UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

or

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

For the transition period from to

Commission file number 001-34436

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 Number)
591 West Putnam Avenue **Greenwich, Connecticut** (Address of Principal Executive Offices)	**06830** (Zip Code)

Registrant's telephone number, including area code **(203) 422-7700**

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

As of June 30, 2016, the aggregate market value of the voting stock held by non-affiliates was $4,766,928,850 based on the reported last sale price of our common stock on June 30, 2016. Shares of our common stock held by affiliates, which includes officers and directors of the registrant, have been excluded from this calculation. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of February 16, 2017 was 259,278,525.

DOCUMENTS INCORPORATED BY REFERENCE

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or prior to May 1, 2017.

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Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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 this Annual Report on Form 10-K, 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 Annual Report on Form 10-K 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.

PART I

Item 1. Business.

The following description of our business should be read in conjunction with the information included elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2016. 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 due to the factors set forth in “Risk Factors” and elsewhere in this Annual Report on Form 10-K. References in this Annual Report on Form 10-K to “we,” “our,” “us,” or the “Company” refer to Starwood Property Trust, Inc. and its subsidiaries.

General

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 December 31, 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) a servicing business in the U.S. that manages and works out problem assets, (ii) an investment business that selectively acquires and manages unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions, and (iv) an investment business that selectively acquires commercial real estate assets, including properties acquired from CMBS trusts. This segment excludes the consolidation of securitization variable interest entities (“VIEs”).
- Real estate property (the “Property Segment”)—engages primarily in acquiring and managing equity interests in stabilized commercial real estate properties, including multi-family properties, that are held for investment.

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

On April 19, 2013, we acquired the equity of LNR Property LLC (“LNR”) and certain of its subsidiaries for $730.5 million. LNR represents our Investing and Servicing Segment.

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 also operate

our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940 as amended (the “Investment Company Act” or “1940 Act”).

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.

Our corporate headquarters office is located at 591 West Putnam Avenue, Greenwich, Connecticut 06830, and our telephone number is (203) 422-7700.

Investment Strategy

We seek to attain attractive risk-adjusted returns for our investors over the long term by sourcing and managing a diversified portfolio of target assets, financed in a manner that is designed to deliver attractive returns across a variety of market conditions and economic cycles. Our investment strategy focuses on a few fundamental themes:

- origination and acquisition of real estate debt assets with an implied basis sufficiently low to weather declines in asset values;

- acquisition of equity interests in commercial real estate properties that generate stable current returns, increase the duration of our investment portfolio and provide potential for capital appreciation;

- focus on real estate markets and asset classes with strong supply and demand fundamentals and/or barriers to entry;

- structuring and financing each transaction in a manner that reflects the risk of the underlying asset’s cash flow stream and credit risk profile, and efficiently managing and maintaining the transaction’s interest rate and currency exposures at levels consistent with management’s risk objectives;

- seeking situations where our size, scale, speed, and sophistication allow us to position ourselves as a “one-stop” lending solution for real estate owner/operators;

- utilizing the skills, expertise, and contacts developed by our Manager over the past 20 plus years as one of the premier global real estate investment managers to correctly anticipate trends and identify attractive risk-adjusted investment opportunities in U.S. and European real estate markets; and

- utilizing the skills, expertise, and infrastructure we acquired through our acquisition of LNR, a market leading diversified real estate investment management and loan servicing company, to expand and diversify our presence in various segments of real estate, including:

    - origination of small and medium sized loan transactions ($10 million to $50 million) for both investment and securitization/gain-on-sale;

  - investment in CMBS;

  - investment in commercial real estate; and

  - special servicing of commercial real estate loans in commercial real estate securitization transactions.

In order to capitalize on the changing sets of investment opportunities that may be present in the various points of an economic cycle, we may expand or refocus our investment strategy by emphasizing investments in different parts of the capital structure and different sectors of real estate. Our investment strategy may be amended from time to time, if recommended by our Manager and approved by our board of directors, without the approval of our stockholders. In addition to our Manager making direct investments on our behalf, we may enter into joint venture, management or other agreements with persons that have special expertise or sourcing capabilities.

