |            |
| Retail Fund   | 33%       | \$ 122,130 | \$ 122,454 |
| Investor entity which owns equity in an online real estate auction company        | 50%       | 23,074     | 23,972     |
| Equity interests in commercial real estate (2)                                    | 16% - 50% | 31,912     | 28,230     |
| Various   | 25% - 50% | 6,440      | 6,376      |
|   |           | 183,556    | 181,032    |
| 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%   | 7,760      | 8,944      |
|   |           | 16,985     | 18,169     |
|   |           | \$ 200,541 | \$ 199,201 |

- 
- (1) None of these investments are publicly traded and therefore quoted market prices are not available.
- (2) During the three months ended June 30, 2016, a partnership in which we hold a 50% interest acquired a real estate asset from a CMBS trust for \$19.0 million. As of June 30, 2016, our investment in the partnership was \$3.7 million.

There were no differences between the carrying value of our equity method investments and the underlying equity in the net assets of the investees as of June 30, 2016.

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8. Goodwill and Intangible Assets

Goodwill

Goodwill at June 30, 2016 and December 31, 2015 represents the excess of consideration transferred over the fair value of net assets of LNR Property LLC (“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 June 30, 2016 and December 31, 2015, the balance of the domestic servicing intangible was net of \$29.6 million and \$11.8 million, respectively, that was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs. Before VIE consolidation, as of June 30, 2016 and December 31, 2015, the domestic servicing intangible had a balance of \$112.9 million and \$131.5 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 following table summarizes our intangible assets, which are comprised of servicing rights intangibles and lease intangibles, as of June 30, 2016 and December 31, 2015 (amounts in thousands):

| As of June 30, 2016 |             |          | As of December 31, 2015 |             |          |
|---------------------|-------------|----------|-------------------------|-------------|----------|
| Gross               |             | Net      | Gross                   |             | Net      |
| Carrying            | Accumulated | Carrying | Carrying                | Accumulated | Carrying |



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|   | Value      | Amortization | Value      | Value      | Amortization | Value      |
|---|------------|--------------|------------|------------|--------------|------------|
| Domestic servicing rights,<br>at fair value | \$ 83,301  | \$ —         | \$ 83,301  | \$ 119,698 | \$ —         | \$ 119,698 |
| European servicing rights<br>(1)            | 28,523     | (26,934)     | 1,589      | 31,593     | (28,967)     | 2,626      |
| In-place lease intangible<br>assets         | 106,263    | (29,707)     | 76,556     | 74,983     | (8,898)      | 66,085     |
| Favorable lease intangible<br>assets        | 17,707     | (2,100)      | 15,607     | 14,103     | (942)        | 13,161     |
| Total net intangible assets                 | \$ 235,794 | \$ (58,741)  | \$ 177,053 | \$ 240,377 | \$ (38,807)  | \$ 201,570 |

(1) The fair value as of June 30, 2016 and December 31, 2015 was \$4.4 million and \$5.3 million, respectively.

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The following table summarizes the activity within intangible assets for the six months ended June 30, 2016 (amounts in thousands):

|   | Domestic<br>Servicing<br>Rights | European<br>Servicing<br>Rights | In-place<br>Lease<br>Intangible<br>Assets | Favorable<br>Lease<br>Intangible<br>Assets | Total      |
|---|---------------------------------|---------------------------------|---|--|------------|
| Balance as of January 1, 2016                                     | \$ 119,698                      | \$ 2,626                        | \$ 66,085                                 | \$ 13,161                                  | \$ 201,570 |
| Impact of ASU 2015-02 Adoption (1)                                | (17,467)                        | —                               | —   | —  | (17,467)   |
| Acquisition of additional Woodstar Portfolio<br>properties        | —                               | —                               | 8,174                                     | —  | 8,174      |
| Acquisition of additional REO Portfolio<br>properties             | —                               | —                               | 22,041                                    | 3,346                                      | 25,387     |
| Amortization  | —                               | (842)                           | (20,721)                                  | (1,143)                                    | (22,706)   |
| Foreign exchange (loss) gain                                      | —                               | (195)                           | 977                                       | 243  | 1,025      |
| Changes in fair value due to changes in<br>inputs and assumptions | (18,930)                        | —                               | —   | —  | (18,930)   |
| Balance as of June 30, 2016                                       | \$ 83,301                       | \$ 1,589                        | \$ 76,556                                 | \$ 15,607                                  | \$ 177,053 |

(1) As discussed in Notes 2 and 14, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts effective January 1, 2016, which required the elimination of \$17.5 million of domestic servicing rights associated with these newly consolidated trusts.

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):

|                     |           |
|---------------------|-----------|
| 2016 (remainder of) | \$ 12,048 |
| 2017                | 16,855    |
| 2018                | 14,788    |
| 2019                | 10,278    |
| 2020                | 7,635     |
| Thereafter          | 32,148    |
| Total               | \$ 93,752 |



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## 9. Secured Financing Agreements

The following table is a summary of our secured financing agreements in place as of June 30, 2016 and December 31, 2015 (dollars in thousands):

|           | Current  | Extended |                  | Pledged        | Maximum       | Carrying value at |            |
|-----------|----------|----------|------------------|----------------|---------------|-------------------|------------|
|           | Maturity | Maturity | Pricing          | Asset          | Facility Size | June 30,          | December   |
|           |          | (a)      |                  | Carrying Value |               | 2016              | 31,        |
|           |          | (b)      | LIBOR + 1.85%    |                |               |                   | 2015       |
| Lender 1  |          |          | to 5.25%         | \$ 2,179,007   | \$ 1,600,000  | \$ 1,490,949      | \$ 975,735 |
| Repo 1    | (b)      | (b)      | LIBOR + 1.75%    |                |               |                   |            |
| Lender 2  |          |          | to 2.75%         | 300,368        | 500,000       | 238,479           | 233,705    |
| Repo 1    | Oct 2017 | Oct 2020 | LIBOR + 2.50%    |                |               |                   |            |
| Lender 3  | May      |          | to 2.85%         | 112,022        | 79,325        | 79,325            | 131,997    |
| Repo 1    | 2017     | May 2019 | LIBOR + 2.00%    |                |               |                   |            |
| Lender 4  |          |          | LIBOR + 2.00%    | —              | —             | —                 | 309,498    |
| Repo 1    | Oct 2016 | Oct 2017 | to 2.50%         | 253,813        | 1,000,000(c)  | 164,940           | —          |
| Lender 4  |          |          | LIBOR + 2.50%    |                |               |                   |            |
| Repo 2    | Dec 2018 | Dec 2020 | to 3.00%         | 431,821        | 500,000       | 288,149           | 491,263    |
| Lender 6  | Aug      | N/A      | LIBOR + 2.75%    |                |               |                   |            |
| Repo 1    | 2018     |          | (d)              | 108,120        | 650,000 (e)   | —                 | 38,055     |
| Lender 7  |          |          | N/A              | —              | —             | —                 | 80,741     |
| Secured   | Jul 2018 | Jul 2019 | N/A              |                |               |                   |            |
| Financing |          |          | LIBOR + 2.10%    | 42,612         | 150,000       | 31,594            | —          |
| Conduit   | N/A      | N/A      | LIBOR + 2.10%    | 9,096          | 150,000       | 6,825             | 66,041     |
| Repo 1    | Nov      |          | LIBOR + 2.25%    | 62,377         | 100,000       | 46,612            | —          |
| Conduit   | 2016     | N/A      | LIBOR + 1.90%    | 32,800         | 21,354        | 21,354            | —          |
| Repo 2    |          |          | LIBOR/EURIBOR    | 339,132        | 247,192       | 247,192           | 120,850    |
| Conduit   | Feb 2018 | Feb 2019 | + 2.00% to 2.70% | 409,685        | 287,467       | 287,467           | 243,434    |
| Repo 3    |          |          | LIBOR + 1.40%    |                |               |                   |            |
| Conduit   | Oct 2017 | Oct 2020 | to 1.85%         | 157,641        | 185,000       | 91,144            | 2,000      |
| Repo 4    |          |          | Various          | 150,199        | 124,061       | 118,163           | 82,964     |
| CMBS Repo |          |          |                  |                |               |                   |            |
| 1         | (f)      | (f)      |                  |                |               |                   |            |
| CMBS Repo |          |          |                  |                |               |                   |            |
| 2         | Jun 2020 | N/A      |                  |                |               |                   |            |
| CMBS Repo |          |          |                  |                |               |                   |            |
| 3         | (g)      | (g)      |                  |                |               |                   |            |
| RMBS Repo |          |          |                  |                |               |                   |            |
| 1         | (h)      | N/A      |                  |                |               |                   |            |
| Investing | Jun 2018 | N/A      |                  |                |               |                   |            |
| and       | to Jun   |          |                  |                |               |                   |            |
| Servicing | 2026     |          |                  |                |               |                   |            |

|             |          |     |                |     |              |              |              |              |
|-------------|----------|-----|----------------|-----|--------------|--------------|--------------|--------------|
| Segment     |          |     |                |     |              |              |              |              |
| Property    |          |     |                |     |              |              |              |              |
| Mortgages   |          |     |                |     |              |              |              |              |
| Ireland     |          |     |                |     |              |              |              |              |
| Portfolio   | May      |     | EURIBOR +      |     |              |              |              |              |
| Mortgage    | 2020     | N/A | 1.69%          |     | 483,814      | 326,558      | 326,558      | 319,322      |
| Woodstar    | Jul 2017 |     |                |     |              |              |              |              |
| Portfolio   | to Jan   |     |                |     |              |              |              |              |
| Mortgages   | 2026     | N/A | 3.72% to 7.46% | (i) | 380,690      | 267,114      | 267,114      | 248,630      |
| Woodstar    |          |     |                |     |              |              |              |              |
| Portfolio   | Jun 2017 |     |                |     |              |              |              |              |
| Government  | to Jun   |     |                |     |              |              |              |              |
| Financing   | 2049     | N/A | 1.00% to 5.00% |     | 318,501      | 137,394      | 137,394      | 8,982        |
| Term Loan   | Apr 2020 | N/A | LIBOR + 2.75%  | (d) | 2,937,230    | 654,886      | 654,886      | 658,270      |
| FHLB        | Nov      |     |                |     |              |              |              |              |
| Advances    | 2016     | N/A | LIBOR + 0.37%  |     | 10,207       | 9,250        | 9,250        | 9,250        |
|             |          |     |                |     | \$ 8,719,135 | \$ 6,989,601 | 4,507,395    | 4,020,737    |
| Unamortized |          |     |                |     |              |              |              |              |
| premium     |          |     |                |     |              |              |              |              |
| (discount), |          |     |                |     |              |              |              |              |
| net         |          |     |                |     |              |              | 1,414        | (1,702)      |
| Unamortized |          |     |                |     |              |              |              |              |
| deferred    |          |     |                |     |              |              |              |              |
| financing   |          |     |                |     |              |              |              |              |
| costs       |          |     |                |     |              |              | (32,588)     | (38,336)     |
|             |          |     |                |     |              |              | \$ 4,476,221 | \$ 3,980,699 |

- (a) Subject to certain conditions as defined in the respective facility agreement.
- (b) Maturity date for borrowings collateralized by loans is January 2017 before extension options and January 2019 assuming exercise of 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 initial maximum facility size of \$600.0 million may be increased to \$1.0 billion at our option, subject to certain conditions.
- (d) 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.
- (e) The initial maximum facility size of \$450.0 million may be increased to \$650.0 million at our option, subject to certain conditions.
- (f) Facility carries a rolling 11 month term which may reset monthly with the lender's consent not to exceed December 2018. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of June 30, 2016.
- (g) Facility carries a rolling 12 month term which may reset monthly with the lender's consent. Current maturity is June 2017. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of June 30, 2016.
- (h) The date that is 270 days after the buyer delivers notice to seller, subject to a maximum date of May 2018.
- (i) The Woodstar Portfolio Mortgages carry a weighted average interest rate of 3.99% as of June 30, 2016.



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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.

During the six months ended June 30, 2016, we executed four mortgage facilities with aggregate borrowings of \$32.2 million to finance commercial real estate acquired by our Investing and Servicing Segment. As of June 30, 2016, these facilities carry a remaining weighted average term of 6.1 years. One of the facilities carry floating annual interest rates with average spreads of LIBOR + 2.25% while the remaining facilities carry average fixed annual interest rates of 3.50%.

During the three and six months ended June 30, 2016, we assumed one and 17 federal, state and county sponsored mortgage facilities (“Woodstar Portfolio Government Financing”), respectively, associated with certain properties acquired in our Woodstar Portfolio with aggregate outstanding balances of \$2.5 million and \$129.2 million, respectively, as of the acquisition dates. During the three months ended June 30, 2016, we also assumed two other mortgage facilities (“Woodstar Portfolio Mortgages”) associated with properties acquired in our Woodstar Portfolio with aggregate outstanding balances of \$18.6 million, as of the acquisition dates.

In January 2016, we amended the CMBS Repo 2 facility to extend the maturity from December 2016 to December 2017.

In March 2016, we amended the Lender 2 Repo 1 facility to upsize available borrowings from \$500.0 million to \$600.0 million. This additional \$100.0 million of borrowing capacity is exclusively for the financing of conduit mortgage loans and therefore this component of the Lender 2 Repo 1 facility is separately presented in the secured financing agreements table above as Conduit Repo 4.

In April 2016, we amended the Lender 4 Repo 2 facility to allow for up to \$200.0 million of financing for conduit mortgage loan originations under the existing borrowing capacity.

In April 2016, we terminated the Conduit Repo 1 facility.

In May 2016, we amended the RMBS Repo 1 facility to upsize available borrowings from \$125.0 million to \$185.0 million and amend the maturity date to the earlier of (i) 270 days from when the lender delivers notice to the Company or (ii) May 2018.

In June 2016, we expanded our CMBS Repo 2 facility to finance our acquisition of one first mortgage loan and one first mortgage loan portfolio, each of which had been securitized into single-borrower securitizations by the seller. This financing, which totaled €124.1 million as of June 30, 2016, matures in June 2020 and carries an annual interest rate of three-month EURIBOR + 2.00%.

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 June 30, 2016, 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        |
|---------------------|--------------------------|-------------------------------|--------------|
| 2016 (remainder of) | \$ 166,552               | \$ 14,313                     | \$ 180,865   |
| 2017                | 827,610                  | 30,390                        | 858,000      |
| 2018                | 994,507                  | 30,808                        | 1,025,315    |
| 2019                | 617,347                  | 19,310                        | 636,657      |
| 2020                | 308,421                  | 971,302                       | 1,279,723    |
| Thereafter          | 79,593                   | 447,242                       | 526,835      |
| Total               | \$ 2,994,030             | \$ 1,513,365                  | \$ 4,507,395 |

Secured financing maturities for 2016 primarily relate to \$62.9 million on the Lender 4 Repo 2 facility and \$46.6 million on the Conduit Repo 4 facility.

For the three and six months ended June 30, 2016, approximately \$4.3 million and \$8.2 million, respectively, of amortization of deferred financing costs from secured financing agreements was included in interest expense on our condensed consolidated statements of operations. For the three and six months ended June 30, 2015, approximately \$3.5 million and \$7.0 million, respectively, of amortization of deferred financing costs was included in interest expense on our condensed consolidated statements of operations.

The following table sets forth our outstanding balance of repurchase agreements related to the following asset collateral classes as of June 30, 2016 and December 31, 2015 (amounts in thousands):

| Class of Collateral       | June 30,<br>2016 | December<br>31, 2015 |
|---------------------------|------------------|----------------------|
| Loans held-for-investment | \$ 2,198,902     | \$ 2,142,198         |
| Loans held-for-sale       | 147,971          | 146,782              |
| Investment securities     | 647,157          | 366,284              |
|                           | \$ 2,994,030     | \$ 2,655,264         |

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 62% 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 33% 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 June 30, 2016 (dollars in thousands):

|            | 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       | 1.3 years                              |
| 2018 Notes | \$ 599,981          | 4.55           | % | 6.10                 | % 46.7513             | 3/1/2018         | 1.7 years                              |
| 2019 Notes | \$ 341,363          | 4.00           | % | 5.35                 | % 49.4927             | 1/15/2019        | 2.5 years                              |

|   | As of<br>June 30,<br>2016 | As of<br>December<br>31, 2015 |
|---|---------------------------|-------------------------------|
| Total principal   | \$ 1,372,594              | \$ 1,372,594                  |
| Unamortized discount  | (37,055)                  | (47,351)                      |
| Unamortized deferred financing costs  | (1,115)                   | (1,448)                       |
| Carrying amount of debt components  | \$ 1,334,424              | \$ 1,323,795                  |
| Carrying amount of conversion option equity components recorded in additional paid-in capital | \$ 46,343                 | \$ 46,343                     |

(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 indentures governing the Convertible Notes (including the applicable supplemental indentures) as a result of the spin-off of our former single family residential (“SFR”) segment to our stockholders in January 2014 and cash dividend payments.

The if-converted value of the 2019 Notes exceeded their principal amount by \$8.8 million at June 30, 2016 since the closing market price of the Company’s common stock of \$20.72 per share exceeded the implicit conversion price of \$20.20 per share. The if converted values of the 2017 Notes and 2018 Notes were less than their principal amounts by

\$58.3 million and \$18.8 million at June 30, 2016, respectively, since the closing market price of the Company's common stock of \$20.72 per share was less than the implicit conversion prices of \$23.96 and \$21.39, 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 62.5 million shares, was not included in the computation of diluted EPS. However, the conversion spread value for the 2019 Notes, representing 0.4 million shares and 0.5 million shares for the three and six months ended June 30, 2016, respectively, was included in the computation of diluted EPS as the notes were "in-the-money." No dilution related to the 2017 Notes or 2018 Notes was included in the computation of diluted EPS for the three and six months ended June 30, 2016 as these notes were not "in-the-money." See further discussion in Note 17.

We did not repurchase any Convertible Notes during the three and six months ended June 30, 2016. During the three and six months ended June 30, 2015, we repurchased \$14.5 million and \$118.6 million aggregate principal amount of our 2019 Notes, respectively, for \$16.5 million and \$136.3 million plus transaction expenses of \$0.1 million, respectively. 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 six months ended June 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

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of debt in our condensed consolidated statement of operations. For the three and six months ended June 30, 2015, the loss on extinguishment of debt totaled \$0.6 million and \$5.9 million, respectively, consisting principally of the write-off of unamortized debt discount.

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%, in the case of the 2017 Notes, or 130%, in the case of the 2018 Notes and the 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, in the case of the 2017 Notes, September 1, 2017, in the case of the 2018 Notes, and July 15, 2018, in the case of the 2019 Notes, holders may convert each of their Convertible 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 six months ended June 30, 2016 and 2015 (amounts in thousands):

|                                    | For the Three Months      |            | For the Six Months Ended |              |
|------------------------------------|---------------------------|------------|--------------------------|--------------|
|                                    | Ended<br>June 30,<br>2016 | 2015       | June 30,<br>2016         | 2015         |
| Fair value of loans sold           | \$ 218,369                | \$ 551,635 | \$ 475,333               | \$ 1,033,644 |
| Par value of loans sold            | 204,960                   | 533,447    | 456,862                  | 998,021      |
| Repayment of repurchase agreements | 153,574                   | 400,078    | 342,781                  | 744,456      |

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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 June 30, |                                       |            |  |          |
| 2016                                | \$ 23,977                             | \$ 23,394  | \$ —   | \$ —     |
| 2015                                | 295,961                               | 293,455    | 38,925   | 38,925   |
| For the Six Months Ended June 30,   |                                       |            |  |          |
| 2016                                | \$ 122,514                            | \$ 121,276 | \$ —   | \$ —     |
| 2015                                | 381,461                               | 378,576    | 38,925   | 38,925   |

During the three and six months ended June 30, 2016 and 2015, gains (losses) recognized by the Lending Segment on sales of loans were not material.

## 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 13 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 six outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of June 30, 2016, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled \$66.4 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.60% to 1.52% 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 August 2017 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 six months ended June 30, 2016 and 2015, 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 12 months, we estimate that an additional \$0.3 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 59 months.



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## 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 loan investments and properties.

The following table summarizes our non-designated foreign exchange ("Fx") forwards, interest rate swaps, interest rate caps and credit index instruments as of June 30, 2016 (notional amounts in thousands):

| Type of Derivative                             | Number<br>of Contracts | Aggregate<br>Notional<br>Amount | Notional<br>Currency | Maturity                 |
|--|------------------------|---------------------------------|----------------------|--------------------------|
| Fx contracts – Buy Danish Krone ("DKK")        | 2                      | 137                             | DKK                  | December 2016            |
| Fx contracts – Buy Euros ("EUR")               | 2                      | 94                              | EUR                  | December 2016            |
| Fx contracts – Buy Norwegian Krone<br>("NOK")  | 2                      | 15                              | NOK                  | December 2016            |
| Fx contracts – Buy Swedish Krona ("SEK")       | 2                      | 1,321                           | SEK                  | December 2016            |
| Fx contracts – Sell Danish Krone ("DKK")       | 1                      | 6,251                           | DKK                  | December 2016            |
| Fx contracts – Sell Euros ("EUR") (1)          | 93                     | 364,047                         | EUR                  | July 2016 – June 2020    |
| Fx contracts – Sell Pounds Sterling ("GBP")    | 81                     | 150,831                         | GBP                  | July 2016 – June 2019    |
| Fx contracts – Sell Norwegian Krone<br>("NOK") | 1                      | 878                             | NOK                  | December 2016            |
| Fx contracts – Sell Swedish Krona ("SEK")      | 1                      | 7,032                           | SEK                  | December 2016            |
| Interest rate swaps – Paying fixed rates       | 56                     | 370,206                         | USD                  | July 2016 – July 2026    |
| Interest rate swaps – Receiving fixed rates    | 2                      | 9,800                           | USD                  | July 2017 – June 2026    |
| Interest rate caps                             | 2                      | 294,000                         | EUR                  | May 2020                 |
| Interest rate caps                             | 4                      | 34,474                          | USD                  | June 2018 – October 2020 |
| Credit index instruments                       | 9                      | 36,000                          | USD                  | September 2058           |
| Total  | 258                    |                                 |                      |                          |

(1) Includes 49 Fx contracts executed to hedge our Euro currency exposure created by our acquisition of the Ireland Portfolio. As of June 30, 2016, these contracts have an aggregate notional amount of €246.9 million and varying maturities through June 2020.