Financing Strategy

Subject to maintaining our qualification as a REIT for U.S. federal income tax purposes and our exemption from registering under the 1940 Act, we may finance the acquisition of our target assets, to the extent available to us, through the following methods:

- sources of private and government sponsored financing, including long and short-term repurchase agreements, warehouse and bank credit facilities, and mortgage loans on equity interests in commercial real estate properties;
- loan sales, syndications, and/or securitizations; and
- public or private offerings of our equity and/or debt securities.

We may also utilize other sources of financing to the extent available to us.

Our Target Assets

We invest in target assets secured primarily by U.S. or European collateral. We focus primarily on originating or opportunistically acquiring commercial mortgage whole loans, B-Notes, mezzanine loans, preferred equity and mortgage-backed securities (“MBS”). We may invest in performing and non-performing mortgage loans and other real estate-related loans and debt investments. We may acquire target assets through portfolio or other acquisitions. Our Manager targets desirable markets where it has expertise in the real estate collateral underlying the assets being acquired. Our target assets include the following types of loans and other investments with respect to commercial real estate:

- *Whole mortgage loans:* loans secured by a first mortgage lien on a commercial property that provide mortgage financing to commercial property developers or owners generally having maturity dates ranging from three to ten years;

- *B-Notes:* typically a privately negotiated loan that is secured by a first mortgage on a single large commercial property or group of related properties and subordinated to an A Note secured by the same first mortgage on the same property or group;

- *Mezzanine loans:* loans made to commercial property owners that are secured by pledges of the borrower's ownership interests in the property and/or the property owner, subordinate to whole mortgage loans secured by first or second mortgage liens on the property and senior to the borrower's equity in the property;
- *Construction or rehabilitation loans:* mortgage loans and mezzanine loans to finance the cost of construction or rehabilitation of a commercial property;
- *CMBS:* securities that are collateralized by commercial mortgage loans, including:
  - senior and subordinated investment grade CMBS,
  - below investment grade CMBS, and
  - unrated CMBS;

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- *Corporate bank debt:* term loans and revolving credit facilities of commercial real estate operating or finance companies, each of which are generally secured by such companies' assets;
- *Equity:* equity interests in commercial real estate properties, including commercial properties purchased from CMBS trusts; and
- *Corporate bonds:* debt securities issued by commercial real estate operating or finance companies that may or may not be secured by such companies' assets, including:
  - investment grade corporate bonds,
  - below investment grade corporate bonds, and
  - unrated corporate bonds.

We have also invested in the following types of loans and other debt investments relating to residential real estate:

- *Non-Agency RMBS:* securities collateralized by residential mortgage loans that are not guaranteed by any U.S. Government agency or federally chartered corporation; and
- *Residential mortgage loans:* loans secured by a first mortgage lien on residential property.

In addition, we may invest in the following real estate-related investments:

- *Net leases:* commercial properties subject to net leases, which leases typically have longer terms than gross leases, require tenants to pay substantially all of the operating costs associated with the properties and often have contractually specified rent increases throughout their terms; and
- *Agency RMBS:* RMBS for which a U.S. government agency or a federally chartered corporation guarantees payments of principal and interest on the securities.

Business Segments

We currently operate our business in three reportable segments: the Lending Segment, the Investing and Servicing Segment and the Property Segment. Refer to Note 23 of our Consolidated Financial Statements for our results of operations and financial position by business segment.

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

	Face Amount	Carrying Value	Asset Specific Financing	Net Investment	Vintage	Unlevered Return on Asset
December 31, 2016						
First mortgages (1)	$ 4,861,214	$ 4,845,552	$ 1,910,078	$ 2,935,474	1989-2016	6.4 %
Subordinated mortgages	293,925	278,032	4,021	274,011	1998-2015	11.5 %
Mezzanine loans (1)	714,608	713,757	—	713,757	2006-2016	10.7 %
Loans transferred as secured borrowings	35,000	35,000	35,000	—	N/A	
Loan loss allowance	—	(9,788)	—	(9,788)	N/A	
RMBS	399,883	253,915	38,832	215,083	2003-2007	10.3 %
HTM securities (2)	515,027	509,980	305,531	204,449	2013-2015	6.0 %
Equity security	11,275	12,177	—	12,177	N/A	
Investments in unconsolidated entities	N/A	30,874	—	30,874	N/A	
	$ 6,830,932	$ 6,669,499	$ 2,293,462	$ 4,376,037		
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 secured borrowings	88,000	86,573	88,000	(1,427)	N/A	
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	13,471	14,498	—	14,498	N/A	
Investments in unconsolidated entities	N/A	30,827	—	30,827	N/A	
	$ 6,699,953	$ 6,602,445	$ 2,429,897	$ 4,172,548		