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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 June 30, 2016 and December 31, 2015 (amounts in thousands):

|   | Fair Value of Derivatives<br>in an Asset Position (1) |                         | Fair Value of Derivatives<br>in a Liability Position (2) |                         |
|---|---|-------------------------|--|-------------------------|
|   | As of   |                         | As of  |                         |
|   | June 30,<br>2016                                      | December<br>31,<br>2015 | June 30,<br>2016   | December<br>31,<br>2015 |
| Derivatives designated as hedging instruments:          |   |                         |  |                         |
| Interest rate swaps                                     | \$ —  | \$ 57                   | \$ 386   | \$ 122                  |
| Total derivatives designated as hedging instruments     | —   | 57                      | 386  | 122                     |
| Derivatives not designated as hedging instruments:      |   |                         |  |                         |
| Interest rate swaps and caps                            | 967   | 2,360                   | 17,160   | 4,970                   |
| Foreign exchange contracts                              | 39,399  | 41,137                  | 324  | 104                     |
| Credit index instruments                                | 2,326   | 1,537                   | —  | —                       |
| Total derivatives not designated as hedging instruments | 42,692  | 45,034                  | 17,484   | 5,074                   |
| Total derivatives                                       | \$ 42,692   | \$ 45,091               | \$ 17,870  | \$ 5,196                |

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

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

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 six months ended June 30, 2016 and 2015 (amounts in thousands):

|  | Gain (Loss)<br>Recognized | Gain (Loss)               | Gain (Loss)<br>Recognized | Location of Gain (Loss)<br>Recognized in Income |
|--|---------------------------|---------------------------|---------------------------|---|
|  |                           | Reclassified<br>from AOCI |                           |   |
| Derivatives Designated as<br>Hedging Instruments | in OCI                    | into Income               | in Income                 |   |
| For the Three Months Ended June 30,              | (effective portion)       | (effective portion)       | (ineffective portion)     |   |
| 2016   | \$ (136)                  | \$ (88)                   | \$ —                      | Interest expense                                |
| 2015   | \$ (71)                   | \$ (194)                  | \$ —                      | Interest expense                                |
| For the Six Months Ended June 30,                |                           |                           |                           |   |
| 2016   | \$ (504)                  | \$ (183)                  | \$ —                      | Interest expense                                |
| 2015   | \$ (538)                  | \$ (398)                  | \$ —                      | 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 June<br>30, |             | Amount of Gain (Loss)<br>Recognized in Income for the<br>Six Months Ended June<br>30, |            |
|--|--|---|-------------|---|------------|
|  |  | 2016  | 2015        | 2016  | 2015       |
| Interest rate swaps and caps                         | Gain (loss) on derivative<br>financial instruments | \$ (7,273)  | \$ 7,958    | \$ (25,273)   | \$ (4,964) |
| Foreign exchange contracts                           | Gain (loss) on derivative<br>financial instruments | 27,899  | (27,799)    | 21,349  | 10,172     |
| Credit index instruments                             | Gain (loss) on derivative<br>financial instruments | (373)   | 311         | (541)   | (115)      |
|  |  | \$ 20,253   | \$ (19,530) | \$ (4,465)  | \$ 5,093   |

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## 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 June 30,<br>2016     |                                    |  |   |   |   |                                  |
| Derivative assets          | \$ 42,692                          | \$ —   | \$ 42,692   | \$ 780  | \$ —  | \$ 41,912                        |
| Derivative<br>liabilities  | \$ 17,870                          | \$ —   | \$ 17,870   | \$ 780  | \$ 17,090                                   | \$ —                             |
| Repurchase<br>agreements   | 2,994,030                          | —  | 2,994,030   | 2,994,030   | —   | —                                |
|                            | \$ 3,011,900                       | \$ —   | \$ 3,011,900  | \$ 2,994,810  | \$ 17,090                                   | \$ —                             |
| As of December<br>31, 2015 |                                    |  |   |   |   |                                  |
| Derivative assets          | \$ 45,091                          | \$ —   | \$ 45,091   | \$ 243  | \$ —  | \$ 44,848                        |
| Derivative<br>liabilities  | \$ 5,196                           | \$ —   | \$ 5,196  | \$ 243  | \$ 4,953                                    | \$ —                             |
| Repurchase<br>agreements   | 2,655,264                          | —  | 2,655,264   | 2,655,264   | —   | —                                |
|                            | \$ 2,660,460                       | \$ —   | \$ 2,660,460  | \$ 2,655,507  | \$ 4,953                                    | \$ —                             |

## 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.

Securitization 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

As discussed in Note 2, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts where the right to remove the Company as special servicer was not exercisable without cause. These 14 trusts had \$15.1 billion of VIE assets and \$15.1 billion of VIE liabilities as of March 31, 2016. The carrying value of our CMBS investments in these 14 trusts, totaling \$120.9 million, was eliminated in consolidation against VIE liabilities as of March 31, 2016.

The inclusion of the assets and liabilities of securitization VIEs in which we are deemed the primary beneficiary has no economic effect on us. Our exposure to the obligations of securitization VIEs is generally limited to our

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investment in these entities. We are not obligated to provide, nor have we provided, any financial support for any of these consolidated structures.

As discussed in Note 2, our implementation of ASU 2015-02 resulted in the determination that certain entities in which we hold controlling interests, which were already consolidated prior to the implementation of ASU 2015-02, are now considered VIEs. We are the primary beneficiaries of these VIEs, which were established to facilitate the purchase of certain properties acquired with third party minority interest partners, as we possess both the power to direct the activities of the VIEs that most significantly impact their economic performance and hold significant economic interests. These VIEs had assets of \$140.2 million and liabilities of \$62.2 million as of June 30, 2016.

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 without cause. 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 June 30, 2016, 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 June 30, 2016, this CDO structure was not consolidated.

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 June 30, 2016, our maximum risk of loss related to securitization VIEs in which we were not the primary beneficiary was \$114.3 million on a fair value basis.

As of June 30, 2016, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of \$21.8 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

As discussed in Note 2, our implementation of ASU 2015-02 resulted in the determination that certain unconsolidated entities in which we hold passive non-controlling interests are now considered VIEs. We are not the primary beneficiaries of these VIEs as we do not possess the power to direct the activities of the VIEs that most significantly impact their economic performance and therefore continue to report our interests, which totaled \$131.4 million as of June 30, 2016, within investment in unconsolidated entities on our condensed consolidated balance sheet. Our maximum risk of loss is limited to our carrying value of the investments of \$131.4 million plus \$29.2 million of unfunded commitments related to one of these VIEs.



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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 16 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 June 30, 2016 and 2015, approximately \$15.1 million and \$14.9 million, respectively, was incurred for base management fees. For the six months ended June 30, 2016 and 2015, approximately \$30.2 million and \$28.8 million, respectively, was incurred for base management fees. As of June 30, 2016 and December 31, 2015, there were \$15.1 million and \$15.2 million, respectively, of unpaid base management fees included in the related-party payable in our condensed consolidated balance sheets.

**Incentive Fee.** For the three months ended June 30, 2016 and 2015, approximately \$2.9 million and \$4.1 million, respectively, was incurred for incentive fees. For the six months ended June 30, 2016 and 2015, approximately \$7.5 million and \$10.8 million, respectively, was incurred for incentive fees. As of June 30, 2016 and December 31, 2015, approximately \$2.9 million and \$21.8 million, respectively, of unpaid incentive fees were included in related-party payable in our condensed consolidated balance sheets.

**Expense Reimbursement.** For the three months ended June 30, 2016 and 2015, approximately \$1.5 million and \$1.5 million, respectively, was incurred for executive compensation and other reimbursable expenses and recognized within general and administrative expenses in our condensed consolidated statements of operations. For the six months ended June 30, 2016 and 2015, approximately \$2.6 million and \$2.9 million, respectively, was incurred for executive compensation and other reimbursable expenses. As of June 30, 2016 and December 31, 2015, approximately \$1.9 million and \$3.6 million, respectively, of unpaid reimbursable executive compensation and other expenses were included in related-party payable in our condensed consolidated balance sheets.

Equity Awards. In certain instances, we issue RSAs to certain employees of affiliates of our Manager who perform services for us. During the three months ended June 30, 2015, we granted 41,539 RSAs at a grant date fair value of \$1.0 million. There were no RSAs granted during the three months ended June 30, 2016. Expenses related to the vesting of awards to employees of affiliates of our Manager were \$0.6 million and \$0.3 million during the three months ended June 30, 2016 and 2015, respectively, and are reflected in general and administrative expenses in our condensed consolidated statements of operations. During the six months ended June 30, 2016 and 2015, we granted 169,104 and 78,119 RSAs, respectively, at grant date fair values of \$3.3 million and \$1.9 million, respectively. Expenses related to the vesting of awards to employees of affiliates of our Manager were \$1.0 million and \$0.3 million during the six months ended June 30, 2016 and 2015, respectively. These shares generally vest over a three-year period.

#### 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 connection with this grant and prior similar grants, we recognized share-based compensation expense of \$5.3 million and \$7.4 million within management fees in our condensed consolidated statements of operations for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, we recognized \$10.1 million and \$14.3 million, respectively, related to these awards. Refer to Note 16 for further discussion of these grants.

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### Investments in Loans and Securities

In December 2013, we acquired a subordinate CMBS investment in a securitization issued by an affiliate of our Manager. The security was acquired for \$84.1 million and is secured by five regional malls in Ohio, California and Washington. In January 2016, we acquired an additional \$9.7 million of this subordinate CMBS investment.

In June 2016, we co-originated a £75.0 million first mortgage for the development of a three-property mixed use portfolio located in Greater London with SEREF, an affiliate of our Manager. We originated £60.0 million of the loan and SEREF originated £15.0 million. The loan matures in June 2019.

### Acquisitions from Consolidated CMBS Trusts

Our Investing and Servicing Segment acquires interests in properties for its REO Portfolio 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 statements of cash flows. During the three months ended June 30, 2016 and 2015, we acquired \$60.5 million and \$33.2 million, respectively, of net real estate assets from consolidated CMBS trusts and subsequently issued non-controlling interests of \$2.4 million and \$2.1 million, respectively. Also during the three months ended June 30, 2016, a partnership in which we hold a 50% interest acquired a real estate asset from a CMBS trust for \$19.0 million. During the six months ended June 30, 2016 and 2015, we acquired \$85.1 million and \$33.2 million, respectively, of net real estate assets from consolidated CMBS trusts and subsequently issued non-controlling interests of \$5.5 million and \$2.1 million, respectively. Refer to Notes 3 and 7 for further discussion of these acquisitions.

Our Investing and Servicing Segment also acquires controlling interests in performing and non-performing commercial mortgage loans 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 statements of cash flows. During the three months ended June 30, 2016, we did not acquire any performing or non-performing loans from consolidated CMBS trusts. During the six months ended June 30, 2016, we acquired \$9.7 million and \$8.2 million of performing and non-performing loans, respectively, from consolidated CMBS trusts.

### Other Related-Party Arrangements

During the three months ended March 31, 2016, we established a co-investment fund which provides key personnel with the opportunity to invest in certain properties included in our REO Portfolio. These personnel include certain of

our employees as well as employees of affiliates of our Manager (collectively “Fund Participants”). The fund carries an aggregate commitment of \$15.0 million and owns a 10% equity interest in REO Portfolio properties acquired subsequent to January 1, 2015. As of June 30, 2016, Fund Participants have fully funded their maximum expected capital contribution amount of \$4.9 million. The capital contributed by Fund Participants is reflected on our condensed consolidated balance sheet as non-controlling interests in consolidated subsidiaries. In an effort to retain key personnel, the fund provides for disproportionate distributions which allows Fund Participants to earn an incremental 60% on all operating cash flows attributable to their capital account, net of a preferred return to us as general partner of the fund. Amounts earned by Fund Participants pursuant to this waterfall are reflected within net income attributable to non-controlling interests in our condensed consolidated statement of operations. During both the three and six months ended June 30, 2016, the non-controlling interests related to this fund recognized an immaterial loss.

Refer to Note 16 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 six months ended June 30, 2016, our board of directors declared the following dividends:

| Declare Date | Record Date | Ex-Dividend Date | Payment |         |           |
|--------------|-------------|------------------|---------|---------|-----------|
|              |             |                  | Date    | Amount  | Frequency |
| 5/9/16       | 6/30/16     | 6/28/16          | 7/15/16 | \$ 0.48 | Quarterly |
| 2/25/16      | 3/31/16     | 3/29/16          | 4/15/16 | \$ 0.48 | Quarterly |

During the six months ended June 30, 2016, there were no shares issued under our At-The-Market Equity Offering Sales Agreement (the "ATM Agreement"). During the six months ended June 30, 2016, shares issued under the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the "DRIP Plan") were not material.

There were no share repurchases during the three months ended June 30, 2016. During the six months ended June 30, 2016, we repurchased 1,052,889 shares of common stock for \$19.7 million under our \$500.0 million repurchase program. Refer to Note 17 to the consolidated financial statements included in our Form 10-K for further information regarding the repurchase program. As of June 30, 2016, we have \$282.1 million of remaining capacity to repurchase common stock or Convertible Notes under the repurchase program through January 2017.

## 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 17 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 or vested under the Manager Equity Plan during the six months ended June 30, 2016 and 2015 (dollars in thousands):

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

As of June 30, 2016, there were 2.3 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       |             |                     | Total     | Weighted Average Grant Date Fair Value (per share) |
|-------------------------------|---------------------|-------------|---------------------|-----------|--|
|                               | Director Stock Plan | Equity Plan | Manager Equity Plan |           |  |
| Balance as of January 1, 2016 | 16,988              | 548,378     | 1,302,850           | 1,868,216 | \$ 25.84   |
| Granted                       | 3,776               | 430,014     | —                   | 433,790   | 18.96  |
| Vested                        | —                   | (261,420)   | (510,800)           | (772,220) | 26.08  |
| Forfeited                     | —                   | (21,796)    | —                   | (21,796)  | 23.45  |
| Balance as of June 30, 2016   | 20,764              | 695,176     | 792,050             | 1,507,990 | 23.77  |

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## 17. Earnings per Share

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

|   | For the Three Months<br>Ended<br>June 30, |            | For the Six Months<br>Ended<br>June 30, |            |
|---|---|------------|---|------------|
|   | 2016                                      | 2015       | 2016                                    | 2015       |
| <b>Basic Earnings</b>   |   |            |   |            |
| Income attributable to STWD common stockholders                     | \$ 111,473                                | \$ 117,148 | \$ 138,130                              | \$ 237,511 |
| Less: Income attributable to participating shares                   | (580)                                     | (1,207)    | (1,287)                                 | (2,183)    |
| Basic earnings  | \$ 110,893                                | \$ 115,941 | \$ 136,843                              | \$ 235,328 |
| <b>Diluted Earnings</b>   |   |            |   |            |
| Basic — Income attributable to STWD common stockholders             | \$ 111,473                                | \$ 117,148 | \$ 138,130                              | \$ 237,511 |
| Less: Income attributable to participating shares                   | (580)                                     | (1,207)    | (1,287)                                 | (2,183)    |
| Add: Undistributed earnings to participating shares                 | —   | 15         | —                                       | 126        |
| Less: Undistributed earnings reallocated to participating shares    | —   | (15)       | —                                       | (126)      |
| Diluted earnings  | \$ 110,893                                | \$ 115,941 | \$ 136,843                              | \$ 235,328 |
| <b>Number of Shares:</b>  |   |            |   |            |
| Basic — Average shares outstanding                                  | 237,060                                   | 235,087    | 236,808                                 | 229,346    |
| Effect of dilutive securities — Convertible Notes                   | 441                                       | 649        | 456                                     | 644        |
| Effect of dilutive securities — Contingently issuable shares        | 70  | 95         | 70                                      | 95         |
| Effect of dilutive securities — Unvested non-participating shares   | 26  | —          | 33                                      | —          |
| Diluted — Average shares outstanding                                | 237,597                                   | 235,831    | 237,367                                 | 230,085    |
| <b>Earnings Per Share Attributable to STWD Common Stockholders:</b> |   |            |   |            |
| Basic   | \$ 0.47                                   | \$ 0.49    | 0.58                                    | 1.03       |
| Diluted   | \$ 0.47                                   | \$ 0.49    | 0.58                                    | 1.02       |

As of June 30, 2016 and 2015, participating shares of 1.2 million and 2.5 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 June 30, 2016, there were 62.9 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 62.5 million shares at June 30, 2016, was not included in the computation of diluted EPS. However, as discussed in Note 10, the conversion options associated with the 2019 Notes are “in-the-money” as the if-converted value of the 2019 Notes exceeded their principal amount by \$8.8 million at June 30, 2016. The dilutive effect to EPS is determined by dividing this “conversion spread value” by the average share price. The “conversion spread value” is the value that would be delivered to investors in shares based on the terms of the Convertible Notes, upon an assumed conversion. In calculating the dilutive effect of these shares, the treasury stock method was used and resulted in a dilution of 0.4 million shares and 0.5 million shares for the three and six months ended June 30, 2016, respectively. The conversion option associated with the 2017 Notes and 2018 Notes are “out-of-the-money” because the if-converted values of the 2017 Notes and 2018 Notes were less than their principal amounts by \$58.3 million and \$18.8 million, respectively, at June 30, 2016. Therefore, there was no dilutive effect to EPS for the 2017 Notes or 2018 Notes for the three and six months ended June 30, 2016.



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## 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     |
|---|--|---|------------------------------------|-----------|
| <b>Three Months Ended June 30, 2016</b> |  |   |                                    |           |
| Balance at March 31, 2016               | \$ (338)   | \$ 33,907   | \$ (112)                           | \$ 33,457 |
| OCI before reclassifications            | (136)  | 5,951   | (6,733)                            | (918)     |
| Amounts reclassified from AOCI          | 88   | —   | —                                  | 88        |
| Net period OCI                          | (48)   | 5,951   | (6,733)                            | (830)     |
| Balance at June 30, 2016                | \$ (386)   | \$ 39,858   | \$ (6,845)                         | \$ 32,627 |
| <b>Three Months Ended June 30, 2015</b> |  |   |                                    |           |
| Balance at March 31, 2015               | \$ (360)   | \$ 52,227   | \$ (12,505)                        | \$ 39,362 |
| OCI before reclassifications            | (71)   | (1,857)   | 8,273                              | 6,345     |
| Amounts reclassified from AOCI          | 194  | —   | —                                  | 194       |
| Net period OCI                          | 123  | (1,857)   | 8,273                              | 6,539     |
| Balance at June 30, 2015                | \$ (237)   | \$ 50,370   | \$ (4,232)                         | \$ 45,901 |
| <b>Six Months Ended June 30, 2016</b>   |  |   |                                    |           |
| Balance at January 1, 2016              | \$ (65)  | \$ 37,307   | \$ (7,513)                         | \$ 29,729 |
| OCI before reclassifications            | (504)  | 2,551   | 668                                | 2,715     |
| Amounts reclassified from AOCI          | 183  | —   | —                                  | 183       |
| Net period OCI                          | (321)  | 2,551   | 668                                | 2,898     |
| Balance at June 30, 2016                | \$ (386)   | \$ 39,858   | \$ (6,845)                         | \$ 32,627 |
| <b>Six Months Ended June 30, 2015</b>   |  |   |                                    |           |
| Balance at January 1, 2015              | \$ (97)  | \$ 60,190   | \$ (4,197)                         | \$ 55,896 |
| OCI before reclassifications            | (538)  | (4,424)   | (35)                               | (4,997)   |
| Amounts reclassified from AOCI          | 398  | (5,396)   | —                                  | (4,998)   |
| Net period OCI                          | (140)  | (9,820)   | (35)                               | (9,995)   |
| Balance at June 30, 2015                | \$ (237)   | \$ 50,370   | \$ (4,232)                         | \$ 45,901 |

The reclassifications out of AOCI impacted the condensed consolidated statements of operations for the three and six months ended June 30, 2016 and 2015 as follows (amounts in thousands):

| Amounts Reclassified from<br>AOCI during the Three<br>Months | Amounts Reclassified from<br>AOCI during the Six<br>Months | Affected Line Item |
|--|--|--------------------|
|--|--|--------------------|

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| Details about AOCI Components                               | Ended June 30, |          | Ended June 30, |          | in the Statements                          |
|---|----------------|----------|----------------|----------|--|
|   | 2016           | 2015     | 2016           | 2015     | of Operations                              |
| Losses on cash flow hedges:                                 |                |          |                |          |  |
| Interest rate contracts                                     | \$ (88)        | \$ (194) | \$ (183)       | \$ (398) | Interest expense                           |
| Unrealized gains (losses) on available-for-sale securities: |                |          |                |          |  |
| Interest realized upon collection                           | —              | —        | —              | 5,396    | Interest income from investment securities |
| Total reclassifications for the period                      | \$ (88)        | \$ (194) | \$ (183)       | \$ 4,998 |  |

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### 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.

### Fair Value Disclosures

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 June 30, 2016 and December 31,

2015 (amounts in thousands):

|  | June 30, 2016 |           |               |               |
|--|---------------|-----------|---------------|---------------|
|  | Total         | Level I   | Level II      | Level III     |
| <b>Financial Assets:</b>               |               |           |               |               |
| Loans held-for-sale, fair value option | \$ 237,106    | \$ —      | \$ —          | \$ 237,106    |
| RMBS                                   | 251,260       | —         | —             | 251,260       |
| CMBS                                   | 114,340       | —         | —             | 114,340       |
| Equity security                        | 12,861        | 12,861    | —             | —             |
| Domestic servicing rights              | 83,301        | —         | —             | 83,301        |
| Derivative assets                      | 42,692        | —         | 42,692        | —             |
| VIE assets                             | 80,076,117    | —         | —             | 80,076,117    |
| Total                                  | \$ 80,817,677 | \$ 12,861 | \$ 42,692     | \$ 80,762,124 |
| <b>Financial Liabilities:</b>          |               |           |               |               |
| Derivative liabilities                 | \$ 17,870     | \$ —      | \$ 17,870     | \$ —          |
| VIE liabilities                        | 79,087,142    | —         | 75,546,490    | 3,540,652     |
| Total                                  | \$ 79,105,012 | \$ —      | \$ 75,564,360 | \$ 3,540,652  |

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|  | December 31, 2015 |           |               |               |
|--|-------------------|-----------|---------------|---------------|
|  | Total             | Level I   | Level II      | Level III     |
| Financial Assets:                      |                   |           |               |               |
| Loans held-for-sale, fair value option | \$ 203,865        | \$ —      | \$ —          | \$ 203,865    |
| RMBS                                   | 176,224           | —         | —             | 176,224       |
| CMBS                                   | 212,981           | —         | —             | 212,981       |
| Equity security                        | 14,498            | 14,498    | —             | —             |
| Domestic servicing rights              | 119,698           | —         | —             | 119,698       |
| Derivative assets                      | 45,091            | —         | 45,091        | —             |
| VIE assets                             | 76,675,689        | —         | —             | 76,675,689    |
| Total                                  | \$ 77,448,046     | \$ 14,498 | \$ 45,091     | \$ 77,388,457 |
| Financial Liabilities:                 |                   |           |               |               |
| Derivative liabilities                 | \$ 5,196          | \$ —      | \$ 5,196      | \$ —          |
| VIE liabilities                        | 75,817,014        | —         | 73,264,566    | 2,552,448     |
| Total                                  | \$ 75,822,210     | \$ —      | \$ 73,269,762 | \$ 2,552,448  |

The changes in financial assets and liabilities classified as Level III are as follows for the three and six months ended June 30, 2016 and 2015 (amounts in thousands):

| Three Months Ended June 30, 2016              | Loans         |            | Domestic Servicing |           | VIE           |                | Total         |
|---|---------------|------------|--------------------|-----------|---------------|----------------|---------------|
|   | Held for sale | RMBS       | CMBS               | Rights    | VIE Assets    | Liabilities    |               |
| April 1, 2016 balance                         | \$ 154,225    | \$ 210,898 | \$ 96,724          | \$ 95,492 | \$ 85,115,662 | \$ (3,038,534) | \$ 82,634,467 |
| Total realized and unrealized gains (losses): |               |            |                    |           |               |                |               |
| Included in earnings:                         |               |            |                    |           |               |                |               |
| Change in fair value / gain on sale           | 13,235        | —          | 1,349              | (12,191)  | (4,250,779)   | 57,477         | (4,190,909)   |
| OTTI  | —             | —          | —                  | —         | —             | —              | —             |
| Net accretion                                 | —             | 3,742      | —                  | —         | —             | —              | 3,742         |
| Included in OCI                               | —             | 5,951      | —                  | —         | —             | —              | 5,951         |
| Purchases / Originations                      | 288,186       | 46,866     | 24,403             | —         | —             | —              | 359,455       |
| Sales   | (218,369)     | —          | (1,269)            | —         | —             | —              | (219,638)     |
| Issuances                                     | —             | —          | —                  | —         | —             | —              | —             |
| Cash repayments / receipts                    | (171)         | (16,197)   | (7,142)            | —         | —             | 14,922         | (8,588)       |

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|  |            |            |            |             |                |                |                |
|--|------------|------------|------------|-------------|----------------|----------------|----------------|
| Transfers into Level III   | —          | —          | —          | —           | —              | (557,543)      | (557,543)      |
| Transfers out of Level III   | —          | —          | —          | —           | —              | 35,759         | 35,759         |
| Consolidation of VIEs  | —          | —          | —          | —           | 1,746,946      | (53,252)       | 1,693,694      |
| Deconsolidation of VIEs  | —          | —          | 275        | —           | (2,535,712)    | 519            | (2,534,918)    |
| June 30, 2016 balance  | \$ 237,106 | \$ 251,260 | \$ 114,340 | \$ 83,301   | \$ 80,076,117  | \$ (3,540,652) | \$ 77,221,472  |
| Amount of total gains (losses) included in earnings attributable to assets still held at June 30, 2016 | \$ 1,810   | \$ 3,742   | \$ 2,208   | \$ (12,191) | \$ (4,250,779) | \$ 57,477      | \$ (4,197,733) |

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| Three Months Ended June 30, 2015   | Loans              |            | Domestic Servicing |            | VIE            |                | Total          |
|--|--------------------|------------|--------------------|------------|----------------|----------------|----------------|
|  | Held for sale RMBS | CMBS       | Rights             | VIE Assets | Liabilities    |                |                |
| April 1, 2015 balance  | \$ 343,770         | \$ 197,385 | \$ 308,195         | \$ 130,761 | \$ 103,363,978 | \$ (2,145,458) | \$ 102,198,631 |
| Total realized and unrealized gains (losses):  |                    |            |                    |            |                |                |                |
| Included in earnings:  |                    |            |                    |            |                |                |                |
| Change in fair value / gain on sale  | 10,831             | —          | 936                | (2,652)    | (8,425,383)    | 490,913        | (7,925,355)    |
| Net accretion  | —                  | 4,042      | —                  | —          | —              | —              | 4,042          |
| Included in OCI  | —                  | (1,150)    | 5,019              | —          | —              | —              | 3,869          |
| Purchases / Originations   | 476,699            | —          | 250                | —          | —              | —              | 476,949        |
| Sales  | (551,634)          | —          | (385)              | —          | —              | —              | (552,019)      |
| Issuances  | —                  | —          | —                  | —          | —              | (750)          | (750)          |
| Cash repayments / receipts   | (314)              | (7,127)    | —                  | —          | —              | 27,051         | 19,610         |
| Transfers into Level III   | —                  | —          | —                  | —          | —              | (623,538)      | (623,538)      |
| Transfers out of Level III   | —                  | —          | —                  | —          | —              | 174,376        | 174,376        |
| Consolidation of VIEs  | —                  | —          | —                  | —          | 1,244,019      | (34,133)       | 1,209,886      |
| Deconsolidation of VIEs  | —                  | —          | 137                | —          | (3,463,522)    | 528            | (3,462,857)    |
| June 30, 2015 balance  | \$ 279,352         | \$ 193,150 | \$ 314,152         | \$ 128,109 | \$ 92,719,092  | \$ (2,111,011) | \$ 91,522,844  |
| Amount of total (losses) gains included in earnings attributable to assets still held at June 30, 2015 | \$ (2,382)         | \$ 4,042   | \$ 1,097           | \$ (2,652) | \$ (8,425,383) | \$ 490,913     | \$ (7,934,365) |

| Loans | Domestic Servicing | VIE |
|-------|--------------------|-----|
|-------|--------------------|-----|

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| Six Months<br>Ended June 30,<br>2016   | Held for sale RMBS |            | CMBS       | Rights      | VIE Assets     | Liabilities    | Total          |
|--|--------------------|------------|------------|-------------|----------------|----------------|----------------|
| January 1, 2016<br>balance   | \$ 203,865         | \$ 176,224 | \$ 212,981 | \$ 119,698  | \$ 76,675,689  | \$ (2,552,448) | \$ 74,836,009  |
| Impact of ASU<br>2015-02   |                    |            |            |             |                |                |                |
| Adoption (1)   | —                  | —          | —          | (17,467)    | 17,467         | —              | —              |
| Total realized<br>and unrealized<br>gains (losses):  |                    |            |            |             |                |                |                |
| Included in<br>earnings:   |                    |            |            |             |                |                |                |
| Change in fair<br>value / gain on<br>sale  | 20,126             | —          | 2,316      | (18,930)    | (8,340,280)    | 293,600        | (8,043,168)    |
| OTTI   | —                  | —          | —          | —           | —              | —              | —              |
| Net accretion  | —                  | 7,157      | —          | —           | —              | —              | 7,157          |
| Included in OCI  | —                  | 2,551      | —          | —           | —              | —              | 2,551          |
| Purchases /<br>Originations  | 488,756            | 88,336     | 57,576     | —           | —              | —              | 634,668        |
| Sales  | (475,333)          | —          | (1,269)    | —           | —              | —              | (476,602)      |
| Issuances  | —                  | —          | —          | —           | —              | (596)          | (596)          |
| Cash<br>repayments /<br>receipts   | (308)              | (23,008)   | (19,445)   | —           | —              | 20,772         | (21,989)       |
| Transfers into<br>Level III  | —                  | —          | —          | —           | —              | (972,587)      | (972,587)      |
| Transfers out of<br>Level III  | —                  | —          | —          | —           | —              | 146,724        | 146,724        |
| Consolidation<br>of VIEs   | —                  | —          | (138,342)  | —           | 16,850,221     | (483,905)      | 16,227,974     |
| Deconsolidation<br>of VIEs   | —                  | —          | 523        | —           | (5,126,980)    | 7,788          | (5,118,669)    |
| June 30, 2016<br>balance   | \$ 237,106         | \$ 251,260 | \$ 114,340 | \$ 83,301   | \$ 80,076,117  | \$ (3,540,652) | \$ 77,221,472  |
| Amount of total<br>gains (losses)<br>included in<br>earnings<br>attributable to<br>assets still held<br>at June 30, 2016 | \$ 1,810           | \$ 7,157   | \$ 3,778   | \$ (18,930) | \$ (8,340,280) | \$ 293,600     | \$ (8,052,865) |

(1) As discussed in Notes 2 and 14, our implementation of ASU 2015-02 resulted in the consolidation of certain CMBS trusts effective January 1, 2016, which required the elimination of \$17.5 million of domestic servicing rights associated with these newly consolidated trusts.





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| Six Months<br>Ended June 30,<br>2015   | Loans         |            |            | Domestic<br>Servicing |                 | VIE            |                 |
|--|---------------|------------|------------|-----------------------|-----------------|----------------|-----------------|
|  | Held for sale | RMBS       | CMBS       | Rights                | VIE Assets      | Liabilities    | Total           |
| January 1, 2015<br>balance   | \$ 391,620    | \$ 207,053 | \$ 334,080 | \$ 132,303            | \$ 107,816,065  | \$ (4,893,120) | \$ 103,988,001  |
| Total realized<br>and unrealized<br>gains (losses):  |               |            |            |                       |                 |                |                 |
| Included in<br>earnings:   |               |            |            |                       |                 |                |                 |
| Change in fair<br>value / gain on<br>sale  | 31,962        | —          | 776        | (4,194)               | (17,273,237)    | 2,951,583      | (14,293,110)    |
| Net accretion  | —             | 13,487     | —          | —                     | —               | —              | 13,487          |
| Included in OCI  | —             | (8,776)    | (198)      | —                     | —               | —              | (8,974)         |
| Purchases /<br>Originations  | 889,919       | —          | 8,988      | —                     | —               | —              | 898,907         |
| Sales  | (1,033,644)   | —          | (5,098)    | —                     | —               | —              | (1,038,742)     |
| Issuances  | —             | —          | —          | —                     | —               | (7,513)        | (7,513)         |
| Cash<br>repayments /<br>receipts   | (505)         | (18,614)   | (223)      | —                     | —               | 74,988         | 55,646          |
| Transfers into<br>Level III  | —             | —          | —          | —                     | —               | (816,018)      | (816,018)       |
| Transfers out of<br>Level III  | —             | —          | —          | —                     | —               | 723,746        | 723,746         |
| Consolidation<br>of VIEs   | —             | —          | (24,310)   | —                     | 5,657,627       | (145,205)      | 5,488,112       |
| Deconsolidation<br>of VIEs   | —             | —          | 137        | —                     | (3,481,363)     | 528            | (3,480,698)     |
| June 30, 2015<br>balance   | \$ 279,352    | \$ 193,150 | \$ 314,152 | \$ 128,109            | \$ 92,719,092   | \$ (2,111,011) | \$ 91,522,844   |
| Amount of total<br>(losses) gains<br>included in<br>earnings<br>attributable to<br>assets still held<br>at June 30, 2015 | \$ (2,382)    | \$ 7,994   | \$ 981     | \$ (4,194)            | \$ (17,273,237) | \$ 2,951,583   | \$ (14,319,255) |

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 of which are classified in Level III of the fair value hierarchy, of our financial instruments not carried at fair value on the condensed consolidated balance sheets (amounts in thousands):

|   | June 30, 2016     |               | December 31, 2015 |               |
|---|-------------------|---------------|-------------------|---------------|
|   | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
| Financial assets not carried at fair value:                                 |                   |               |                   |               |
| Loans held-for-investment and loans transferred as<br>secured borrowings    | \$ 5,786,720      | \$ 5,813,816  | \$ 6,059,652      | \$ 6,125,881  |
| HTM securities  | 520,342           | 505,648       | 321,244           | 315,255       |
| European servicing rights   | 1,589             | 4,406         | 2,626             | 5,302         |
| Financial liabilities not carried at fair value:                            |                   |               |                   |               |
| Secured financing agreements and secured<br>borrowings on transferred loans | \$ 4,570,889      | \$ 4,564,186  | \$ 4,068,699      | \$ 4,092,264  |
| Convertible senior notes  | 1,334,424         | 1,347,889     | 1,323,795         | 1,331,979     |

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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 (dollars in thousands):

|   | Carrying Value at Valuation |                      | Unobservable<br>Input                                     | Range as of (1)        |                      |
|---|-----------------------------|----------------------|---|------------------------|----------------------|
|   | June 30, 2016               | Technique            |   | June 30,<br>2016       | December<br>31, 2015 |
| Loans<br>held-for-sale,<br>fair value<br>option | \$ 237,106                  | Discounted cash flow | Yield (b)   | 4.2% -<br>6.2%         | 4.8% -<br>5.3%       |
|   |                             |                      | Duration (c)  | 5.0 -<br>10.7<br>years | 5.0 - 10.0<br>years  |
| RMBS  | 251,260                     | Discounted cash flow | Constant prepayment rate (a)                              | 2.9% -<br>15.6%        | 2.6% -<br>17.8%      |
|   |                             |                      | Constant default rate (b)                                 | 0.9% -<br>8.8%         | 1.0% -<br>8.9%       |
|   |                             |                      | Loss severity (b)   | 7% -<br>79% (e)        | 10% -<br>79% (e)     |
|   |                             |                      | Delinquency rate (c)                                      | 2% -<br>28%            | 2% - 29%             |
|   |                             |                      | Servicer advances (a)                                     | 18% -<br>94%           | 30% -<br>94%         |
|   |                             |                      | Annual coupon deterioration<br>(b)                        | 0% -<br>0.6%           | 0% -<br>0.5%         |
|   |                             |                      | Putback amount per projected<br>total collateral loss (d) | 0% -<br>15%            | 0% - 11%             |
| CMBS  | 114,340                     | Discounted cash flow | Yield (b)   | 0% -<br>332.8%         | 0% -<br>435.8%       |
|   |                             |                      | Duration (c)  | 0 - 9.5<br>years       | 0 - 18.5<br>years    |
| Domestic<br>servicing<br>rights                 | 83,301                      | Discounted cash flow | Debt yield (a)  | 8.00%                  | 8.25%                |
|   |                             |                      | Discount rate (b)   | 15%                    | 15%                  |
|   |                             | Discounted cash flow | Control migration (b)                                     | 0% -<br>80%            | 0% - 80%             |
| VIE assets                                      | 80,076,117                  |                      | Yield (b)   | 0% -<br>779.7%         | 0% -<br>920.2%       |
|   |                             | Duration (c)         | 0 - 14.3<br>years   | 0 - 17.5<br>years      |                      |
| VIE liabilities                                 | 3,540,652                   | Discounted cash flow | Yield (b)   | 0% -<br>779.7%         | 0% -<br>920.2%       |
|   |                             |                      | Duration (c)  | 0 - 14.3<br>years      | 0 - 17.5<br>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) 66% and 76% of the portfolio falls within a range of 45%-80% as of June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015, approximately \$867.8 million and \$858.5 million, respectively, of the Investing and Servicing Segment’s assets, including \$72.4 million and \$185.6 million in cash, respectively, were owned by TRS entities. Our TRSs are not consolidated for U.S. 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.

The following table is a reconciliation of our U.S. federal income tax determined using our statutory federal tax rate to our reported income tax provision for the three and six months ended June 30, 2016 and 2015 (dollars in thousands):

|  | For the Three Months Ended June 30, |         |           |         | For the Six Months Ended June 30, |         |           |         |
|--|-------------------------------------|---------|-----------|---------|-----------------------------------|---------|-----------|---------|
|  | 2016                                |         | 2015      |         | 2016                              |         | 2015      |         |
| Federal statutory tax rate             | \$ 39,472                           | 35.0 %  | \$ 42,501 | 35.0 %  | \$ 48,971                         | 35.0 %  | \$ 90,357 | 35.0%   |
| REIT and other non-taxable income      | (39,171)                            | (34.7)% | (40,510)  | (33.3)% | (48,135)                          | (34.4)% | (75,482)  | (29.2)% |
| State income taxes                     | 72                                  | 0.1 %   | 179       | 0.1 %   | (23)                              | — %     | 2,180     | 0.8%    |
| Federal benefit of state tax deduction | (25)                                | (0.1) % | (63)      | (0.1) % | 8                                 | — %     | (763)     | (0.3)%  |
| Valuation allowance                    | —                                   | — %     | 1,618     | 1.3 %   | —                                 | — %     | 2,873     | 1.1%    |
| Other                                  | 358                                 | 0.3 %   | 67        | 0.1 %   | (21)                              | — %     | 578       | 0.2%    |
| Effective tax rate                     | \$ 706                              | 0.6 %   | \$ 3,792  | 3.1 %   | \$ 800                            | 0.6 %   | \$ 19,743 | 7.6%    |

## 21. Commitments and Contingencies

As of June 30, 2016, we had future funding commitments on 54 loans totaling \$1.7 billion, of which we expect to fund \$1.4 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 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.

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## 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 securitization VIEs under ASC 810. The segment information within this note is reported on that basis.