(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 $964.1 million and $930.0 million being classified as first mortgages as of December 31, 2016 and 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 Accounting Standards Update ("ASU") 2015-03 as discussed in Note 2 to the Consolidated Financial Statements.

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

Collateral Property Type	As of December 31, 2016	2015
Office	35.8 %	39.4 %
Hospitality	22.9 %	28.2 %
Multi-family	15.3 %	9.0 %
Mixed Use	15.1 %	12.8 %
Retail	7.0 %	6.4 %
Industrial	2.0 %	1.9 %
Residential	1.9 %	2.3 %
	100.0 %	100.0 %

Geographic Location	As of December 31, 2016	2015
North East	37.7 %	28.8 %
West	21.5 %	23.2 %
South East	11.6 %	17.3 %
International	9.5 %	13.1 %
South West	8.9 %	7.1 %
Midwest	7.3 %	6.4 %
Mid Atlantic	3.5 %	4.1 %
	100.0 %	100.0 %

Our investment process includes sourcing and screening of investment opportunities, assessing investment suitability, conducting interest rate and prepayment analysis, evaluating cash flow and collateral performance, and reviewing legal structure and servicer and originator information and investment structuring, as appropriate, to seek an attractive return commensurate with the risk we are bearing. Upon identification of an investment opportunity, the investment will be screened and monitored by us to determine its impact on maintaining our REIT qualification and our exemption from registration under the 1940 Act. We will seek to make investments in sectors where we have strong core competencies and believe market risk and expected performance can be reasonably quantified.

We evaluate each one of our investment opportunities based on its expected risk-adjusted return relative to the returns available from other, comparable investments. In addition, we evaluate new opportunities based on their relative expected returns compared to comparable positions held in our portfolio. The terms of any leverage available to us for use in funding an investment purchase are also taken into consideration, as are any risks posed by illiquidity or correlations with other securities in the portfolio. We also develop a macro outlook with respect to each target asset class by examining factors in the broader economy such as gross domestic product, interest rates, unemployment rates and availability of credit, among other things. We also analyze fundamental trends in the relevant target asset class sector to adjust/maintain our outlook for that particular target asset class.

Our primary focus has been to build a portfolio of commercial mortgage and mezzanine loans with attractive risk-adjusted returns by focusing on the underlying real estate fundamentals and credit analysis of the borrowers. We continually monitor borrower performance and complete a detailed, loan-by-loan formal credit review on a quarterly basis. The results of this review are incorporated into our quarterly assessment of the adequacy of the allowance for loan losses.

The weighted average coupon for first mortgages and mezzanine loans originated and acquired by the Lending Segment during the year ended December 31, 2016 was 5.4% and 10.8%, respectively. No subordinated mortgages were originated or acquired during the year ended December 31, 2016. The following table summarizes the activity in the Lending Segment’s loan portfolio and the associated changes in future funding commitments associated with these loans during the year ended December 31, 2016 (amounts in thousands):

	Carrying Value	Future Funding Commitments
Balance at January 1, 2016	$ 6,059,652	$ 1,503,889
Acquisitions/originations	2,222,373	753,088
Additional funding and expired commitments	609,503	(639,018)
Capitalized interest (1)	80,992	—
Basis of loans sold	(382,520)	(49,604)
Loan maturities/principal repayments	(2,724,844)	(156,576)
Discount accretion/premium amortization	48,384	—
Unrealized foreign currency remeasurement loss	(47,906)	(52,336)
Change in loan loss allowance, net	(3,759)	—
Transfer to/from other asset classifications	678	—
Balance at December 31, 2016	$ 5,862,553	$ 1,359,443