The table below presents our results of operations for the three months ended June 30, 2016 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                 | \$ 119,296      | \$ 3,261                        | \$ —             | \$ —      | \$ 122,557 | \$ —                         | \$ 122,557 |
| Interest income from investment securities | 11,046          | 32,435                          | —                | —         | 43,481     | (28,180)                     | 15,301     |
| Servicing fees                             | 206             | 37,249                          | —                | —         | 37,455     | (14,143)                     | 23,312     |
| Rental income                              | —               | 8,223                           | 29,620           | —         | 37,843     | —                            | 37,843     |
| Other revenues                             | 58              | 1,076                           | 18               | —         | 1,152      | (173)                        | 979        |
| Total revenues                             | 130,606         | 82,244                          | 29,638           | —         | 242,488    | (42,496)                     | 199,992    |
| Costs and expenses:                        |                 |                                 |                  |           |            |                              |            |
| Management fees                            | 395             | 12                              | —                | 23,304    | 23,711     | 56                           | 23,767     |
| Interest expense                           | 22,572          | 3,328                           | 5,678            | 26,057    | 57,635     | —                            | 57,635     |
| General and administrative                 | 4,540           | 26,721                          | 837              | 3,130     | 35,228     | 181                          | 35,409     |
| Acquisition and investment pursuit costs   | 942             | 780                             | 166              | 1,000     | 2,888      | —                            | 2,888      |
| Costs of rental operations                 | —               | 3,661                           | 12,191           | —         | 15,852     | —                            | 15,852     |
| Depreciation and amortization              | —               | 3,730                           | 15,343           | —         | 19,073     | —                            | 19,073     |
| Loan loss allowance, net                   | 2,029           | —                               | —                | —         | 2,029      | —                            | 2,029      |
| Total costs and expenses                   | 30,478          | 38,232                          | 34,215           | 53,491    | 156,416    | 237                          | 156,653    |



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|  |                 |               |             |               |                  |              |                  |
|--|-----------------|---------------|-------------|---------------|------------------|--------------|------------------|
| Income (loss) before other (loss) income, income taxes and non-controlling interests | 100,128         | 44,012        | (4,577)     | (53,491)      | 86,072           | (42,733)     | 43,339           |
| Other income (loss):   |                 |               |             |               |                  |              |                  |
| Change in net assets related to consolidated VIEs                                    | —               | —             | —           | —             | —                | 50,707       | 50,707           |
| Change in fair value of servicing rights   | —               | (11,034)      | —           | —             | (11,034)         | (1,157)      | (12,191)         |
| Change in fair value of investment securities, net                                   | (30)            | 7,459         | —           | —             | 7,429            | (6,110)      | 1,319            |
| Change in fair value of mortgage loans held-for-sale, net                            | —               | 13,235        | —           | —             | 13,235           | —            | 13,235           |
| Earnings from unconsolidated entities  | 1,224           | 1,286         | 2,429       | —             | 4,939            | (460)        | 4,479            |
| (Loss) gain on sale of investments and other assets, net                             | (90)            | —             | —           | —             | (90)             | —            | (90)             |
| Gain (loss) on derivative financial instruments, net                                 | 15,868          | (3,945)       | 8,330       | —             | 20,253           | —            | 20,253           |
| Foreign currency (loss) gain, net  | (17,840)        | 870           | (18)        | —             | (16,988)         | —            | (16,988)         |
| Other income, net  | —               | 34            | 8,680       | —             | 8,714            | —            | 8,714            |
| Total other (loss) income  | (868)           | 7,905         | 19,421      | —             | 26,458           | 42,980       | 69,438           |
| Income (loss) before income taxes  | 99,260          | 51,917        | 14,844      | (53,491)      | 112,530          | 247          | 112,777          |
| Income tax provision   | —               | (706)         | —           | —             | (706)            | —            | (706)            |
| Net income (loss)  | 99,260<br>(348) | 51,211<br>(3) | 14,844<br>— | (53,491)<br>— | 111,824<br>(351) | 247<br>(247) | 112,071<br>(598) |

|   |           |           |           |             |            |      |            |
|---|-----------|-----------|-----------|-------------|------------|------|------------|
| Net income attributable to non-controlling interests            |           |           |           |             |            |      |            |
| Net income (loss) attributable to Starwood Property Trust, Inc. | \$ 98,912 | \$ 51,208 | \$ 14,844 | \$ (53,491) | \$ 111,473 | \$ — | \$ 111,473 |

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

|  | Lending<br>Segment | Investing<br>and Servicing<br>Segment | Property<br>Segment | Corporate | Subtotal   | Investing<br>and Servicing<br>VIEs | Total      |
|--|--------------------|---------------------------------------|---------------------|-----------|------------|------------------------------------|------------|
| Revenues:  |                    |                                       |                     |           |            |                                    |            |
| Interest income<br>from loans  | \$ 113,928         | \$ 4,364                              | \$ —                | \$ —      | \$ 118,292 | \$ —                               | \$ 118,292 |
| Interest income<br>from<br>investment<br>securities  | 17,050             | 47,272                                | —                   | —         | 64,322     | (40,512)                           | 23,810     |
| Servicing fees   | 98                 | 54,349                                | —                   | —         | 54,447     | (24,293)                           | 30,154     |
| Rental income  | —                  | 1,478                                 | 3,536               | —         | 5,014      | —                                  | 5,014      |
| Other revenues   | 334                | 1,301                                 | —                   | —         | 1,635      | (245)                              | 1,390      |
| Total revenues   | 131,410            | 108,764                               | 3,536               | —         | 243,710    | (65,050)                           | 178,660    |
| Costs and<br>expenses:   |                    |                                       |                     |           |            |                                    |            |
| Management<br>fees   | 367                | 18                                    | —                   | 26,385    | 26,770     | 51                                 | 26,821     |
| Interest expense   | 20,197             | 2,751                                 | 877                 | 25,974    | 49,799     | —                                  | 49,799     |
| General and<br>administrative  | 6,083              | 32,626                                | 174                 | 2,343     | 41,226     | 178                                | 41,404     |
| Acquisition and<br>investment<br>pursuit costs   | 224                | 505                                   | 4,262               | (124)     | 4,867      | —                                  | 4,867      |
| Costs of rental<br>operations  | —                  | 878                                   | 333                 | —         | 1,211      | —                                  | 1,211      |
| Depreciation<br>and<br>amortization  | —                  | 4,213                                 | 1,615               | —         | 5,828      | —                                  | 5,828      |
| Loan loss<br>allowance, net  | 2,661              | —                                     | —                   | —         | 2,661      | —                                  | 2,661      |
| Total costs and<br>expenses  | 29,532             | 40,991                                | 7,261               | 54,578    | 132,362    | 229                                | 132,591    |
| Income (loss)<br>before other<br>(loss) income,<br>income taxes<br>and<br>non-controlling<br>interests | 101,878            | 67,773                                | (3,725)             | (54,578)  | 111,348    | (65,279)                           | 46,069     |
| Other income<br>(loss):  | —                  | —                                     | —                   | —         | —          | 55,873                             | 55,873     |

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|   |            |           |            |             |            |        |            |
|---|------------|-----------|------------|-------------|------------|--------|------------|
| Change in net assets related to consolidated VIEs         |            |           |            |             |            |        |            |
| Change in fair value of servicing rights                  | —          | (8,381)   | —          | —           | (8,381)    | 5,729  | (2,652)    |
| Change in fair value of investment securities, net        | 510        | (3,191)   | —          | —           | (2,681)    | 4,127  | 1,446      |
| Change in fair value of mortgage loans held-for-sale, net | —          | 10,831    | —          | —           | 10,831     | —      | 10,831     |
| Earnings from unconsolidated entities                     | 1,361      | 5,328     | 2,554      | —           | 9,243      | (292)  | 8,951      |
| Gain on sale of investments and other assets, net         | 209        | —         | —          | —           | 209        | —      | 209        |
| (Loss) gain on derivative financial instruments, net      | (23,954)   | 4,274     | 150        | —           | (19,530)   | —      | (19,530)   |
| Foreign currency gain (loss), net                         | 21,181     | (120)     | (207)      | —           | 20,854     | —      | 20,854     |
| Loss on extinguishment of debt                            | —          | —         | —          | (629)       | (629)      | —      | (629)      |
| Other income, net   | —          | 10        | —          | —           | 10         | —      | 10         |
| Total other (loss) income                                 | (693)      | 8,751     | 2,497      | (629)       | 9,926      | 65,437 | 75,363     |
| Income (loss) before income taxes                         | 101,185    | 76,524    | (1,228)    | (55,207)    | 121,274    | 158    | 121,432    |
| Income tax provision                                      | —          | (3,792)   | —          | —           | (3,792)    | —      | (3,792)    |
| Net income (loss)   | 101,185    | 72,732    | (1,228)    | (55,207)    | 117,482    | 158    | 117,640    |
| Net income attributable to non-controlling interests      | (334)      | —         | —          | —           | (334)      | (158)  | (492)      |
| Net income (loss) attributable to Starwood                | \$ 100,851 | \$ 72,732 | \$ (1,228) | \$ (55,207) | \$ 117,148 | \$ —   | \$ 117,148 |

Property  
Trust, Inc.

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The table below presents our results of operations for the six months ended June 30, 2016 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   | \$ 233,954      | \$ 6,135                        | \$ —             | \$ —           | \$ 240,089     | \$ —                         | \$ 240,089     |
| Interest income from investment securities   | 20,674          | 80,061                          | —                | —              | 100,735        | (66,031)                     | 34,704         |
| Servicing fees   | 365             | 73,467                          | —                | —              | 73,832         | (25,829)                     | 48,003         |
| Rental income  | —               | 14,698                          | 55,822           | —              | 70,520         | —                            | 70,520         |
| Other revenues   | 81              | 2,418                           | 24               | —              | 2,523          | (354)                        | 2,169          |
| <b>Total revenues</b>  | <b>255,074</b>  | <b>176,779</b>                  | <b>55,846</b>    | <b>—</b>       | <b>487,699</b> | <b>(92,214)</b>              | <b>395,485</b> |
| <b>Costs and expenses:</b>   |                 |                                 |                  |                |                |                              |                |
| Management fees  | 770             | 30                              | —                | 47,832         | 48,632         | 98                           | 48,730         |
| Interest expense   | 44,907          | 6,566                           | 10,627           | 52,055         | 114,155        | —                            | 114,155        |
| General and administrative   | 8,462           | 52,015                          | 1,392            | 5,980          | 67,849         | 358                          | 68,207         |
| Acquisition and investment pursuit costs   | 1,280           | 1,135                           | 758              | 1,000          | 4,173          | —                            | 4,173          |
| Costs of rental operations   | —               | 6,723                           | 21,784           | —              | 28,507         | —                            | 28,507         |
| Depreciation and amortization  | —               | 6,781                           | 31,052           | —              | 37,833         | —                            | 37,833         |
| Loan loss allowance, net   | 1,268           | —                               | —                | —              | 1,268          | —                            | 1,268          |
| Other expense  | —               | 100                             | —                | —              | 100            | —                            | 100            |
| <b>Total costs and expenses</b>  | <b>56,687</b>   | <b>73,350</b>                   | <b>65,613</b>    | <b>106,867</b> | <b>302,517</b> | <b>456</b>                   | <b>302,973</b> |
| Income (loss) before other (loss) income, income taxes and non-controlling interests | 198,387         | 103,429                         | (9,767)          | (106,867)      | 185,182        | (92,670)                     | 92,512         |
| Other income (loss):   |                 |                                 |                  |                |                |                              |                |

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|   |            |           |          |              |            |        |            |
|---|------------|-----------|----------|--------------|------------|--------|------------|
| Change in net assets related to consolidated VIEs               | —          | —         | —        | —            | —          | 46,540 | 46,540     |
| Change in fair value of servicing rights                        | —          | (19,704)  | —        | —            | (19,704)   | 774    | (18,930)   |
| Change in fair value of investment securities, net              | (244)      | (44,069)  | —        | —            | (44,313)   | 46,385 | 2,072      |
| Change in fair value of mortgage loans held-for-sale, net       | —          | 20,126    | —        | —            | 20,126     | —      | 20,126     |
| Earnings from unconsolidated entities                           | 1,692      | 2,663     | 4,858    | —            | 9,213      | (669)  | 8,544      |
| Gain on sale of investments and other assets, net               | 155        | —         | —        | —            | 155        | —      | 155        |
| Gain (loss) on derivative financial instruments, net            | 12,842     | (15,190)  | (2,117)  | —            | (4,465)    | —      | (4,465)    |
| Foreign currency (loss) gain, net                               | (19,662)   | 2,330     | (34)     | —            | (17,366)   | —      | (17,366)   |
| Other income, net   | —          | 77        | 9,102    | 1,550        | 10,729     | —      | 10,729     |
| Total other (loss) income                                       | (5,217)    | (53,767)  | 11,809   | 1,550        | (45,625)   | 93,030 | 47,405     |
| Income (loss) before income taxes                               | 193,170    | 49,662    | 2,042    | (105,317)    | 139,557    | 360    | 139,917    |
| Income tax provision  | (75)       | (725)     | —        | —            | (800)      | —      | (800)      |
| Net income (loss)   | 193,095    | 48,937    | 2,042    | (105,317)    | 138,757    | 360    | 139,117    |
| Net (income) loss attributable to non-controlling interests     | (698)      | 71        | —        | —            | (627)      | (360)  | (987)      |
| Net income (loss) attributable to Starwood Property Trust, Inc. | \$ 192,397 | \$ 49,008 | \$ 2,042 | \$ (105,317) | \$ 138,130 | \$ —   | \$ 138,130 |





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The table below presents our results of operations for the six months ended June 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  | \$ 227,400      | \$ 9,321                        | \$ —             | \$ —      | \$ 236,721 | \$ —                         | \$ 236,721 |
| Interest income from investment securities                                    | 39,346          | 71,968                          | —                | —         | 111,314    | (59,760)                     | 51,554     |
| Servicing fees  | 182             | 105,297                         | —                | —         | 105,479    | (47,068)                     | 58,411     |
| Rental income   | —               | 4,150                           | 3,536            | —         | 7,686      | —                            | 7,686      |
| Other revenues  | 413             | 3,231                           | —                | —         | 3,644      | (507)                        | 3,137      |
| Total revenues  | 267,341         | 193,967                         | 3,536            | —         | 464,844    | (107,335)                    | 357,509    |
| Costs and expenses:   |                 |                                 |                  |           |            |                              |            |
| Management fees   | 755             | 36                              | —                | 53,897    | 54,688     | 101                          | 54,789     |
| Interest expense  | 41,720          | 4,870                           | 877              | 52,866    | 100,333    | —                            | 100,333    |
| General and administrative  | 10,941          | 61,815                          | 176              | 3,372     | 76,304     | 364                          | 76,668     |
| Acquisition and investment pursuit costs                                      | 997             | 718                             | 4,262            | 76        | 6,053      | —                            | 6,053      |
| Costs of rental operations  | —               | 2,576                           | 333              | —         | 2,909      | —                            | 2,909      |
| Depreciation and amortization   | —               | 8,298                           | 1,615            | —         | 9,913      | —                            | 9,913      |
| Loan loss allowance, net  | 2,978           | —                               | —                | —         | 2,978      | —                            | 2,978      |
| Other expense   | —               | 375                             | —                | —         | 375        | —                            | 375        |
| Total costs and expenses  | 57,391          | 78,688                          | 7,263            | 110,211   | 253,553    | 465                          | 254,018    |
| Income (loss) before other income, income taxes and non-controlling interests | 209,950         | 115,279                         | (3,727)          | (110,211) | 211,291    | (107,800)                    | 103,491    |
| Other income (loss):  | —               | —                               | —                | —         | —          | 103,734                      | 103,734    |

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|   |            |            |          |              |            |         |            |
|---|------------|------------|----------|--------------|------------|---------|------------|
| Change in net assets related to consolidated VIEs         |            |            |          |              |            |         |            |
| Change in fair value of servicing rights                  | —          | (13,256)   | —        | —            | (13,256)   | 9,062   | (4,194)    |
| Change in fair value of investment securities, net        | 171        | 5,122      | —        | —            | 5,293      | (4,346) | 947        |
| Change in fair value of mortgage loans held-for-sale, net | —          | 31,962     | —        | —            | 31,962     | —       | 31,962     |
| Earnings from unconsolidated entities                     | 2,216      | 8,052      | 5,195    | —            | 15,463     | (422)   | 15,041     |
| Gain on sale of investments and other assets, net         | 307        | 17,100     | —        | —            | 17,407     | —       | 17,407     |
| Gain (loss) on derivative financial instruments, net      | 8,909      | (3,733)    | (83)     | —            | 5,093      | —       | 5,093      |
| Foreign currency loss, net                                | (8,155)    | (1,291)    | (7)      | —            | (9,453)    | —       | (9,453)    |
| Loss on extinguishment of debt                            | —          | —          | —        | (5,921)      | (5,921)    | —       | (5,921)    |
| Other income, net   | —          | 41         | —        | 14           | 55         | —       | 55         |
| Total other income (loss)                                 | 3,448      | 43,997     | 5,105    | (5,907)      | 46,643     | 108,028 | 154,671    |
| Income (loss) before income taxes                         | 213,398    | 159,276    | 1,378    | (116,118)    | 257,934    | 228     | 258,162    |
| Income tax benefit (provision)                            | 30         | (19,773)   | —        | —            | (19,743)   | —       | (19,743)   |
| Net income (loss)   | 213,428    | 139,503    | 1,378    | (116,118)    | 238,191    | 228     | 238,419    |
| Net income attributable to non-controlling interests      | (680)      | —          | —        | —            | (680)      | (228)   | (908)      |
| Net income (loss) attributable to                         | \$ 212,748 | \$ 139,503 | \$ 1,378 | \$ (116,118) | \$ 237,511 | \$ —    | \$ 237,511 |

Starwood  
Property  
Trust, Inc.

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The table below presents our condensed consolidated balance sheet as of June 30, 2016 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               | \$ 127,803      | \$ 69,803                       | \$ 18,723        | \$ 187,335 | \$ 403,664    | \$ 1,156                     | \$ 404,822    |
| Restricted cash                         | 17,359          | 16,092                          | 7,680            | —          | 41,131        | —                            | 41,131        |
| Receivables                             | 5,687,399       | 6,053                           | —                | —          | 5,693,452     | —                            | 5,693,452     |
| Loans held-for-sale                     | —               | 237,106                         | —                | —          | 237,106       | —                            | 237,106       |
| Loans transferred as held-for-sale      | 93,268          | —                               | —                | —          | 93,268        | —                            | 93,268        |
| Investment securities                   | 784,463         | 1,050,909                       | —                | —          | 1,835,372     | (936,569)                    | 898,803       |
| Real estate properties, net             | —               | 220,340                         | 1,012,515        | —          | 1,232,855     | —                            | 1,232,855     |
| Intangible assets                       | —               | 154,975                         | 51,650           | —          | 206,625       | (29,572)                     | 177,053       |
| Investment in consolidated entities     | 30,873          | 55,432                          | 122,130          | —          | 208,435       | (7,894)                      | 200,541       |
| Goodwill                                | —               | 140,437                         | —                | —          | 140,437       | —                            | 140,437       |
| Other assets                            | 32,446          | 2,736                           | 7,510            | —          | 42,692        | —                            | 42,692        |
| Deferred interest receivable            | 29,028          | 1,008                           | —                | —          | 30,036        | —                            | 30,036        |
| Other assets                            | 12,234          | 74,481                          | 32,544           | 1,163      | 120,422       | (2,372)                      | 118,050       |
| Other assets, at fair value             | —               | —                               | —                | —          | —             | 80,076,117                   | 80,076,117    |
| Total Assets                            | \$ 6,814,873    | \$ 2,029,372                    | \$ 1,252,752     | \$ 188,498 | \$ 10,285,495 | \$ 79,100,866                | \$ 89,386,648 |
| Liabilities and Equity                  |                 |                                 |                  |            |               |                              |               |
| Liabilities:                            |                 |                                 |                  |            |               |                              |               |
| Accounts payable, accrued expenses      | \$ 9,352        | \$ 58,583                       | \$ 48,600        | \$ 23,295  | \$ 139,830    | \$ 782                       | \$ 140,610    |
| Vendor-party payable                    | —               | 555                             | —                | 19,763     | 20,318        | —                            | 20,318        |
| Accrued expenses payable                | —               | —                               | —                | 115,013    | 115,013       | —                            | 115,013       |
| Other liabilities                       | 13,706          | 4,163                           | 1                | —          | 17,870        | —                            | 17,870        |
| Deferred financing commitments, net     | 2,600,851       | 503,864                         | 725,856          | 645,650    | 4,476,221     | —                            | 4,476,221     |
| Convertible senior notes, net           | —               | —                               | —                | 1,334,424  | 1,334,424     | —                            | 1,334,424     |
| Secured borrowings on transferred loans | 94,668          | —                               | —                | —          | 94,668        | —                            | 94,668        |
| Other liabilities, at fair value        | —               | —                               | —                | —          | —             | 79,087,142                   | 79,087,142    |
| Total Liabilities                       | 2,718,577       | 567,165                         | 774,457          | 2,138,145  | 6,198,344     | 79,087,924                   | 85,286,938    |
| Equity:                                 |                 |                                 |                  |            |               |                              |               |

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|  |              |              |              |             |               |               |               |
|--|--------------|--------------|--------------|-------------|---------------|---------------|---------------|
| Starwood Property Trust, Inc.                            |              |              |              |             |               |               |               |
| Stockholders' Equity:                                    |              |              |              |             |               |               |               |
| Common stock   | —            | —            | —            | 2,427       | 2,427         | —             | 2,427         |
| Additional paid-in capital                               | 2,062,358    | 1,183,776    | 467,993      | 506,760     | 4,220,887     | —             | 4,220,887     |
| Treasury stock   | —            | —            | —            | (92,104)    | (92,104)      | —             | (92,104)      |
| Accumulated other comprehensive income                   |              |              |              |             |               |               |               |
| (Net)  | 39,472       | (6,973)      | 128          | —           | 32,627        | —             | 32,627        |
| Retained earnings  |              |              |              |             |               |               |               |
| (Accumulated deficit)                                    | 1,983,102    | 270,081      | 10,174       | (2,366,730) | (103,373)     | —             | (103,373)     |
| Total Starwood Property Trust, Inc. Stockholders' Equity | 4,084,932    | 1,446,884    | 478,295      | (1,949,647) | 4,060,464     | —             | 4,060,464     |
| Non-controlling interests                                |              |              |              |             |               |               |               |
| Consolidated subsidiaries                                | 11,364       | 15,323       | —            | —           | 26,687        | 12,942        | 39,629        |
| Total Equity   | 4,096,296    | 1,462,207    | 478,295      | (1,949,647) | 4,087,151     | 12,942        | 4,100,093     |
| Total Liabilities and Equity                             | \$ 6,814,873 | \$ 2,029,372 | \$ 1,252,752 | \$ 188,498  | \$ 10,285,495 | \$ 79,100,866 | \$ 89,386,443 |

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The table below presents our condensed consolidated balance sheet as of December 31, 2015 by business segment (amounts in thousands):

|                                    | Lending<br>Segment | Investing<br>and Servicing<br>Segment | Property<br>Segment | Corporate  | Subtotal     | Investing<br>and Servicing<br>VIEs | Total         |
|------------------------------------|--------------------|---------------------------------------|---------------------|------------|--------------|------------------------------------|---------------|
| Assets:                            |                    |                                       |                     |            |              |                                    |               |
| Cash and cash equivalents          | \$ 83,836          | \$ 62,649                             | \$ 2,944            | \$ 218,408 | \$ 367,837   | \$ 978                             | \$ 368,815    |
| Restricted cash                    | 9,775              | 8,826                                 | 4,468               | —          | 23,069       | —                                  | 23,069        |
| Loans                              |                    |                                       |                     |            |              |                                    |               |
| Loans held-for-investment, net     | 5,973,079          | —                                     | —                   | —          | 5,973,079    | —                                  | 5,973,079     |
| Loans held-for-sale                | —                  | 203,865                               | —                   | —          | 203,865      | —                                  | 203,865       |
| Loans transferred as               |                    |                                       |                     |            |              |                                    |               |
| Secured borrowings                 | 86,573             | —                                     | —                   | —          | 86,573       | —                                  | 86,573        |
| Investment securities              | 511,966            | 1,038,200                             | —                   | —          | 1,550,166    | (825,219)                          | 724,947       |
| Properties, net                    | —                  | 150,497                               | 768,728             | —          | 919,225      | —                                  | 919,225       |
| Intangible assets                  | —                  | 152,278                               | 61,121              | —          | 213,399      | (11,829)                           | 201,570       |
| Investment in                      |                    |                                       |                     |            |              |                                    |               |
| consolidated entities              | 30,827             | 53,145                                | 122,454             | —          | 206,426      | (7,225)                            | 199,201       |
| Goodwill                           | —                  | 140,437                               | —                   | —          | 140,437      | —                                  | 140,437       |
| Derivative assets                  | 33,412             | 2,087                                 | 9,592               | —          | 45,091       | —                                  | 45,091        |
| Accrued                            |                    |                                       |                     |            |              |                                    |               |
| Interest receivable                | 34,028             | 286                                   | —                   | —          | 34,314       | —                                  | 34,314        |
| Other assets                       | 7,938              | 71,505                                | 23,657              | 1,436      | 104,536      | (2,057)                            | 102,479       |
| Real estate assets, at fair value  | —                  | —                                     | —                   | —          | —            | 76,675,689                         | 76,675,689    |
| Total Assets                       | \$ 6,771,434       | \$ 1,883,775                          | \$ 992,964          | \$ 219,844 | \$ 9,868,017 | \$ 75,830,337                      | \$ 85,698,337 |
| Liabilities and Equity             |                    |                                       |                     |            |              |                                    |               |
| Liabilities:                       |                    |                                       |                     |            |              |                                    |               |
| Accounts payable, accrued expenses |                    |                                       |                     |            |              |                                    |               |
| and other liabilities              | \$ 18,822          | \$ 90,399                             | \$ 25,427           | \$ 21,468  | \$ 156,116   | \$ 689                             | \$ 156,805    |
| Related-party payable              | —                  | 423                                   | —                   | 40,532     | 40,955       | —                                  | 40,955        |
| Dividends payable                  | —                  | —                                     | —                   | 114,947    | 114,947      | —                                  | 114,947       |
| Derivative liabilities             | 5,190              | 6                                     | —                   | —          | 5,196        | —                                  | 5,196         |
| Secured financing                  |                    |                                       |                     |            |              |                                    |               |
| commitments, net                   | 2,341,897          | 422,260                               | 568,738             | 647,804    | 3,980,699    | —                                  | 3,980,699     |
| Convertible senior notes,          |                    |                                       |                     |            |              |                                    |               |
| and other                          | —                  | —                                     | —                   | 1,323,795  | 1,323,795    | —                                  | 1,323,795     |
| Secured borrowings on              |                    |                                       |                     |            |              |                                    |               |
| transferred loans                  | 88,000             | —                                     | —                   | —          | 88,000       | —                                  | 88,000        |
|                                    | —                  | —                                     | —                   | —          | —            | 75,817,014                         | 75,817,014    |

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|  |              |              |            |             |              |               |               |
|--|--------------|--------------|------------|-------------|--------------|---------------|---------------|
| Liabilities, at fair value                               |              |              |            |             |              |               |               |
| Total Liabilities  | 2,453,909    | 513,088      | 594,165    | 2,148,546   | 5,709,708    | 75,817,703    | 81,527,400    |
| Equity:  |              |              |            |             |              |               |               |
| Starwood Property Trust, Inc.                            |              |              |            |             |              |               |               |
| Stockholders' Equity:                                    |              |              |            |             |              |               |               |
| Common stock   | —            | —            | —          | 2,410       | 2,410        | —             | 2,410         |
| Additional paid-in capital                               | 2,477,987    | 1,146,926    | 394,465    | 173,466     | 4,192,844    | —             | 4,192,844     |
| Treasury stock   | —            | —            | —          | (72,381)    | (72,381)     | —             | (72,381)      |
| Accumulated other comprehensive income (loss)            | 37,242       | (3,714)      | (3,799)    | —           | 29,729       | —             | 29,729        |
| Retained earnings (accumulated deficit)                  | 1,790,705    | 221,073      | 8,133      | (2,032,197) | (12,286)     | —             | (12,286)      |
| Total Starwood Property Trust, Inc. Stockholders' Equity | 4,305,934    | 1,364,285    | 398,799    | (1,928,702) | 4,140,316    | —             | 4,140,316     |
| Non-controlling interests                                |              |              |            |             |              |               |               |
| Consolidated subsidiaries                                | 11,591       | 6,402        | —          | —           | 17,993       | 12,634        | 30,627        |
| Total Equity   | 4,317,525    | 1,370,687    | 398,799    | (1,928,702) | 4,158,309    | 12,634        | 4,170,943     |
| Total Liabilities and Equity                             | \$ 6,771,434 | \$ 1,883,775 | \$ 992,964 | \$ 219,844  | \$ 9,868,017 | \$ 75,830,337 | \$ 85,698,343 |

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23. Subsequent Events

Dividend Declaration

On August 4, 2016, our board of directors declared a dividend of \$0.48 per share for the third quarter of 2016, which is payable on October 17, 2016 to common stockholders of record as of September 30, 2016.



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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, 2015 (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" and 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 June 30, 2016:

- 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 (the “Condensed Consolidated Financial Statements”) for further discussion of our business and organization.

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Developments During the Second Quarter of 2016

- The Lending Segment originated or acquired the following loans or CMBS during the quarter:
  - o \$330.0 million first mortgage and mezzanine loan for the development of an 856-unit luxury multi-family project located in Brooklyn, New York, of which the Company funded \$17.1 million.
  - o \$216.0 million portfolio of three first mortgage loans secured by 25 office properties located in Long Island, New York and a two-building office complex located in San Jose, California, of which the Company funded \$211.9 million.
  - o €165.4 million investment in one first mortgage loan and one first mortgage loan portfolio, each of which had been securitized into single-borrower securitizations by the seller. The €98.9 million first mortgage loan is secured by a shopping center in the metropolitan area of Lisbon, Portugal. The €66.5 million first mortgage loan portfolio is secured by five food-related retail properties across Portugal, with four of the assets located in the Greater Lisbon metropolitan area.
  - o \$183.0 million first mortgage and mezzanine loan for the refinancing and renovation of a four-tower luxury multi-family complex located in the Greater Philadelphia area, of which the Company funded \$138.3 million.
- Funded \$123.8 million of previously originated loan commitments.
- Received proceeds of \$1.0 billion from maturities, sales and principal repayments on loans.
- Originated new conduit loans of \$288.2 million and received proceeds of \$218.4 million from sales of conduit loans.
- Purchased \$65.0 million and \$46.9 million of CMBS and RMBS, respectively, including \$39.5 million of new issue B-pieces.
- Named special servicer on two new issue CMBS deals, of which we retained the related B-pieces, with a total unpaid principal balance of \$1.5 billion.
- Acquired the final two of the 32 affordable housing communities which comprise our “Woodstar Portfolio.” These two properties include 628 units, total assets of \$48.9 million and assumed liabilities of \$22.1 million, which include state sponsored financing and other assumed debt.

- Acquired commercial real estate from CMBS trusts for a gross purchase price of \$58.9 million.

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Developments During the First Quarter of 2016

- The Lending Segment originated or acquired the following loans during the quarter:
  - o \$162.0 million first mortgage and mezzanine loan for the acquisition and renovation of a 10-building office and warehouse complex located in Brooklyn, New York, of which the Company funded \$80.0 million.
  - o \$105.0 million first mortgage loan secured by two Class A multi-family properties located in Orlando, Florida, which was fully funded upon acquisition.
  - o \$65.0 million first mortgage and mezzanine loan for the refinancing of a data center located in Orlando, Florida, of which the Company funded \$60.0 million.
  - o \$54.2 million first mortgage and mezzanine loan for the acquisition and renovation of a 491-room hotel located in Cincinnati, Ohio, of which the Company funded \$46.4 million.
- Acquired 12 of the 32 affordable housing communities in our Woodstar Portfolio. These 12 properties include 3,082 units, total assets of \$227.4 million and assumed liabilities of \$147.5 million, which includes federal, state and county sponsored financing.
- Funded \$185.6 million of previously originated loan commitments.
  - Received proceeds of \$290.6 million from maturities, sales and principal repayments on loans.
- Purchased \$46.6 million and \$41.5 million of CMBS and RMBS, respectively.
- Originated new conduit loans of \$200.6 million and received proceeds of \$257.0 million from sales of conduit loans.
- Acquired commercial real estate from CMBS trusts for a gross purchase price of \$24.9 million.
- Repurchased 1,052,889 shares of common stock at a total cost of \$19.7 million.

Subsequent Events

Refer to Note 23 to the Condensed Consolidated Financial Statements for disclosure regarding significant transactions that occurred subsequent to June 30, 2016.

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## 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 securitization variable interest entities (“VIEs”), particularly within revenues and other income, as discussed in Note 2 to the Condensed Consolidated Financial Statements. 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 securitization VIEs, refer to the Non-GAAP Financial Measures section herein.

The following table compares our summarized results of operations for the three and six months ended June 30, 2016 and 2015 by business segment (amounts in thousands):

|                                 | For the Three Months Ended |            |           | For the Six Months Ended |            |             |
|---------------------------------|----------------------------|------------|-----------|--------------------------|------------|-------------|
|                                 | June 30, 2016              | 2015       | \$ Change | June 30, 2016            | 2015       | \$ Change   |
| Revenues:                       |                            |            |           |                          |            |             |
| Lending Segment                 | \$ 130,606                 | \$ 131,410 | \$ (804)  | \$ 255,074               | \$ 267,341 | \$ (12,267) |
| Investing and Servicing Segment | 82,244                     | 108,764    | (26,520)  | 176,779                  | 193,967    | (17,188)    |
| Property Segment                | 29,638                     | 3,536      | 26,102    | 55,846                   | 3,536      | 52,310      |
| Investing and Servicing VIEs    | (42,496)                   | (65,050)   | 22,554    | (92,214)                 | (107,335)  | 15,121      |
|                                 | 199,992                    | 178,660    | 21,332    | 395,485                  | 357,509    | 37,976      |
| Costs and expenses:             |                            |            |           |                          |            |             |
| Lending Segment                 | 30,478                     | 29,532     | 946       | 56,687                   | 57,391     | (704)       |
| Investing and Servicing Segment | 38,232                     | 40,991     | (2,759)   | 73,350                   | 78,688     | (5,338)     |
| Property Segment                | 34,215                     | 7,261      | 26,954    | 65,613                   | 7,263      | 58,350      |
| Corporate                       | 53,491                     | 54,578     | (1,087)   | 106,867                  | 110,211    | (3,344)     |
| Investing and Servicing VIEs    | 237                        | 229        | 8         | 456                      | 465        | (9)         |
|                                 | 156,653                    | 132,591    | 24,062    | 302,973                  | 254,018    | 48,955      |
| Other income (loss):            |                            |            |           |                          |            |             |
| Lending Segment                 | (868)                      | (693)      | (175)     | (5,217)                  | 3,448      | (8,665)     |
| Investing and Servicing Segment | 7,905                      | 8,751      | (846)     | (53,767)                 | 43,997     | (97,764)    |
| Property Segment                | 19,421                     | 2,497      | 16,924    | 11,809                   | 5,105      | 6,704       |
| Corporate                       | —                          | (629)      | 629       | 1,550                    | (5,907)    | 7,457       |
| Investing and Servicing VIEs    | 42,980                     | 65,437     | (22,457)  | 93,030                   | 108,028    | (14,998)    |
|                                 | 69,438                     | 75,363     | (5,925)   | 47,405                   | 154,671    | (107,266)   |

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|  |            |            |            |            |            |             |
|--|------------|------------|------------|------------|------------|-------------|
| Income (loss) before<br>income taxes:                          |            |            |            |            |            |             |
| Lending Segment  | 99,260     | 101,185    | (1,925)    | 193,170    | 213,398    | (20,228)    |
| Investing and Servicing<br>Segment                             | 51,917     | 76,524     | (24,607)   | 49,662     | 159,276    | (109,614)   |
| Property Segment   | 14,844     | (1,228)    | 16,072     | 2,042      | 1,378      | 664         |
| Corporate  | (53,491)   | (55,207)   | 1,716      | (105,317)  | (116,118)  | 10,801      |
| Investing and Servicing<br>VIEs                                | 247        | 158        | 89         | 360        | 228        | 132         |
|  | 112,777    | 121,432    | (8,655)    | 139,917    | 258,162    | (118,245)   |
| Income tax provision   | (706)      | (3,792)    | 3,086      | (800)      | (19,743)   | 18,943      |
| Net income attributable to<br>non-controlling interests        | (598)      | (492)      | (106)      | (987)      | (908)      | (79)        |
| Net income attributable to<br>Starwood Property<br>Trust, Inc. | \$ 111,473 | \$ 117,148 | \$ (5,675) | \$ 138,130 | \$ 237,511 | \$ (99,381) |



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Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015

## Lending Segment

## Revenues

For the three months ended June 30, 2016, revenues of our Lending Segment decreased \$0.8 million to \$130.6 million, compared to \$131.4 million for the three months ended June 30, 2015. This decrease was primarily due to (i) a \$6.0 million decrease in interest income from investment securities principally due to maturities during 2015 of two preferred equity interests we held in companies that own commercial real estate, partially offset by (ii) a \$5.4 million increase in interest income from loans principally due to higher loan fee income due to increased levels of loan prepayments during the second quarter of 2016.

## Costs and Expenses

For the three months ended June 30, 2016, costs and expenses of our Lending Segment increased \$0.9 million to \$30.5 million, compared to \$29.5 million for the three months ended June 30, 2015. This increase was primarily due to a \$2.4 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio and a \$0.7 million increase in investment pursuit costs, partially offset by a \$1.5 million decrease in general and administrative (“G&A”) expenses primarily due to lower compensation costs.

## Net Interest Income (amounts in thousands)

|  | For the Three Months |            |            |
|--|----------------------|------------|------------|
|  | Ended                |            |            |
|  | June 30,             |            |            |
|  | 2016                 | 2015       | Change     |
| Interest income from loans                 | \$ 119,296           | \$ 113,928 | \$ 5,368   |
| Interest income from investment securities | 11,046               | 17,050     | (6,004)    |
| Interest expense                           | (22,572)             | (20,197)   | (2,375)    |
| Net interest income                        | \$ 107,770           | \$ 110,781 | \$ (3,011) |

For the three months ended June 30, 2016, net interest income of our Lending Segment decreased \$3.0 million to \$107.8 million, compared to \$110.8 million for the three months ended June 30, 2015. This decrease reflects the net decrease in interest income explained in the Revenues discussion above and the increase in interest expense on our secured financing facilities.

During the three months ended June 30, 2016, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 7.2% and 10.1%, respectively, excluding the impact of bridge financing. During the three months ended June 30, 2015, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 7.5% and 10.0%, respectively, excluding the impact of bridge financing. The slight decrease in the weighted average unlevered and levered yields is primarily due to a gradual decline of interest rate spreads over the last twelve months.

During the three months ended June 30, 2016 and 2015, 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 3.1%, respectively, and 3.3% and 2.9%, respectively, excluding the impact of bridge financing.

#### Other Loss

For the three months ended June 30, 2016, other loss of our Lending Segment increased \$0.2 million to a loss of \$0.9 million, compared to a loss of \$0.7 million for the three months ended June 30, 2015. The increase was primarily due to a \$39.0 million unfavorable swing in foreign currency gain (loss) and a \$1.0 million decrease in income from other investments, partially offset by a favorable swing of \$39.8 million in gain (loss) on derivatives. The favorable swing in gain (loss) on derivatives reflects a \$46.5 million favorable swing in foreign currency hedges and a \$6.7 million unfavorable swing in interest rate swaps. The foreign currency hedges are used to fix the U.S. dollar amounts of cash flows (both

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interest and principal payments) we expect to receive from our foreign currency denominated loans and CMBS investments. The gains on those hedges reflect the overall strengthening of the U.S. dollar against the pound sterling (“GBP”). The interest rate swaps are used primarily to fix our interest rate payments on variable rate borrowings. The favorable swing in foreign currency hedges is greater than the offsetting unfavorable swing in foreign currency gain (loss) mainly because (i) the portion of unrealized foreign currency loss associated with an investment security held in 2015 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 and (ii) the foreign currency hedges generally cover all the expected future cash flows from the hedged investments.

## Investing and Servicing Segment and VIEs

### Revenues

For the three months ended June 30, 2016, revenues of our Investing and Servicing Segment decreased \$4.0 million to \$39.7 million after consolidated VIE eliminations of \$42.5 million, compared to \$43.7 million after consolidated VIE eliminations of \$65.0 million for the three months ended June 30, 2015. 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 second quarter of 2016 was primarily due to decreases of \$7.0 million in servicing fees, \$2.5 million in interest income from CMBS investments and \$1.1 million in interest income on loans held-for-sale, partially offset by a \$6.7 million increase in rental income on our expanded REO Portfolio (see Note 3 to the Condensed Consolidated Financial Statements). The \$2.5 million decrease in CMBS interest income reflects a \$12.3 million decrease in VIE eliminations related to the CMBS trusts we consolidate. Excluding the effect of these eliminations, CMBS interest income decreased by \$14.8 million, reflecting a lower level of CMBS interest recoveries due to fewer asset liquidations by CMBS trusts, partially offset by the effect of a \$221.2 million net increase in this segment’s CMBS investments between June 30, 2015 and 2016.

### Costs and Expenses

For the three months ended June 30, 2016, costs and expenses of our Investing and Servicing Segment decreased \$2.7 million to \$38.5 million, compared to \$41.2 million for the three months ended June 30, 2015, inclusive of VIE eliminations which were nominal for both periods. The decrease in costs and expenses was primarily due to lower incentive compensation, partially offset by an increase in costs of rental operations and an increase in interest expense on secured financings for CMBS and the REO Portfolio.

### Other Income

For the three months ended June 30, 2016, other income of our Investing and Servicing Segment decreased \$23.3 million to \$50.9 million including additive net VIE eliminations of \$43.0 million, from \$74.2 million including additive net VIE eliminations of \$65.4 million for the three months ended June 30, 2015. The decrease in other income in the second quarter of 2016 compared to the second quarter of 2015 was primarily due to (i) a \$9.5 million greater reduction in fair value of servicing rights which reflects the expected amortization of this deteriorating asset net of increases in fair value due to the attainment of new servicing contracts, (ii) an \$8.2 million unfavorable swing in gain (loss) on derivatives which principally hedge our interest rate risk on conduit loans held-for-sale and (iii) a decrease of \$5.2 million in the change in 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 an increase in fair value of CMBS securities of \$7.5 million and a decrease of \$3.2 million in the three months ended June 30, 2016 and 2015, respectively.

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Income Tax Provision

Historically, our consolidated income tax provision principally 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 June 30, 2016, as well as the overall effective tax rate, is lower than for the three months ended June 30, 2015 primarily due to a decrease in the taxable income of our TRSs.

Property Segment

Revenues

For the three months ended June 30, 2016, revenues of our Property Segment increased \$26.1 million to \$29.6 million, compared to \$3.5 million for the three months ended June 30, 2015. The increase in revenues in the second quarter of 2016 was primarily due to increases in rental income of \$21.3 million from our Woodstar Portfolio and \$4.8 million from our Ireland Portfolio, both of which are described in Note 3 to the Condensed Consolidated Financial Statements.

Costs and Expenses

For the three months ended June 30, 2016, costs and expenses of our Property Segment increased \$26.9 million to \$34.2 million, compared to \$7.3 million for the three months ended June 30, 2015. The increase in costs and expenses was primarily due to increases of \$13.7 million in depreciation and amortization, \$11.9 million in other rental related costs and \$4.8 million in interest expense on the secured financing for the Woodstar and Ireland Portfolios, partially offset by a \$4.1 million decrease in acquisition and investment pursuit costs.

Other Income

For the three months ended June 30, 2016, other income of our Property Segment increased \$16.9 million to \$19.4 million, compared to \$2.5 million for the three months ended June 30, 2015. The increase in other income was primarily due to the recognition of an \$8.4 million bargain purchase gain on the final two properties we purchased for the Woodstar Portfolio during the second quarter of 2016 and an increase of \$8.2 million in gains on foreign currency derivatives that economically hedge our Euro currency exposure with respect to the Ireland Portfolio.