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

As of December 31, 2016, the Lending Segment's loans held-for-investment and HTM securities had a weighted-average maturity of 2.2 years, inclusive of extension options that management believes are probable of exercise. The table below shows the carrying value expected to mature annually for our loans held-for-investment and HTM securities (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing (1)	Carrying Value (1)	% of Total
2017	77	$ 1,288,084	20.3 %
2018	78	2,014,387	31.7 %
2019	86	1,694,139	26.7 %
2020	39	853,756	13.5 %
2021	2	178,115	2.8 %
2022	—	—	— %
2023	4	53,807	0.8 %
2024	17	223,401	3.5 %
2025	1	41,632	0.7 %
2026 and thereafter	—	—	— %
Total	304	$ 6,347,321	100.0 %

(1) Excludes loans transferred as secured borrowings, RMBS, equity security and investments in unconsolidated entities. Carrying value also excludes loan loss allowance.

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

	Face Amount	Carrying Value	Asset Specific Financing	Net Investment
December 31, 2016				
CMBS, fair value option	$ 4,459,655	$ 990,570 (1)	$ 206,651	$ 783,919
Intangible assets - servicing rights	N/A	89,320 (2)	—	89,320
Lease intangibles, net	N/A	29,676	—	29,676
Loans held-for-sale, fair value option	63,065	63,279	33,131	30,148
Loans held-for-investment	20,442	20,442	—	20,442
Investment in unconsolidated entities	N/A	56,376	—	56,376
Properties, net	N/A	277,612	186,901	90,711
	$ 4,543,162	$ 1,527,275	$ 426,683	$ 1,100,592
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 $959.0 million and $825.2 million of CMBS reflected in "VIE liabilities" in accordance with Accounting Standards Codification ("ASC") 810 as of December 31, 2016 and 2015, respectively.
(2) Includes $34.2 million and $11.8 million of servicing rights intangibles reflected in "VIE assets" in accordance with ASC 810 as of December 31, 2016 and 2015, respectively.
(3) Reflects amounts reclassified in accordance with ASU 2015-03 as discussed in Note 2 to the Consolidated Financial Statements.

As of December 31, 2016, the Investing and Servicing Segment's CMBS had a weighted-average expected maturity of 7.3 years. The table below shows the CMBS carrying value expected to mature annually (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing	Carrying Value	% of Total
2017	84	$ 99,282	10.0 %
2018	36	63,128	6.4 %
2019	30	52,282	5.3 %
2020	7	10,366	1.0 %
2021	4	6,297	0.6 %
2022	3	7,322	0.7 %
2023	25	167,215	16.9 %
2024	20	84,109	8.5 %

2025	49	164,111	16.6 %
2026 and thereafter	143	336,458	34.0 %
Total	401	$ 990,570	100.0 %

Our Investing and Servicing Segment's REO Portfolio, as defined in Note 3 to the Consolidated Financial Statements, had the following characteristics based on carrying values of $283.5 million and $140.9 million as of December 31, 2016 and 2015, respectively:

Property Type	As of December 31, 2016	As of December 31, 2015
Retail	45.8 %	71.4 %
Office	23.9 %	— %
Multi-family	18.1 %	18.9 %
Mixed Use	7.5 %	— %
Self-storage	4.7 %	9.7 %
	100.0 %	100.0 %

Geographic Location	As of December 31, 2016	As of December 31, 2015
South East	51.0 %	35.3 %
North East	17.3 %	35.7 %
Mid Atlantic	9.4 %	— %
Midwest	8.0 %	10.5 %
West	7.3 %	3.6 %
South West	7.0 %	14.9 %
	100.0 %	100.0 %

Property Segment

The following table sets forth the amount of each category of investments, which are comprised of properties, intangible lease assets and liabilities and our equity investment in four regional shopping malls (the "Retail Fund") held within our Property Segment as of December 31, 2016 and 2015 (amounts in thousands):

	As of December 31, 2016	As of December 31, 2015
Properties, net	$ 1,667,108	$ 768,728
Lease intangibles, net	122,124	58,658
Investment in unconsolidated entities	124,977	122,454
	$ 1,914,209	$ 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 December 31, 2016 (dollars in thousands):