## Corporate

### Costs and Expenses

For the three months ended June 30, 2016, corporate expenses decreased \$1.1 million to \$53.5 million, compared to \$54.6 million for the three months ended June 30, 2015. The decrease was primarily due to a \$3.1 million decrease in management fees partially offset by a \$2.0 million increase in other corporate expenses, including acquisition and investment pursuit costs.

### Other Income (Loss)

For the three months ended June 30, 2016, there was no corporate other income (loss) compared to a loss of \$0.6 million for the three months ended June 30, 2015 on the repurchase of \$14.5 million principal amount of our convertible senior notes due 2019.

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Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015

## Lending Segment

## Revenues

For the six months ended June 30, 2016, revenues of our Lending Segment decreased \$12.2 million to \$255.1 million, compared to \$267.3 million for the six months ended June 30, 2015. This decrease was primarily due to (i) an \$18.7 million decrease in interest income from investment securities principally due to maturities during 2015 of two preferred equity interests we held in companies that own commercial real estate and the absence of \$5.4 million of income realized upon the collection of a RMBS in the first quarter of 2015, partially offset by (ii) a \$6.5 million increase in interest income from loans principally due to higher loan fee income due to increased levels of loan prepayments during the second quarter of 2016.

## Costs and Expenses

For the six months ended June 30, 2016, costs and expenses of our Lending Segment decreased \$0.7 million to \$56.7 million, compared to \$57.4 million for the six months ended June 30, 2015. This decrease was primarily due to a \$2.5 million decrease in G&A expenses primarily due to lower compensation costs and a \$1.7 million decrease in our provision for loan losses, partially offset by a \$3.2 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio.

## Net Interest Income (amounts in thousands)

|  | For the Six Months Ended |            |             |
|--|--------------------------|------------|-------------|
|  | June 30,                 |            |             |
|  | 2016                     | 2015       | Change      |
| Interest income from loans                 | \$ 233,954               | \$ 227,400 | \$ 6,554    |
| Interest income from investment securities | 20,674                   | 39,346     | (18,672)    |
| Interest expense                           | (44,907)                 | (41,720)   | (3,187)     |
| Net interest income                        | \$ 209,721               | \$ 225,026 | \$ (15,305) |

For the six months ended June 30, 2016, net interest income of our Lending Segment decreased \$15.3 million to \$209.7 million, compared to \$225.0 million for the six months ended June 30, 2015. This decrease reflects the net decrease in interest income explained in the Revenues discussion above and the increase in interest expense on our secured financing facilities.

During the six months ended June 30, 2016, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 7.5% and 10.1%, respectively, excluding the impact of bridge financing. During the six months ended June 30, 2015, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 7.7% and 10.2%, respectively, excluding the impact of bridge financing. The slight decrease in the weighted average unlevered and levered yields is primarily due to a gradual decline of interest rate spreads over the last twelve months.

During the six months ended June 30, 2016 and 2015, 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 3.2%, respectively, and 3.3% and 3.0%, respectively, excluding the impact of bridge financing.

#### Other Income (Loss)

For the six months ended June 30, 2016, other income (loss) of our Lending Segment decreased \$8.6 million to a loss of \$5.2 million, compared to income of \$3.4 million for the six months ended June 30, 2015. The decrease was primarily due to an \$11.5 million increase in foreign currency loss partially offset by a \$3.9 million increase in derivative gains. The \$3.9 million increase in derivative gains reflects a \$13.2 million increased gain on foreign currency hedges partially offset by a \$9.3 million increased loss on interest rate swaps. The foreign currency hedges are used to fix the U.S.



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dollar amounts of cash flows (both interest and principal payments) we expect to receive from our foreign currency denominated loans and CMBS investments. The gains on those hedges reflect the overall strengthening of the U.S. dollar against the GBP. The interest rate swaps are used primarily to fix our interest rate payments on variable rate borrowings. The increase in gain on foreign currency hedges is greater than the offsetting increase in foreign currency loss mainly because (i) the portion of unrealized foreign currency loss associated with an investment security held in 2015 was reported in 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 and (ii) the foreign currency hedges generally cover all the expected future cash flows from the hedged investments.

## Investing and Servicing Segment and VIEs

### Revenues

For the six months ended June 30, 2016, revenues of our Investing and Servicing Segment decreased \$2.0 million to \$84.6 million after consolidated VIE eliminations of \$92.2 million, compared to \$86.6 million after consolidated VIE eliminations of \$107.3 million for the six months ended June 30, 2015. 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 six months of 2016 was primarily due to decreases of \$10.6 million in servicing fees and \$3.2 million in interest income on loans held-for-sale, partially offset by increases of \$10.5 million in rental income on our expanded REO Portfolio (see Note 3 to the Condensed Consolidated Financial Statements) and \$1.8 million in interest income from CMBS investments. The \$1.8 million increase in CMBS interest income reflects a \$6.3 million increase in VIE eliminations related to the CMBS trusts we consolidate. Excluding the effect of these eliminations, CMBS interest income increased by \$8.1 million, reflecting a \$221.2 million net increase in this segment's CMBS investments between June 30, 2015 and 2016, partially offset by a lower level of CMBS interest recoveries due to fewer asset liquidations by CMBS trusts during the second quarter of 2016.

### Costs and Expenses

For the six months ended June 30, 2016, costs and expenses of our Investing and Servicing Segment decreased \$5.4 million to \$73.8 million, compared to \$79.2 million for the six months ended June 30, 2015, inclusive of VIE eliminations which were nominal for both periods. The decrease in costs and expenses was primarily due to lower incentive compensation, partially offset by an increase in costs of rental operations and an increase in interest expense on secured financings for CMBS and the REO Portfolio.

### Other Income

For the six months ended June 30, 2016, other income of our Investing and Servicing Segment decreased \$112.7 million to \$39.3 million including additive net VIE eliminations of \$93.0 million, from \$152.0 million including additive net VIE eliminations of \$108.0 million for the six months ended June 30, 2015. The decrease in other income in the six months of 2016 compared to 2015 was primarily due to (i) a decrease of \$57.2 million in the change in value of net assets related to consolidated VIEs, (ii) the absence of a \$17.1 million gain on sale of a commercial real estate asset realized in the first quarter of 2015, (iii) a \$14.7 million greater reduction in fair value of servicing rights which reflects the expected amortization of this deteriorating asset net of increases in fair value due to the attainment of new servicing contracts, (iv) an \$11.8 million lesser increase in fair value of loans held-for-sale and (v) an \$11.5 million increased loss on derivatives which principally hedge our interest rate risk on conduit loans held-for-sale and. 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 \$44.1 million and an increase of \$5.1 million in the six months ended June 30, 2016 and 2015, respectively.

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### Income Tax Provision

Historically, our consolidated income tax provision principally 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 six months ended June 30, 2016, as well as the overall effective tax rate, is lower than for the six months ended June 30, 2015 primarily due to a decrease in the taxable income of our TRSs.

### Property Segment

#### Revenues

For the six months ended June 30, 2016, revenues of our Property Segment increased \$52.3 million to \$55.8 million, compared to \$3.5 million for the six months ended June 30, 2015. The increase in revenues in the six months of 2016 was primarily due to increases in rental income of \$39.6 million from our Woodstar Portfolio and \$12.7 million from our Ireland Portfolio, both of which are described in Note 3 to the Condensed Consolidated Financial Statements.

#### Costs and Expenses

For the six months ended June 30, 2016, costs and expenses of our Property Segment increased \$58.3 million to \$65.6 million, compared to \$7.3 million for the six months ended June 30, 2015. The increase in costs and expenses was primarily due to increases of \$29.4 million in depreciation and amortization, \$21.5 million in other rental related costs and \$9.8 million in interest expense on the secured financing for the Woodstar and Ireland Portfolios, partially offset by a \$3.5 million decrease in acquisition and investment pursuit costs.

#### Other Income

For the six months ended June 30, 2016, other income of our Property Segment increased \$6.7 million to \$11.8 million, compared to \$5.1 million for the six months ended June 30, 2015. The increase in other income was primarily due to the recognition of an \$8.4 million bargain purchase gain on the final two properties we purchased for the Woodstar Portfolio during the second quarter of 2016, partially offset by an increase of \$2.0 million in losses on foreign currency derivatives that economically hedge our Euro currency exposure with respect to the Ireland Portfolio and interest rate derivatives related to debt financing for the Ireland Portfolio.

## Corporate

### Costs and Expenses

For the six months ended June 30, 2016, corporate expenses decreased \$3.3 million to \$106.9 million, compared to \$110.2 million for the six months ended June 30, 2015. The decrease was primarily due to a \$6.1 million decrease in management fees partially offset by a \$2.8 million increase in other corporate expenses, including acquisition and investment pursuit costs.

### Other Income (Loss)

For the six months ended June 30, 2016, corporate other income (loss) increased \$7.4 million to income of \$1.5 million, compared to a loss of \$5.9 million for the six months ended June 30, 2015. Corporate other income of \$1.5 million for the six months ended June 30, 2016 represents a reimbursement received related to a partnership guarantee arrangement. Corporate other loss of \$5.9 million for the six months ended June 30, 2015 represents a loss on the repurchase of \$118.6 million of our convertible senior notes due 2019.

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Non-GAAP Financial Measures

Core Earnings is a non-GAAP financial measure. We calculate Core Earnings as GAAP net income (loss) excluding the following:

- (i) non-cash equity compensation expense;
- (ii) incentive fees due under our management agreement;
- (iii) depreciation and amortization of real estate and associated intangibles;
- (iv) losses on extinguishment of debt;
- (v) acquisition costs associated with successful acquisitions (effective July 1, 2015); and
- (vi) 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.

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 unvested stock awards representing 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 senior 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 unvested stock awards 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) such unvested awards. Further, conversion of the convertible senior 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 until a conversion actually occurs. The following table presents our diluted

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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 |         | For the Six Months<br>Ended |         |
|--|-------------------------------|---------|-----------------------------|---------|
|  | June 30,<br>2016              | 2015    | June 30,<br>2016            | 2015    |
| Diluted weighted average shares - GAAP | 237,597                       | 235,831 | 237,367                     | 230,085 |
| Add: Unvested stock awards             | 1,722                         | 2,295   | 1,778                       | 2,155   |
| Less: Conversion spread value          | (441)                         | (649)   | (456)                       | (644)   |
| Diluted weighted average shares - Core | 238,878                       | 237,477 | 238,689                     | 231,596 |

The definition of Core Earnings allows management to make adjustments, subject to the approval of a majority of our 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. No adjustments to the definition of Core Earnings occurred during the six months ended June 30, 2016.

The following table summarizes our quarterly Core Earnings per weighted average diluted share for the six months ended June 30, 2016 and 2015:

|      | Core Earnings For the<br>Three-Month Periods Ended |         |
|------|--|---------|
|      | March 31   | June 30 |
| 2016 | \$ 0.50  | \$ 0.50 |
| 2015 | 0.55   | 0.53    |

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Three Months Ended June 30, 2016 Compared to the Three Months Ended June 30, 2015

The following table presents our summarized results of operations and reconciliation to Core Earnings for the three months ended June 30, 2016, by business segment (amounts in thousands, except per share data):

|   | Lending<br>Segment | Investing<br>and<br>Servicing<br>Segment | Property<br>Segment | Corporate   | Total      |
|---|--------------------|--|---------------------|-------------|------------|
| Revenues  | \$ 130,606         | \$ 82,244                                | \$ 29,638           | \$ —        | \$ 242,488 |
| Costs and expenses  | (30,478)           | (38,232)                                 | (34,215)            | (53,491)    | (156,416)  |
| Other (loss) income   | (868)              | 7,905                                    | 19,421              | —           | 26,458     |
| Income (loss) before income taxes                               | 99,260             | 51,917                                   | 14,844              | (53,491)    | 112,530    |
| Income tax provision  | —                  | (706)                                    | —                   | —           | (706)      |
| Income attributable to non-controlling interests                | (348)              | (3)                                      | —                   | —           | (351)      |
| Net income (loss) attributable to Starwood Property Trust, Inc. | 98,912             | 51,208                                   | 14,844              | (53,491)    | 111,473    |
| Add / (Deduct):   |                    |  |                     |             |            |
| Non-cash equity compensation expense                            | 704                | 1,401                                    | 29                  | 5,524       | 7,658      |
| Management incentive fee  | —                  | —  | —                   | 2,868       | 2,868      |
| Acquisition and investment pursuit costs                        | —                  | 226                                      | 136                 | —           | 362        |
| Depreciation and amortization                                   | —                  | 2,921                                    | 15,369              | —           | 18,290     |
| Loan loss allowance, net  | 2,029              | —  | —                   | —           | 2,029      |
| Interest income adjustment for securities                       | (243)              | 5,857                                    | —                   | —           | 5,614      |
| Other non-cash items  | —                  | 17                                       | (9,206)             | —           | (9,189)    |
| Reversal of unrealized (gains) / losses on:                     |                    |  |                     |             |            |
| Loans held-for-sale   | —                  | (13,235)                                 | —                   | —           | (13,235)   |
| Securities  | 30                 | (7,459)                                  | —                   | —           | (7,429)    |
| Derivatives   | (16,530)           | 3,635                                    | (8,330)             | —           | (21,225)   |
| Foreign currency  | 17,840             | (870)                                    | 18                  | —           | 16,988     |
| Earnings from unconsolidated entities                           | (1,224)            | (1,286)                                  | (2,429)             | —           | (4,939)    |
| Recognition of realized gains / (losses) on:                    |                    |  |                     |             |            |
| Loans held-for-sale   | —                  | 13,679                                   | —                   | —           | 13,679     |
| Securities  | —                  | (4,554)                                  | —                   | —           | (4,554)    |
| Derivatives   | 25,321             | (3,104)                                  | —                   | —           | 22,217     |
| Foreign currency  | (25,704)           | 839                                      | (19)                | —           | (24,884)   |
| Earnings from unconsolidated entities                           | 1,224              | 630                                      | 2,333               | —           | 4,187      |
| Core Earnings (Loss)  | \$ 102,359         | \$ 49,905                                | \$ 12,745           | \$ (45,099) | \$ 119,910 |
| Core Earnings (Loss) per Weighted Average Diluted Share         | \$ 0.43            | \$ 0.21                                  | \$ 0.05             | \$ (0.19)   | \$ 0.50    |





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

|   | Lending<br>Segment | Investing<br>and<br>Servicing<br>Segment | Property<br>Segment | Corporate   | Total      |
|---|--------------------|--|---------------------|-------------|------------|
| Revenues  | \$ 131,410         | \$ 108,764                               | \$ 3,536            | \$ —        | \$ 243,710 |
| Costs and expenses  | (29,532)           | (40,991)                                 | (7,261)             | (54,578)    | (132,362)  |
| Other (loss) income   | (693)              | 8,751                                    | 2,497               | (629)       | 9,926      |
| Income (loss) before income taxes                               | 101,185            | 76,524                                   | (1,228)             | (55,207)    | 121,274    |
| Income tax provision  | —                  | (3,792)                                  | —                   | —           | (3,792)    |
| Income attributable to non-controlling interests                | (334)              | —  | —                   | —           | (334)      |
| Net income (loss) attributable to Starwood Property Trust, Inc. | 100,851            | 72,732                                   | (1,228)             | (55,207)    | 117,148    |
| Add / (Deduct):   |                    |  |                     |             |            |
| Non-cash equity compensation expense                            | 1,135              | 2,291                                    | —                   | 7,484       | 10,910     |
| Management incentive fee  | —                  | —  | —                   | 4,088       | 4,088      |
| Depreciation and amortization                                   | —                  | 414                                      | 1,537               | —           | 1,951      |
| Loan loss allowance, net  | 2,661              | —  | —                   | —           | 2,661      |
| Interest income adjustment for securities                       | (301)              | (7,232)                                  | —                   | —           | (7,533)    |
| Reversal of unrealized (gains) / losses on:                     |                    |  |                     |             |            |
| Loans held-for-sale   | —                  | (10,831)                                 | —                   | —           | (10,831)   |
| Securities  | (510)              | 3,191                                    | —                   | —           | 2,681      |
| Derivatives   | 23,160             | (5,067)                                  | (150)               | —           | 17,943     |
| Foreign currency  | (21,182)           | 120                                      | 207                 | —           | (20,855)   |
| Earnings from unconsolidated entities                           | —                  | (5,328)                                  | —                   | —           | (5,328)    |
| Recognition of realized gains / (losses) on:                    |                    |  |                     |             |            |
| Loans held-for-sale   | —                  | 18,188                                   | —                   | —           | 18,188     |
| Securities  | —                  | (11,492)                                 | —                   | —           | (11,492)   |
| Derivatives   | 8,578              | (62)                                     | —                   | —           | 8,516      |
| Foreign currency  | (6,282)            | (120)                                    | (7)                 | —           | (6,409)    |
| Earnings from unconsolidated entities                           | —                  | 4,274                                    | —                   | —           | 4,274      |
| Core Earnings (Loss)  | \$ 108,110         | \$ 61,078                                | \$ 359              | \$ (43,635) | \$ 125,912 |
| Core Earnings (Loss) per Weighted Average Diluted Share         | \$ 0.46            | \$ 0.25                                  | \$ —                | \$ (0.18)   | \$ 0.53    |

## Lending Segment

The Lending Segment's Core Earnings decreased by \$5.7 million, from \$108.1 million during the second quarter of 2015 to \$102.4 million in the second quarter of 2016. After making adjustments for the calculation of Core Earnings, revenues were \$130.4 million, costs and expenses were \$27.7 million and other income was \$0.1 million.

Core revenues, consisting principally of interest income on loans, decreased by \$0.7 million in the second quarter of 2016 primarily due to (i) a \$5.9 million decrease in interest income from investment securities principally due to maturities during 2015 of two preferred equity interests we held in companies that own commercial real estate, partially offset by (ii) a \$5.4 million increase in interest income from loans principally due to higher loan fee income due to increased levels of loan prepayments during the second quarter of 2016.

Core costs and expenses increased by \$2.0 million in the second quarter of 2016 primarily due a \$2.4 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio and a \$0.7 million increase in investment pursuit costs, partially offset by a \$1.1 million decrease in G&A expenses reflecting lower compensation costs.

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Core other income decreased by \$2.9 million, principally due to an increase in losses on foreign currency denominated assets partially offset by an increase in gains on related derivatives.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings decreased by \$11.2 million, from \$61.1 million during the second quarter of 2015 to \$49.9 million in the second quarter of 2016. After making adjustments for the calculation of Core Earnings, revenues were \$88.1 million, costs and expenses were \$33.7 million, other loss was \$3.8 million and income taxes were \$0.7 million.

Core revenues decreased by \$13.4 million in the second quarter of 2016, primarily due to decreases of \$17.1 million in servicing fees, \$1.7 million in interest income from our CMBS portfolio and \$1.1 million in interest income on loans held-for-sale, partially offset by a \$6.8 million increase in rental income on our expanded REO Portfolio.

Core costs and expenses decreased by \$4.5 million in the second quarter of 2016, primarily due to lower incentive compensation and lower amortization of our European servicing rights, partially offset by an increase in costs of rental operations and an increase in interest expense on secured financings for CMBS and the REO Portfolio.

Core other income decreased by \$5.4 million to a loss in the second quarter of 2016, primarily reflecting a \$4.5 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, decreased \$3.1 million due to a decrease in the taxable income of our TRSs.

Property Segment

The Property Segment's Core Earnings increased by \$12.3 million, from \$0.4 million during the second quarter of 2015 to \$12.7 million in the second quarter of 2016. After making adjustments for the calculation of Core Earnings, revenues were \$28.9 million, costs and expenses were \$18.7 million and other income was \$2.5 million.

Core revenues increased by \$25.4 million in the second quarter of 2016, primarily due to an increase in rental income from the Woodstar and Ireland Portfolios.

Core costs and expenses increased by \$13.1 million in the second quarter of 2016, primarily due to increases in rental related costs of \$11.9 million and interest expense on the secured financing for the Woodstar and Ireland Portfolios of \$4.8 million, partially offset by a \$4.2 million decrease in acquisition and investment pursuit costs.

Core other income did not materially change in the second quarter of 2016 compared to the second quarter of 2015.

#### Corporate

Core corporate costs and expenses increased by \$1.5 million, from \$43.6 million in the second quarter of 2015 to \$45.1 million in the second quarter of 2016, primarily due to an increase in acquisition and investment pursuit costs.