	Carrying Value	Asset Specific Financing	Net Investment	Occupancy Rate	Weighted Average Remaining Lease Term
Office—Medical Office Portfolio	$ 767,826	$ 480,252	$ 287,574	93.8 %	6.8 years

Office—Ireland Portfolio	459,410	294,932	164,478	97.7 %	9.7 years
Multi-family residential—Ireland Portfolio	16,477	10,705	5,772	100.0 %	0.5 years
Multi-family residential—Woodstar Portfolio	609,823	410,941	198,882	97.4 %	0.5 years
Subtotal—undepreciated carrying value	1,853,536	1,196,830	656,706		
Accumulated depreciation and amortization	(64,304)	—	(64,304)		
Net carrying value	$ 1,789,232	$ 1,196,830	$ 592,402		

As of December 31, 2016 and 2015, our Property Segment's investment portfolio had the following geographic characteristics based on carrying values:

Geographic Location	As of December 31, 2016	2015
Europe	25.2 %	58.2 %
U.S. Regions:		
South East	39.7 %	41.8 %
North East	13.0 %	— %
South West	8.7 %	— %
West	7.2 %	— %
Midwest	6.2 %	— %
	100.0 %	100.0 %

Refer to Schedule III included in Item 8 of this Annual Report on Form 10-K for a detailed listing of the properties held by the Company, including their respective geographic locations.

Regulation

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things: (1) regulate credit granting activities; (2) establish maximum interest rates, finance charges and other charges; (3) require disclosures to customers; (4) govern secured transactions; (5) set collection, foreclosure, repossession and claims handling procedures and other trade practices; and (6) regulate affordable housing rental activities. Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We are also required to comply with certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans and the Fair Housing Act. We intend to conduct our business so that neither we nor any of our subsidiaries are required to register as an investment company under the 1940 Act.

Competition

We are engaged in a competitive business. In our investment activities, we compete for opportunities with numerous public and private investment vehicles, including financial institutions, specialty finance companies, mortgage banks, pension funds, opportunity funds, hedge funds, insurance companies, REITs and other institutional investors, as well as individuals. Many competitors are significantly larger than we are, have well established operating histories and may have greater access to capital, more resources and other advantages over us. These competitors may be willing to accept lower returns on their investments or to compromise underwriting standards and, as a result, our origination volume and profit margins could be adversely affected.

Our Manager

We are externally managed and advised by our Manager and benefit from the personnel, relationships and experience of our Manager's executive team and other personnel of Starwood Capital Group. Pursuant to the terms of a management agreement between our Manager and us, our Manager provides us with our management team and appropriate support personnel. Pursuant to an investment advisory agreement between our Manager and Starwood Capital Group Management, LLC, our Manager has access to the personnel and resources of Starwood Capital Group necessary for the implementation and execution of our business strategy.

Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht. Starwood Capital Group has invested in most major classes of real estate, directly and indirectly, through operating companies, portfolios of properties and single assets, including multifamily, office, retail, hotel, residential entitled land and communities, senior housing, mixed-use and golf courses. Starwood Capital Group

invests at different levels of the capital structure, including equity, preferred equity, mezzanine debt and senior debt, depending on the asset risk profile and return expectation.

Our Manager draws upon the experience and expertise of Starwood Capital Group's team of professionals and support personnel operating in nine cities across three countries. Our Manager also benefits from Starwood Capital Group's dedicated asset management group operating in offices located in the U.S. and abroad. We also benefit from Starwood Capital Group's portfolio management, finance and administration functions, which address legal, compliance, investor relations and operational matters, asset valuation, risk management and information technologies in connection with the performance of our Manager's duties.

Employees

As of December 31, 2016, the Company has 340 full-time employees, the majority of which are real estate professionals located throughout the U.S.

Taxation of the Company

We have elected to be taxed as a REIT under the Code for federal income tax purposes. We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Code, which relate to organizational structure, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. If we qualify for taxation as a REIT, we will generally not be subject to U.S. federal corporate income tax on our taxable income that is currently distributed to stockholders.

Even if we qualify as a REIT, we may be subject to certain federal excise taxes and state and local taxes on our income and property. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and will not be able to qualify as a REIT for four subsequent taxable years. REITs are subject to a number of organizational and operational requirements under the Code.