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Six Months Ended June 30, 2016 Compared to the Six Months Ended June 30, 2015

The following table presents our summarized results of operations and reconciliation to Core Earnings for the six months ended June 30, 2016, by business segment (amounts in thousands, except per share data):

|  | Lending<br>Segment | Investing<br>and<br>Servicing<br>Segment | Property<br>Segment | Corporate   | Total      |
|--|--------------------|--|---------------------|-------------|------------|
| Revenues   | \$ 255,074         | \$ 176,779                               | \$ 55,846           | \$ —        | \$ 487,699 |
| Costs and expenses   | (56,687)           | (73,350)                                 | (65,613)            | (106,867)   | (302,517)  |
| Other (loss) income  | (5,217)            | (53,767)                                 | 11,809              | 1,550       | (45,625)   |
| Income (loss) before income taxes                                  | 193,170            | 49,662                                   | 2,042               | (105,317)   | 139,557    |
| Income tax provision   | (75)               | (725)                                    | —                   | —           | (800)      |
| (Income) loss attributable to<br>non-controlling interests         | (698)              | 71                                       | —                   | —           | (627)      |
| Net income (loss) attributable to Starwood<br>Property Trust, Inc. | 192,397            | 49,008                                   | 2,042               | (105,317)   | 138,130    |
| Add / (Deduct):  |                    |  |                     |             |            |
| Non-cash equity compensation expense                               | 1,286              | 2,487                                    | 62                  | 10,907      | 14,742     |
| Management incentive fee   | —                  | —  | —                   | 7,467       | 7,467      |
| Acquisition and investment pursuit costs                           | —                  | 815                                      | 694                 | —           | 1,509      |
| Depreciation and amortization                                      | —                  | 5,127                                    | 31,089              | —           | 36,216     |
| Loan loss allowance, net   | 1,268              | —  | —                   | —           | 1,268      |
| Interest income adjustment for securities                          | (504)              | 6,746                                    | —                   | —           | 6,242      |
| Other non-cash items   | —                  | 17                                       | (10,814)            | —           | (10,797)   |
| Reversal of unrealized (gains) / losses on:                        |                    |  |                     |             |            |
| Loans held-for-sale  | —                  | (20,126)                                 | —                   | —           | (20,126)   |
| Securities   | 244                | 44,069                                   | —                   | —           | 44,313     |
| Derivatives  | (14,183)           | 14,398                                   | 2,117               | —           | 2,332      |
| Foreign currency   | 19,662             | (2,330)                                  | 34                  | —           | 17,366     |
| Earnings from unconsolidated entities                              | (1,692)            | (2,663)                                  | (4,858)             | —           | (9,213)    |
| Recognition of realized gains / (losses) on:                       |                    |  |                     |             |            |
| Loans held-for-sale  | —                  | 18,471                                   | —                   | —           | 18,471     |
| Securities   | —                  | (7,877)                                  | —                   | —           | (7,877)    |
| Derivatives  | 25,875             | (9,816)                                  | (70)                | —           | 15,989     |
| Foreign currency   | (25,771)           | 2,193                                    | (34)                | —           | (23,612)   |
| Earnings from unconsolidated entities                              | 2,296              | 1,755                                    | 2,333               | —           | 6,384      |
| Core Earnings (Loss)   | \$ 200,878         | \$ 102,274                               | \$ 22,595           | \$ (86,943) | \$ 238,804 |
| Core Earnings (Loss) per Weighted<br>Average Diluted Share         | \$ 0.84            | \$ 0.43                                  | \$ 0.09             | \$ (0.36)   | \$ 1.00    |



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The following table presents our summarized results of operations and reconciliation to Core Earnings for the six months ended June 30, 2015, by business segment (amounts in thousands, except per share data):

|   | Lending<br>Segment | Investing<br>and<br>Servicing<br>Segment | Property<br>Segment | Corporate   | Total      |
|---|--------------------|--|---------------------|-------------|------------|
| Revenues  | \$ 267,341         | \$ 193,967                               | \$ 3,536            | \$ —        | \$ 464,844 |
| Costs and expenses  | (57,391)           | (78,688)                                 | (7,263)             | (110,211)   | (253,553)  |
| Other income (loss)   | 3,448              | 43,997                                   | 5,105               | (5,907)     | 46,643     |
| Income (loss) before income taxes                               | 213,398            | 159,276                                  | 1,378               | (116,118)   | 257,934    |
| Income tax benefit (provision)                                  | 30                 | (19,773)                                 | —                   | —           | (19,743)   |
| Income attributable to non-controlling interests                | (680)              | —  | —                   | —           | (680)      |
| Net income (loss) attributable to Starwood Property Trust, Inc. | 212,748            | 139,503                                  | 1,378               | (116,118)   | 237,511    |
| Add / (Deduct):   |                    |  |                     |             |            |
| Non-cash equity compensation expense                            | 1,312              | 2,554                                    | —                   | 14,535      | 18,401     |
| Management incentive fee  | —                  | —  | —                   | 10,767      | 10,767     |
| Depreciation and amortization                                   | —                  | 856                                      | 1,537               | —           | 2,393      |
| Loan loss allowance, net  | 2,978              | —  | —                   | —           | 2,978      |
| Interest income adjustment for securities                       | (364)              | (3,445)                                  | —                   | —           | (3,809)    |
| Other non-cash items  | —                  | (775)                                    | —                   | —           | (775)      |
| Reversal of unrealized (gains) / losses on:                     |                    |  |                     |             |            |
| Loans held-for-sale   | —                  | (31,962)                                 | —                   | —           | (31,962)   |
| Securities  | (171)              | (5,122)                                  | —                   | —           | (5,293)    |
| Derivatives   | (10,507)           | 1,642                                    | 83                  | —           | (8,782)    |
| Foreign currency  | 8,154              | 1,291                                    | 7                   | —           | 9,452      |
| Earnings from unconsolidated entities                           | —                  | (8,052)                                  | —                   | —           | (8,052)    |
| Recognition of realized gains / (losses) on:                    |                    |  |                     |             |            |
| Loans held-for-sale   | —                  | 35,623                                   | —                   | —           | 35,623     |
| Securities  | —                  | (10,121)                                 | —                   | —           | (10,121)   |
| Derivatives   | 11,506             | (4,495)                                  | —                   | —           | 7,011      |
| Foreign currency  | (10,239)           | (1,565)                                  | (7)                 | —           | (11,811)   |
| Earnings from unconsolidated entities                           | —                  | 6,063                                    | —                   | —           | 6,063      |
| Core Earnings (Loss)  | \$ 215,417         | \$ 121,995                               | \$ 2,998            | \$ (90,816) | \$ 249,594 |
| Core Earnings (Loss) per Weighted Average Diluted Share         | \$ 0.94            | \$ 0.52                                  | \$ 0.01             | \$ (0.39)   | \$ 1.08    |

## Lending Segment

The Lending Segment's Core Earnings decreased by \$14.5 million, from \$215.4 million during the six months ended June 30, 2015 to \$200.9 million during the six months ended June 30, 2016. After making adjustments for the



calculation of Core Earnings, revenues were \$254.6 million, costs and expenses were \$54.1 million and other income was \$1.2 million.

Core revenues, consisting principally of interest income on loans, decreased by \$12.4 million during the six months ended June 30, 2016 primarily due to (i) an \$18.8 million decrease in interest income from investment securities principally due to maturities during 2015 of two preferred equity interests we held in companies that own commercial real estate, and the absence of \$5.4 million of income realized upon the collection of a RMBS in the first quarter of 2015, partially offset by (ii) a \$6.5 million increase in interest income from loans principally due to higher loan fee income due to increased levels of loan prepayments during the second quarter of 2016.

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Core costs and expenses increased by \$1.0 million during the six months ended June 30, 2016 primarily due to a \$3.2 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio partially offset by a \$2.4 million decrease in G&A expenses reflecting lower compensation costs.

Core other income decreased by \$1.0 million, principally due to an increase in losses on foreign currency denominated assets partially offset by an increase in gains on related derivatives.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings decreased by \$19.7 million, from \$122.0 million during the six months ended June 30, 2015 to \$102.3 million during the six months ended June 30, 2016. After making adjustments for the calculation of Core Earnings, revenues were \$183.6 million, costs and expenses were \$65.0 million, other loss was \$15.6 million and income taxes were \$0.7 million.

Core revenues decreased by \$6.9 million during the six months ended June 30, 2016, primarily due to decreases of \$31.8 million in servicing fees and \$3.2 million in interest income on loans held-for-sale, partially offset by increases of \$18.3 million in interest income from our CMBS portfolio and \$10.6 million in rental income on our expanded REO Portfolio.

Core costs and expenses decreased by \$10.5 million during the six months ended June 30, 2016, primarily due to lower incentive compensation and lower amortization of our European servicing rights, partially offset by an increase in cost of rental operations and an increase in interest expense on secured financings for CMBS and the REO Portfolio.

Core other income decreased by \$42.4 million to a loss during the six months ended June 30, 2016, primarily reflecting a \$17.2 million decrease in gains on sales of conduit loans, the absence of a \$16.6 million gain on the sale of a commercial real estate asset and a \$10.0 million decrease in gains on sales of CMBS.

Income taxes, which principally relate to the operating results of our servicing and conduit businesses which are held in TRSs, decreased \$19.1 million due to a decrease in the taxable income of our TRSs.

## Property Segment

The Property Segment's Core Earnings increased by \$19.6 million, from \$3.0 million during the six months ended June 30, 2015 to \$22.6 million during the six months ended June 30, 2016. After making adjustments for the calculation of Core Earnings, revenues were \$53.5 million, costs and expenses were \$33.8 million and other income was \$2.9 million.

Core revenues increased by \$50.0 million during the six months ended June 30, 2016 due to an increase in rental income from the Woodstar and Ireland Portfolios.

Core costs and expenses increased by \$28.2 million during the six months ended June 30, 2016, primarily due to increases in rental related costs of \$21.4 million and interest expense on the secured financing for the Woodstar and Ireland Portfolios of \$9.8 million, partially offset by a \$4.2 million decrease in acquisition and investment pursuit costs.

Core other income decreased by \$2.2 million during the six months ended June 30, 2016, primarily due to a decrease in equity in earnings from our investment in four regional shopping malls (the "Retail Fund").

## Corporate

Core corporate costs and expenses decreased by \$3.9 million, from \$90.8 million during the six months ended June 30, 2015 to \$86.9 million during the six months ended June 30, 2016. This decrease was primarily due to the absence of a \$5.9 million loss on extinguishment of a portion of our convertible senior notes due 2019 during the six

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months of 2015 partially offset by a \$2.0 million increase in other corporate net expenses, including acquisition and investment pursuit costs.

## 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, 2015, other than as set forth below. Refer to our Form 10-K for a description of these strategies.

## Cash and Cash Equivalents

As of June 30, 2016, we had cash and cash equivalents of \$404.8 million.

## Cash Flows for the Six Months Ended June 30, 2016 (amounts in thousands)

|  | GAAP        | VIE<br>Adjustments | Excluding<br>Investing<br>and Servicing<br>VIEs |
|--|-------------|--------------------|---|
| Net cash provided by operating activities                    | \$ 148,550  | \$ (178)           | \$ 148,372                                      |
| Cash Flows from Investing Activities:                        |             |                    |   |
| Origination and purchase of loans held-for-investment        | (997,421)   | (17,860)           | (1,015,281)                                     |
| Proceeds from principal collections and sale of loans        | 1,314,919   | —                  | 1,314,919                                       |
| Purchase of investment securities                            | (350,642)   | (43,758)           | (394,400)                                       |
| Proceeds from sales and collections of investment securities | 48,813      | 23,842             | 72,655  |
| Real estate business combinations, net of cash acquired      | (91,186)    | (85,116)           | (176,302)                                       |
| Net cash flows from other investments and assets             | 4,309       | (1,049)            | 3,260   |
| Increase in restricted cash, net                             | (17,840)    | —                  | (17,840)  |
| Net cash used in investing activities                        | (89,048)    | (123,941)          | (212,989)                                       |
| Cash Flows from Financing Activities:                        |             |                    |   |
| Borrowings under financing agreements                        | 2,059,599   | —                  | 2,059,599                                       |
| Principal repayments on and repurchases of borrowings        | (1,711,117) | —                  | (1,711,117)                                     |
| Payment of deferred financing costs                          | (6,437)     | —                  | (6,437)   |

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|   |            |            |            |
|---|------------|------------|------------|
| Proceeds from common stock issuances, net of offering costs | 177        | —          | 177        |
| Payment of dividends  | (229,151)  | —          | (229,151)  |
| Contributions from non-controlling interests                | 10,417     | —          | 10,417     |
| Distributions to non-controlling interests                  | (2,350)    | —          | (2,350)    |
| Purchase of treasury stock                                  | (19,723)   | —          | (19,723)   |
| Issuance of debt of consolidated VIEs                       | 596        | (596)      | —          |
| Repayment of debt of consolidated VIEs                      | (147,523)  | 147,523    | —          |
| Distributions of cash from consolidated VIEs                | 22,986     | (22,986)   | —          |
| Net cash (used in) provided by financing activities         | (22,526)   | 123,941    | 101,415    |
| Net increase in cash and cash equivalents                   | 36,976     | (178)      | 36,798     |
| Cash and cash equivalents, beginning of period              | 368,815    | (978)      | 367,837    |
| Effect of exchange rate changes on cash                     | (971)      | —          | (971)      |
| Cash and cash equivalents, end of period                    | \$ 404,820 | \$ (1,156) | \$ 403,664 |

The discussion below is on a non-GAAP basis, after removing adjustments principally resulting from the consolidation of the Investing and Servicing Segment's VIEs under ASC 810. These adjustments principally relate to (i) purchase of CMBS, loans and real estate from 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 of our Condensed Consolidated Financial Statements for further discussion.

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Cash and cash equivalents increased by \$36.8 million during the six months ended June 30, 2016, reflecting net cash provided by operating activities of \$148.4 million and net cash provided by financing activities of \$101.4 million partially offset by net cash used in investing activities of \$213.0 million.

Net cash provided by operating activities of \$148.4 million for the six months ended June 30, 2016 related primarily to cash interest income of \$159.5 million from our loan origination and conduit programs, plus cash interest income on investment securities of \$93.1 million. Servicing fees provided cash of \$73.8 million, rental income provided cash of \$42.0 million and other income provided \$12.3 million. Offsetting these revenues were cash interest expense of \$92.0 million, general and administrative expenses of \$77.7 million, management fees of \$43.9 million, a net change in operating assets and liabilities of \$12.3 million, acquisition and investment pursuit costs of \$4.2 million and income tax payments of \$2.2 million.

Net cash used in investing activities of \$213.0 million for the six months ended June 30, 2016 related primarily to the origination and acquisition of new loans held-for-investment of \$1.0 billion, the purchase of investment securities of \$394.4 million and the purchase of real estate property of \$176.3 million, partially offset by proceeds received from principal collections and sales of loans of \$1.3 billion and investment securities of \$72.7 million.

Net cash provided by financing activities of \$101.4 million for the six months ended June 30, 2016 related primarily to net borrowings after repayments of our secured debt of \$348.5 million, partially offset by dividend distributions of \$229.1 million, share repurchases of \$19.7 million and payment of deferred financing costs of \$6.4 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 June 30, 2016 and December 31, 2015 (dollars in thousands):

|  | Face Amount  | Carrying Value | Asset Specific Financing | Net Investment | Vintage   | Unlevered Return on Asset |   |
|--|--------------|----------------|--------------------------|----------------|-----------|---------------------------|---|
| June 30, 2016  |              |                |                          |                |           |                           |   |
| First mortgages (1)                                    | \$ 4,586,548 | \$ 4,532,933   | \$ 2,178,773             | \$ 2,354,160   | 1989-2016 | 6.7                       | % |
| Subordinated mortgages                                 | 413,228      | 392,208        | 6,021                    | 386,187        | 1998-2015 | 11.3                      | % |
| Mezzanine loans (1)                                    | 756,400      | 769,555        | —                        | 769,555        | 2006-2016 | 10.9                      | % |
| Loans transferred as secured borrowings                | 94,668       | 93,268         | 94,668                   | (1,400)        | N/A       |                           |   |
| Loan loss allowance                                    | —            | (7,297)        | —                        | (7,297)        | N/A       |                           |   |
| RMBS   | 408,521      | 251,260        | 102,513                  | 148,747        | 2003-2007 | 10.3                      | % |
| HTM securities (2)                                     | 526,448      | 520,342        | 313,544                  | 206,798        | 2013-2015 | 5.8                       | % |
| Equity security Investments in unconsolidated entities | 12,162       | 12,861         | —                        | 12,861         | N/A       |                           |   |
|  | N/A          | 30,873         | —                        | 30,873         | N/A       |                           |   |
|  | \$ 6,797,975 | \$ 6,596,003   | \$ 2,695,519             | \$ 3,900,484   |           |                           |   |
| December 31, 2015                                      |              |                |                          |                |           |                           |   |
| First mortgages (1)                                    | \$ 4,776,576 | \$ 4,723,852   | \$ 2,154,287 (3)         | \$ 2,569,565   | 1989-2015 | 6.9                       | % |
| Subordinated mortgages                                 | 416,713      | 392,563        | 6,021                    | 386,542        | 1998-2015 | 11.2                      | % |
| Mezzanine loans (1)                                    | 850,024      | 862,693        | —                        | 862,693        | 2006-2015 | 10.9                      | % |
| Loans transferred as                                   | 88,000       | 86,573         | 88,000                   | (1,427)        | N/A       |                           |   |

|  |              |              |              |              |           |      |   |
|--|--------------|--------------|--------------|--------------|-----------|------|---|
| secured borrowings                                     |              |              |              |              |           |      |   |
| Loan loss allowance                                    | —            | (6,029)      | —            | (6,029)      | N/A       |      |   |
| RMBS   | 233,976      | 176,224      | 2,000        | 174,224      | 2003-2007 | 11.9 | % |
| HTM securities (2)                                     | 321,193      | 321,244      | 179,589      | 141,655      | 2013-2015 | 6.5  | % |
| Equity security Investments in unconsolidated entities | 13,471       | 14,498       | —            | 14,498       | N/A       |      |   |
|  | N/A          | 30,827       | —            | 30,827       | N/A       |      |   |
|  | \$ 6,699,953 | \$ 6,602,445 | \$ 2,429,897 | \$ 4,172,548 |           |      |   |

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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 \$949.2 million and \$930.0 million being classified as first mortgages as of June 30, 2016 and December 31, 2015, respectively.
- (2) CMBS held-to-maturity (“HTM”) and mandatorily redeemable preferred equity interests in commercial real estate entities.
- (3) Reflects amounts reclassified in accordance with ASU 2015-03 as discussed in Note 2 to the Condensed Consolidated Financial Statements.



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As of June 30, 2016 and December 31, 2015, our Lending Segment's investment portfolio, excluding RMBS and other investments, had the following characteristics based on carrying values:

| Collateral Property Type | June 30, 2016 |   | December 31, 2015 |   |
|--------------------------|---------------|---|-------------------|---|
| Office                   | 33.9          | % | 39.4              | % |
| Hospitality              | 24.4          | % | 28.2              | % |
| Multi-family             | 15.1          | % | 9.0               | % |
| Mixed Use                | 13.9          | % | 12.8              | % |
| Retail                   | 8.4           | % | 6.4               | % |
| Residential              | 2.3           | % | 2.3               | % |
| Industrial               | 2.0           | % | 1.9               | % |
|                          | 100.0         | % | 100.0             | % |

| Geographic Location | June 30, 2016 |   | December 31, 2015 |   |
|---------------------|---------------|---|-------------------|---|
| North East          | 35.2          | % | 28.8              | % |
| West                | 23.4          | % | 23.2              | % |
| South East          | 16.4          | % | 17.3              | % |
| South West          | 7.3           | % | 7.1               | % |
| International       | 6.9           | % | 13.1              | % |
| Midwest             | 6.7           | % | 6.4               | % |
| Mid Atlantic        | 4.1           | % | 4.1               | % |
|                     | 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 June 30, 2016 and December 31, 2015 (amounts in thousands):

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|  | Face<br>Amount | Carrying<br>Value | Asset<br>Specific<br>Financing | Net<br>Investment |
|--|----------------|-------------------|--------------------------------|-------------------|
| June 30, 2016                          |                |                   |                                |                   |
| CMBS, fair value option                | \$ 4,654,339   | \$ 1,050,909(1)   | \$ 240,082                     | \$ 810,827        |
| Intangible assets - servicing rights   | N/A            | 114,462 (2)       | —                              | 114,462           |
| Lease intangibles, net                 | N/A            | 35,899            | —                              | 35,899            |
| Loans held-for-sale, fair value option | 235,296        | 237,106           | 146,626                        | 90,480            |
| Loans held-for-investment              | 6,053          | 6,053             | —                              | 6,053             |
| Investment in unconsolidated entities  | N/A            | 55,432            | —                              | 55,432            |
| Properties, net                        | N/A            | 220,340           | 117,156                        | 103,184           |
|  | \$ 4,895,688   | \$ 1,720,201      | \$ 503,864                     | \$ 1,216,337      |
| December 31, 2015                      |                |                   |                                |                   |
| CMBS, fair value option                | \$ 4,704,136   | \$ 1,038,200(1)   | \$ 193,944                     | \$ 844,256        |
| Intangible assets - servicing rights   | N/A            | 134,153 (2)       | —                              | 134,153           |
| Lease intangibles, net                 | N/A            | 14,621            | —                              | 14,621            |
| Loans held-for-sale, fair value option | 203,710        | 203,865           | 145,803 (3)                    | 58,062            |
| Investment in unconsolidated entities  | N/A            | 53,145            | —                              | 53,145            |
| Properties, net                        | N/A            | 150,497           | 82,513 (3)                     | 67,984            |
|  | \$ 4,907,846   | \$ 1,594,481      | \$ 422,260                     | \$ 1,172,221      |

(1) Includes \$936.6 million and \$825.2 million of CMBS reflected in “VIE liabilities” in accordance with ASC 810 as of June 30, 2016 and December 31, 2015, respectively.