We utilize taxable REIT subsidiaries ("TRSs") to reduce the impact of the prohibited transaction tax and to avoid penalty for the holding of assets not qualifying as real estate assets for purposes of the REIT asset tests. Any income associated with a TRS is fully taxable because a TRS is subject to federal and state income taxes as a domestic C corporation based upon its net income.

See Item 1A—"Risk Factors—Risks Related to Our Taxation as a REIT" for additional tax status information.

Leverage Policies

Refer to Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Leverage Policies."

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Investment Guidelines

Our board of directors has adopted the following investment guidelines:

- our investments will be in our target assets unless otherwise approved by our board of directors;
- no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;
- no investment shall be made that would cause us or any of our subsidiaries to be required to be registered as an investment company under the 1940 Act;
- not more than 25% of our equity will be invested in any individual asset without the consent of a majority of our independent directors; and
- (a) any investment that is less than $150 million will require approval of our Chief Executive Officer; (b) any investment that is equal to or in excess of $150 million but less than $250 million will require approval of our Manager's investment committee; (c) any investment that is equal to or in excess of $250 million but less than $400 million will require approval of each of the investment committee of our board of directors and our Manager's investment committee; and (d) any investment that is equal to or in excess of $400 million will require approval of each of our board of directors and our Manager's investment committee.

These investment guidelines may be changed from time to time by our board of directors without the approval of our stockholders. In addition, both our Manager and our board of directors must approve any change in our investment guidelines that would modify or expand the types of assets in which we invest.

Available Information

Our website address is www.starwoodpropertytrust.com. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other filings as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"), and also make available on our website the charters for the Audit, Compensation and Nominating and Corporate Governance Committees of our board of directors and our Code of Business Conduct and Ethics and Code of Ethics for Principal Executive Officer and Senior Financial Officers, as well as our corporate governance guidelines. Copies in print of these documents are available upon request to our Corporate Secretary at the address indicated on the cover of this report. The information on our website is not a part of, nor is it incorporated by reference into, this Annual Report on Form 10-K.

We intend to post on our website any amendment to, or waiver of, a provision of our Code of Business Conduct and Ethics or Code of Ethics for Principal Executive Officer and Senior Financial Officers that applies to our Chief Executive Officer, Chief Financial Officer or persons performing similar functions and that relates to any element of the code of ethics definition set forth in Item 406 of Regulation S-K of the Securities Act of 1933, as amended.

To communicate with our board of directors electronically, we have established an e-mail address, BoardofDirectors@stwdreit.com, to which stockholders may send correspondence to our board of directors or any such individual directors or group or committee of directors.

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Item 1A. Risk Factors.

Risks Related to Our Relationship with Our Manager

We are dependent on Starwood Capital Group, including our Manager, and their key personnel, who provide services to us through the management agreement, and we may not find a suitable replacement for our Manager and Starwood Capital

Group if the management agreement is terminated, or for these key personnel if they leave Starwood Capital Group or otherwise become unavailable to us.

Our Manager has significant discretion as to the implementation of our investment and operating policies and strategies. Accordingly, we believe that our success depends to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the officers and key personnel of our Manager. The officers and key personnel of our Manager evaluate, negotiate, close and monitor a substantial portion of our investments; therefore, our success depends on their continued service. The departure of any of the officers or key personnel of our Manager could have a material adverse effect on our performance.

We offer no assurance that our Manager will remain our investment manager or that we will continue to have access to our Manager's officers and key personnel. The initial term of our management agreement with our Manager, and the initial term of the investment advisory agreement between our Manager and Starwood Capital Group Management, LLC, expired on August 17, 2012, with automatic one-year renewals thereafter; provided, however, that our Manager may terminate the management agreement annually upon 180 days prior notice. If the management agreement and the investment advisory agreement are terminated and no suitable replacement is found to manage us, we may not be able to continue to execute our business plan.

There are various conflicts of interest in our relationship with Starwood Capital Group, including our Manager, which could result in decisions that are not in the best interests of our stockholders.

We are subject to conflicts of interest arising out of our relationship with Starwood Capital Group, including our Manager. Specifically, Mr. Sternlicht, our Chairman and Chief Executive Officer, Jeffrey G. Dishner, one of our directors, and certain of our executive officers are executives of Starwood Capital Group.

Our Manager and executive officers may have conflicts between their duties to us and their duties to, and interests in, Starwood Capital Group and its other investment funds. Currently, Starwood Global Opportunity Fund X (the "Starwood Private Real Estate Fund") has a right to invest 25% of the equity capital proposed to be invested by any investment vehicle managed by an entity controlled by Starwood Capital Group in debt interests relating to real estate. There can be no assurance that our Manager and Starwood Capital Group will allocate to us all or any portion of the remaining 75% of any co investment opportunity in our target asset classes. Our independent directors do not approve each co investment by the Starwood Private Real Estate Fund and us unless the amount of capital we invest in the proposed co-investment otherwise requires the review and approval of our independent directors pursuant to our investment guidelines. Pursuant to the exclusivity provisions of the Starwood Private Real Estate Fund, our investment strategy may not include either (i) equity interests in real estate or (ii) "near term loan to own" investments, in each case (of both (i) and (ii)) if such investments are expected, at the time such investment is made, to produce an internal rate of return ("IRR") in excess of 14%. Therefore, our board of directors does not have the flexibility to expand our investment strategy to include equity interests in real estate or "near term loan to own" investments with such an IRR expectation.

Our Manager, Starwood Capital Group and their respective affiliates may sponsor or manage a U.S. publicly traded investment vehicle that invests generally in real estate assets but not primarily in our "target assets" (as defined in our co-investment and allocation agreement) (a "potential competing vehicle"). Our Manager and Starwood Capital Group have also agreed in our co-investment and allocation agreement that for so long as the management agreement is in effect and our Manager and Starwood Capital Group are under common control, no entity controlled by Starwood Capital Group will sponsor or manage a potential competing vehicle or private or foreign competing vehicle unless Starwood Capital Group adopts a policy that either (i) provides for the fair and equitable allocation of investment opportunities in our "target assets" (as defined in our co-investment and allocation agreement) among all such vehicles and us or (ii) provides us the right to co-invest with respect to any "target assets" (as defined in our co-investment and

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allocation agreement) with such vehicles, in each case subject to the suitability of each investment opportunity for the particular vehicle and us and each such vehicle's and our availability of cash for investment.

To the extent that our Manager and Starwood Capital Group adopt the investment allocation policy described in the preceding paragraph in the future, we may nonetheless compete with one or more of these vehicles for investment opportunities sourced by our Manager and Starwood Capital Group. As a result, we may either not be presented with the opportunity or may have to compete with these vehicles to acquire these investments. Some or all of our executive officers, the members of the investment committee of our Manager and other key personnel of our Manager would likely be responsible for selecting investments for these vehicles and they may choose to allocate favorable investments to one or more of these vehicles instead of to us.

Our board of directors has adopted a policy with respect to any proposed investments by our directors or officers or the officers of our Manager, which we refer to as the covered persons, in any of our target asset classes. This policy provides that any proposed investment by a covered person for his or her own account in any of our target asset classes will be permitted if the capital required for the investment does not exceed the personal investment limit. To the extent that a proposed investment exceeds the personal investment limit, we expect that our board of directors will only permit the covered person to make the investment (i) upon the approval of the disinterested directors or (ii) if the proposed investment otherwise complies with terms of any other related party transaction policy our board of directors has adopted. Subject to compliance with all applicable laws, these individuals may make investments for their own account in our target assets which may present certain conflicts of interest not addressed by our current policies.

We pay our Manager substantial base management fees regardless of the performance of our portfolio. Our Manager's entitlement to a base management fee, which is not based upon performance metrics or goals, might reduce its incentive to devote its time and effort to seeking investments that provide attractive risk-adjusted returns for our portfolio. This in turn could hurt both our ability to make distributions to our stockholders and the market price of our common stock.

Excluding our operating subsidiaries, we do not have any employees except for Andrew Sossen, our Chief Operating Officer, Executive Vice President, General Counsel and Chief Compliance Officer, and Rina Paniry, our Chief Financial Officer, Treasurer and Chief Accounting Officer, whom Starwood Capital Group has seconded to us exclusively. Mr. Sossen and Ms. Paniry are also employees of other entities affiliated with our Manager and, as a result, are subject to potential conflicts of interest in service as our employees and as employees of such entities.