(2) Includes \$29.6 million and \$11.8 million of servicing rights intangibles reflected in “VIE assets” in accordance with ASC 810 as of June 30, 2016 and December 31, 2015, respectively.

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- (3) Reflects amounts reclassified in accordance with ASU 2015-03 as discussed in Note 2 to the Condensed Consolidated Financial Statements.

Our Investing and Servicing Segment's REO Portfolio, as defined in Note 3 to the Condensed Consolidated Financial Statements, had the following characteristics based on carrying values of \$232.1 million and \$140.9 million as of June 30, 2016 and December 31, 2015, respectively:

| Property Type | June 30, 2016 |   | December 31, 2015 |   |
|---------------|---------------|---|-------------------|---|
| Retail        | 57.8          | % | 71.4              | % |
| Office        | 18.2          | % | —                 | % |
| Multi-family  | 14.0          | % | 18.9              | % |
| Self-storage  | 5.9           | % | 9.7               | % |
| Mixed Use     | 4.1           | % | —                 | % |
|               | 100.0         | % | 100.0             | % |

| Geographic Location | June 30, 2016 |   | December 31, 2015 |   |
|---------------------|---------------|---|-------------------|---|
| South East          | 42.1          | % | 35.3              | % |
| North East          | 21.4          | % | 35.7              | % |
| Mid Atlantic        | 11.7          | % | —                 | % |
| Midwest             | 9.7           | % | 10.5              | % |
| South West          | 8.8           | % | 14.9              | % |
| West                | 6.3           | % | 3.6               | % |
|                     | 100.0         | % | 100.0             | % |

## 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 and liabilities, held within our Property Segment as of June 30, 2016 and December 31, 2015 (amounts in thousands):

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|                                       | June 30,<br>2016 | December<br>31, 2015 |
|---------------------------------------|------------------|----------------------|
| Properties, net                       | \$ 1,012,515     | \$ 768,728           |
| Lease intangibles, net                | 49,769           | 58,658               |
| Investment in unconsolidated entities | 122,130          | 122,454              |
|                                       | \$ 1,184,414     | \$ 949,840           |

The following table sets forth our net investment and other information regarding the Property Segment's properties and intangible lease assets and liabilities as of June 30, 2016 (dollars in thousands):

|  | Carrying<br>Value | Asset<br>Specific<br>Financing | Net<br>Investment | Occupancy<br>Rate | Weighted<br>Average<br>Remaining<br>Lease Term |
|--|-------------------|--------------------------------|-------------------|-------------------|--|
| Office—Ireland Portfolio                       | \$ 485,211        | \$ 310,876                     | \$ 174,335        | 98.6 %            | 10.1 years                                     |
| Multi-family residential—Ireland<br>Portfolio  | 17,399            | 11,305                         | 6,094             | 97.0 %            | 0.5 years                                      |
| Multi-family residential—Woodstar<br>Portfolio | 605,555           | 403,675                        | 201,880           | 97.5 %            | 0.5 years                                      |
| Subtotal—undepreciated carrying<br>value       | 1,108,165         | 725,856                        | 382,309           |                   |  |
| Accumulated depreciation and<br>amortization   | (45,881)          | —                              | (45,881)          |                   |  |
| Net carrying value                             | \$ 1,062,284      | \$ 725,856                     | \$ 336,428        |                   |  |

#### New Credit Facilities and Amendments

Refer to Note 9 of our Condensed Consolidated Financial Statements for a detailed discussion of new credit facilities and amendments to existing credit facilities executed since December 31, 2015.

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## Borrowings under Various Secured Financing Arrangements

The following table is a summary of our financing facilities as of June 30, 2016 (dollars in thousands):

|   | Current<br>Maturity        | Extended<br>Maturity<br>(a) | Pricing                           | Pledged<br>Asset<br>Carrying<br>Value | Maximum<br>Facility<br>Size | Outstanding<br>Balance | Approved<br>but<br>Undrawn<br>Capacity<br>(b) | Unallocated<br>Financing<br>Amount (c) |
|---|----------------------------|-----------------------------|-----------------------------------|---------------------------------------|-----------------------------|------------------------|---|--|
| Lender 1<br>Repo 1  | (d)                        | (d)                         | LIBOR + 1.85%<br>to 5.25%         | \$ 2,179,007                          | \$ 1,600,000                | \$ 1,490,915           | \$ 949,915                                    | \$ 59,136                              |
| Lender 2<br>Repo 1  | Oct 2017                   | Oct 2020                    | LIBOR + 1.75%<br>to 2.75%         | 300,368                               | 500,000                     | 238,479                | —   | 261,521                                |
| Lender 3<br>Repo 1  | May 2017                   | May 2019                    | LIBOR + 2.50%<br>to 2.85%         | 112,022                               | 79,325                      | 79,325                 | —   | —                                      |
| Lender 4<br>Repo 1  | Oct 2016                   | Oct 2017                    | LIBOR + 2.00%                     | —                                     | —                           | —                      | —   | —                                      |
| Lender 4<br>Repo 2  | Dec 2018                   | Dec 2020                    | LIBOR + 2.00%<br>to 2.50%         | 253,813                               | 1,000,000 (e)               | 164,940                | 650,000                                       | 785,060                                |
| Lender 6<br>Repo 1  | Aug 2018                   | N/A                         | LIBOR + 2.50%<br>to 3.00%         | 431,821                               | 500,000                     | 288,149                | 32,063  | 179,788                                |
| Lender 7<br>Secured<br>Financing<br>Conduit<br>Repo 2             | Jul 2018                   | Jul 2019                    | LIBOR + 2.75%<br>(f)              | 108,120                               | 650,000 (g)                 | —                      | —   | 650,000                                |
| Conduit<br>Repo 2   | Nov 2016                   | N/A                         | LIBOR + 2.10%                     | 42,612                                | 150,000                     | 31,594                 | —   | 118,406                                |
| Conduit<br>Repo 3   | Feb 2018                   | Feb 2019                    | LIBOR + 2.10%                     | 9,096                                 | 150,000                     | 6,825                  | —   | 143,175                                |
| Conduit<br>Repo 4   | Oct 2017                   | Oct 2020                    | LIBOR + 2.25%                     | 62,377                                | 100,000                     | 46,612                 | —   | 53,388                                 |
| CMBS Repo<br>1  | (h)                        | (h)                         | LIBOR + 1.90%                     | 32,800                                | 21,354                      | 21,354                 | —   | —                                      |
| CMBS Repo<br>2  | Jun 2020                   | N/A                         | LIBOR/EURIBOR<br>+ 2.00% to 2.70% | 339,132                               | 247,192                     | 247,192                | —   | —                                      |
| CMBS Repo<br>3  | (i)                        | (i)                         | LIBOR + 1.40%<br>to 1.85%         | 409,685                               | 287,467                     | 287,467                | —   | —                                      |
| RMBS Repo<br>1  | (j)                        | N/A                         | LIBOR + 1.90%                     | 157,641                               | 185,000                     | 91,144                 | 19,977  | 73,879                                 |
| Investing<br>and<br>Servicing<br>Segment<br>Property<br>Mortgages | Jun 2018<br>to Jun<br>2026 | N/A                         | Various                           | 150,199                               | 124,061                     | 118,163                | —   | 5,898                                  |

|                                      |                      |     |                              |              |              |              |              |
|--------------------------------------|----------------------|-----|------------------------------|--------------|--------------|--------------|--------------|
| Ireland Portfolio Mortgage Woodstar  | May 2020             | N/A | EURIBOR + 1.69%              | 483,814      | 326,558      | 326,558      | —            |
| Portfolio Mortgages Woodstar         | Jul 2017 to Jan 2026 | N/A | 3.72% to 7.46% (k)           | 380,690      | 267,114      | 267,114      | —            |
| Portfolio Government Financing       | Jun 2017 to Jun 2049 | N/A | 1.00% to 5.00% LIBOR + 2.75% | 318,501      | 137,394      | 137,394      | —            |
| Term Loan FHLB Advances              | Apr 2020             | N/A | (f)                          | 2,937,230    | 654,886      | 654,886      | —            |
|                                      | Nov 2016             | N/A | LIBOR + 0.37%                | 10,207       | 9,250        | 9,250        | —            |
|                                      |                      |     |                              | \$ 8,719,135 | \$ 6,989,601 | 4,507,395    | \$ 2,330,251 |
| Unamortized premium, net             |                      |     |                              |              |              | 1,414        |              |
| Unamortized deferred financing costs |                      |     |                              |              |              | (32,588)     |              |
|                                      |                      |     |                              |              |              | \$ 4,476,221 |              |

- 
- (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 is January 2017 before extension options and January 2019 assuming the exercise of 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.
- (e) The initial maximum facility size of \$600.0 million may be increased to \$1.0 billion at our option, subject to certain conditions.
- (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) The initial maximum facility size of \$450.0 million may be increased to \$650.0 million at our option, subject to certain conditions.

- (h) Facility carries a rolling 11 month term which may reset monthly with the lender's consent not to exceed December 2018. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of June 30, 2016.
- (i) Facility carries a rolling 12 month term which may reset monthly with the lender's consent. Current maturity is June 2017. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of June 30, 2016.
- (j) The date that is 270 days after the buyer delivers notice to seller, subject to a maximum date of May 2018.
- (k) The Woodstar Portfolio Mortgages carry a weighted average interest rate of 3.99% as of June 30, 2016.

As of June 30, 2016, Wells Fargo Bank, N.A. is our largest creditor through two repurchase facilities (Lender 1 Repo 1 facility and RMBS Repo 1 facility).

Refer to Note 9 of our Condensed Consolidated Financial Statements for further disclosure regarding the terms of our financing arrangements.

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## Borrowings under Convertible Senior Notes

The following table is a summary of our unsecured convertible senior notes outstanding as of June 30, 2016 (dollars in thousands):

|            | 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       | 1.3 years                              |
| 2018 Notes | \$ 599,981          | 4.55           | % | 6.10              | % | 46.7513            | 3/1/2018         | 1.7 years                              |
| 2019 Notes | \$ 341,363          | 4.00           | % | 5.35              | % | 49.4927            | 1/15/2019        | 2.5 years                              |

During each of the three and six months ended June 30, 2016 and 2015, the weighted average effective borrowing rate on our convertible senior notes was 5.7%. The effective borrowing rate includes 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 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 under 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 (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, 2015 | \$ 4,020,737           | \$ 3,809,666                                  | \$ 211,071 | (a)  |
| March 31, 2016    | 4,516,008              | 4,227,953                                     | 288,055    | (b)  |
| June 30, 2016     | 4,507,395              | 4,298,538                                     | 208,857    | (c)  |



- (a) Variance primarily due to the following: (i) \$139.6 million drawn on the Lender 6 Repo 1 facility in December 2015; and (ii) \$100.7 million of Woodstar Portfolio Mortgages in December 2015.
  
- (b) Variance primarily due to the following: (i) \$196.3 million drawn on the Lender 1 Repo 1 facility in March 2016; and (ii) \$27.2 million drawn on the CMBS Repo 3 facility in March 2016.
  
- (c) Variance primarily due to the following: (i) \$137.7 million drawn on the CMBS Repo 2 facility in June 2016; and (ii) \$85.0 million drawn on the RMBS Repo 1 facility in June 2016.

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## 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 June 30, 2016 (amounts in thousands):

|                     | Scheduled Principal Repayments on Loans and HTM Securities | Scheduled/Projected Principal Repayments on RMBS and CMBS | Projected/Required Repayments of Financing | Scheduled Principal Inflows Net of Financing Outflows |
|---------------------|--|---|--|---|
| Third Quarter 2016  | \$ 403,339   | \$ 24,408   | \$ (154,060)                               | \$ 273,687  |
| Fourth Quarter 2016 | 231,289  | 57,083  | (26,805)                                   | 261,567   |
| First Quarter 2017  | 157,787  | 82,239  | (125,445)                                  | 114,581   |
| Second Quarter 2017 | 253,011  | 34,361  | (317,069)                                  | (29,697)  |
| Total               | \$ 1,045,426   | \$ 198,091  | \$ (623,379)                               | \$ 620,138  |

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 June 30, 2016, we had 100,000,000 shares of preferred stock available for issuance and 261,953,024 shares of common stock available for issuance.

## Other Potential Sources of Financing

In the future, we may also 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 Senior 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. Subsequent amendments to the repurchase program approved by our board of directors in December 2014, June 2015 and January 2016 resulted in the program being (i) amended to increase maximum repurchases to \$500 million, (ii) expanded to allow for the repurchase of our outstanding convertible senior notes under the program and (iii) extended through January 2017. Purchases made pursuant to the program are 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 suspended or discontinued at any time. During the three months ended June 30, 2016, we did not repurchase any common stock or convertible senior notes under the repurchase program. During the six months ended June 30, 2016, we repurchased \$19.7 million of common stock and no convertible senior notes under the repurchase program. As of June 30, 2016, we have \$282.1 million of remaining capacity to repurchase common stock and/or convertible senior notes under the repurchase program.

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## Off-Balance Sheet Arrangements

We have relationships with unconsolidated entities and financial partnerships, such as entities often referred to as VIEs. Our maximum risk of loss associated with our involvement in VIEs is limited to the carrying value of our investment in the entity and any unfunded capital commitments. Refer to Note 14 of our Condensed Consolidated Financial Statements 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 six months ended June 30, 2016:

| Declare Date | Record Date | Payment Date | Amount  | Frequency |
|--------------|-------------|--------------|---------|-----------|
| 5/9/16       | 6/30/16     | 7/15/16      | \$ 0.48 | Quarterly |
| 2/25/16      | 3/31/16     | 4/15/16      | \$ 0.48 | Quarterly |

On August 4, 2016, our board of directors declared a dividend of \$0.48 per share for the third quarter of 2016, which is payable on October 17, 2016 to common stockholders of record as of September 30, 2016.

## Leverage Policies

Our strategies with regards to use of leverage have not changed significantly since December 31, 2015. Refer to our Form 10-K for a description of our strategies regarding use of leverage.

## Contractual Obligations and Commitments

Contractual obligations as of June 30, 2016 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)                         | \$ 4,507,395 | \$ 623,379          | \$ 1,954,324 | \$ 1,417,998 | \$ 511,694           |
| Convertible senior notes                       | 1,372,594    | —                   | 1,372,594    | —            | —                    |
| Secured borrowings on transferred<br>loans (b) | 104,954      | 35,000              | 69,954       | —            | —                    |
| Loan funding commitments (c)                   | 1,392,339    | 872,255             | 502,981      | 17,103       | —                    |
| Future lease commitments                       | 32,161       | 7,106               | 13,638       | 11,417       | —                    |
| Total  | \$ 7,409,443 | \$ 1,537,740        | \$ 3,913,491 | \$ 1,446,518 | \$ 511,694           |

(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 \$276.7 million of loan funding commitments in 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

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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 amounts due under our 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, 2015.

## 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, 2015. 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 June

30, 2016 and December 31, 2015 (dollars 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 |
|-------------------|---|--|---------------------------------------|
| June 30, 2016     | \$ 235,296                              | \$ 36,000  | 9                                     |
| December 31, 2015 | \$ 203,710                              | \$ 40,000  | 11                                    |

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.

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## 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 derivatives of the same duration. The following table presents financial instruments where we have utilized interest rate derivatives to hedge interest rate risk and the related interest rate derivatives as of June 30, 2016 and December 31, 2015 (dollars 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 June 30, 2016     |   |                                       |  |
| Loans held-for-investment                 | \$ 8,000                                  | \$ 8,000                              | 1                                      |
| Loans held-for-sale                       | 235,296                                   | 210,400                               | 53                                     |
| RMBS, available-for-sale                  | 408,521                                   | 74,000                                | 3                                      |
| Secured financing agreements              | 520,844                                   | 515,066                               | 13                                     |
|   | \$ 1,172,661                              | \$ 807,466                            | 70                                     |
| Instrument hedged as of December 31, 2015 |   |                                       |  |
| Loans held-for-investment                 | \$ 8,000                                  | \$ 8,000                              | 1                                      |
| Loans held-for-sale                       | 203,710                                   | 162,700                               | 27                                     |
| RMBS, available-for-sale                  | 233,976                                   | 74,000                                | 3                                      |
| Secured financing agreements              | 518,505                                   | 519,142                               | 14                                     |
|   | \$ 964,191                                | \$ 763,842                            | 45                                     |

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 decreases in LIBOR and adjusted for the effects of our interest rate hedging activities (amounts in thousands, except per share data):

|   | 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      | \$ 5,626,354                                     | \$ 183,125       | \$ 120,016       | \$ 58,139        | \$ (16,286)          |
| Interest expense from variable-rate debt              | (4,028,663)                                      | (120,861)        | (80,574)         | (40,287)         | 18,796               |
| Net investment income from variable rate instruments  | \$ 1,597,691                                     | \$ 62,264        | \$ 39,442        | \$ 17,852        | \$ 2,510             |



|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Impact per diluted average shares outstanding | \$ 0.26 | \$ 0.17 | \$ 0.08 | \$ 0.01 |
|---|---------|---------|---------|---------|

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(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 current 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 June 30, 2016 GBP closing rate of 1.3306, Euro (“EUR”) closing rate of 1.1107, Swedish Krona (“SEK”) closing rate of 0.1182, Norwegian Krone (“NOK”) closing rate of 0.1196 and Danish Krone (“DKK”) closing rate of 0.1494):

| Carrying Value of<br>Net Investment | Local Currency | Number of<br>Foreign Exchange<br>Contracts | Aggregate<br>Notional Value<br>of Hedges Applied | Expiration Range of Contracts  |
|-------------------------------------|----------------|--|--|--------------------------------|
| \$ 69,693                           | GBP            | 19   | \$ 74,837  | January 2017 – March 2017      |
| 86,724                              | GBP            | 16   | 101,867  | January 2018                   |
| 5,060                               | GBP            | 36   | 8,072  | July 2016 – June 2019          |
|                                     | EUR, DKK, NOK, |  |  |                                |
| 5,618                               | SEK            | 12   | 7,419  | December 2016                  |
| 1,757                               | GBP            | 2  | 2,269  | June 2017 – March 2018         |
| 161,633                             | EUR            | 49   | (1) 274,276                                      | July 2016 – June 2020          |
| 12,861                              | GBP            | 8  | 13,651   | July 2016 – January 2018       |
| 61,351                              | EUR            | 23   | 62,806   | October 2016                   |
| 18,531                              | EUR            | 10   | 24,849   | August 2016 – November 2018    |
| 27,540                              | EUR            | 10   | 37,164   | September 2016 – December 2018 |
| \$ 450,768                          |                | 185  | \$ 607,210                                       |                                |

(1) These foreign exchange contracts hedge our Euro currency exposure created by our acquisition of the Ireland Portfolio.

#### 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 our 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 our 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 June 30, 2016 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.

Except as set forth below, there have been no material changes to the risk factors previously disclosed in the Form 10-K.

Risks Related to Our Investments

The United Kingdom's pending departure from the European Union could have a material adverse effect on us.

The United Kingdom held a referendum on June 23, 2016 in which a majority of voters voted to exit the European Union ("Brexit"), which has created significant volatility in the global financial markets and has adversely affected markets in the United Kingdom in particular. Negotiations are expected to commence to determine the future terms of the United Kingdom's relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The effects of the United Kingdom's withdrawal from the European Union will depend on agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit is likely to continue to adversely affect the United Kingdom, European and worldwide economic and market conditions and could contribute to greater instability in global financial and foreign exchange markets before and after the terms of the United Kingdom's future relationships with the European Union are settled. Further, financial and other markets may suffer losses as a result of other countries determining to withdraw from the European Union or from any future significant changes to the European Union's structure and/or regulations. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate.

We currently hold, and may acquire additional, investments that are denominated in Pounds Sterling and Euros (including loans secured by assets located in the United Kingdom or Europe), as well as equity interests in real estate properties located in Europe. We also own a servicing business in Europe and maintain offices in the United

Kingdom. Any of the effects of Brexit described above, and others we cannot anticipate, could have a material adverse effect on our business, the value of our properties and investments and our potential growth in Europe, and could amplify the currency risks faced by us.

Government housing regulations may limit the opportunities at the affordable housing communities in which we invest, and failure to comply with resident qualification requirements may result in financial penalties or loss of benefits.

We own, and may acquire additional, equity interests in affordable housing communities and other properties that benefit from governmental programs intended to provide housing to individuals with low or moderate incomes. These programs, which are typically administered by the U.S. Department of Housing and Urban Development (HUD) or state housing finance agencies, typically provide mortgage insurance, favorable financing terms, tax credits or rental assistance payments to property owners. As a condition of the receipt of assistance under these programs, the properties must comply with various requirements, which typically limit rents to pre-approved amounts and impose restrictions on resident incomes. Failure to comply with these requirements and restrictions may result in financial penalties or loss of benefits. In addition, we will typically need to obtain the approval of HUD in order to acquire or dispose of a significant interest in or manage a HUD-assisted property. We may not always receive such approval.

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

There were no unregistered sales of securities during the three months ended June 30, 2016.

Issuer Purchases of Equity Securities

There were no purchases of common stock during the three months ended June 30, 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: August 4, 2016 By: /s/ BARRY S. STERNLICHT

Barry S. Sternlicht  
Chief Executive Officer  
Principal Executive Officer

Date: August 4, 2016 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  |
|-------------|--|
| 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                     |