The management agreement with our Manager was not negotiated on an arm's-length basis and may not be as favorable to us as if it had been negotiated with an unaffiliated third party and may be costly and difficult to terminate.

Certain of our executive officers and two of our six directors are executives of Starwood Capital Group. Our management agreement with our Manager was negotiated between related parties and its terms, including fees payable, may not be as favorable to us as if it had been negotiated with an unaffiliated third party.

Termination of the management agreement with our Manager without cause is difficult and costly. Our independent directors will review our Manager's performance and the management fees annually and the management agreement may be terminated annually upon the affirmative vote of at least two-thirds of our independent directors based upon: (i) our Manager's unsatisfactory performance that is materially detrimental to us, or (ii) a determination that the management fees payable to our Manager are not fair, subject to our Manager's right to prevent termination based on unfair fees by accepting a reduction of management fees agreed to by at least two-thirds of our independent directors. Our Manager will be provided 180 days prior notice of any such a termination. Additionally, upon such a termination, the management agreement provides that we will pay our Manager a termination fee equal to three times the sum of the average annual base management fee and incentive fee received by our Manager during the prior 24-month period before such termination, calculated as of the end of the most recently completed fiscal quarter. These provisions may increase the cost to us of terminating the management agreement and adversely affect our ability to terminate our Manager without cause.

The initial term of our management agreement with our Manager, and the initial term of the investment advisory agreement between our Manager and Starwood Capital Group Management, LLC, expired on August 17, 2012, with automatic one-year renewals thereafter; provided, however, that our Manager may terminate the management agreement annually upon 180 days prior notice. If the management agreement is terminated and no suitable replacement is found to manage us, we may not be able to continue to execute our business plan.

Pursuant to the management agreement, our Manager does not assume any responsibility other than to render the services called for thereunder and is not responsible for any action of our board of directors in following or declining to follow its advice or recommendations. Our Manager maintains a contractual as opposed to a fiduciary relationship with us. Under the terms of the management agreement, our Manager, its officers, members, personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager will not be liable to us, any subsidiary of ours, our directors, our stockholders or any subsidiary's stockholders or partners for acts or omissions performed in accordance with and pursuant to the management agreement, except because of acts constituting bad faith, willful misconduct, gross negligence, or reckless disregard of their duties under the management agreement. In addition, we have agreed to indemnify our Manager, its officers, stockholders, members, managers, directors, personnel, any person controlling or controlled by our Manager and any person providing sub-advisory services to our Manager with respect to all expenses, losses, damages, liabilities, demands, charges and claims arising from acts or omissions of our Manager not constituting bad faith, willful misconduct, gross negligence, or reckless disregard of duties, performed in good faith in accordance with and pursuant to the management agreement.

The incentive fee payable to our Manager under the management agreement is payable quarterly and is based on our core earnings and, therefore, may cause our Manager to select investments in more risky assets to increase its incentive compensation.

Our Manager is entitled to receive incentive compensation based upon our achievement of targeted levels of core earnings. In evaluating investments and other management strategies, the opportunity to earn incentive compensation based on core earnings may lead our Manager to place undue emphasis on the maximization of core earnings at the expense of other criteria, such as preservation of capital, in order to achieve higher incentive compensation. Investments with higher yield potential are generally riskier or more speculative. This could result in increased risk to the value of our investment portfolio.

Core earnings is not a measure calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP") and is defined within Item 7 – Non-GAAP Financial Measures in this Annual Report on Form 10-K.

Certain agreements with Colony Starwood Homes (formerly known as Starwood Waypoint Residential Trust) may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties.

On January 31, 2014, we distributed all of the common shares of Colony Starwood Homes (formerly known as Starwood Waypoint Residential Trust), our former wholly-owned subsidiary, to our stockholders of record on January 24, 2014, which completed the spin-off of our former SFR segment. The terms of the agreements related to the separation, including a separation and distribution agreement, dated January 16, 2014 (the "Separation Agreement"), were negotiated in the context of the separation while Colony Starwood Homes was still a part of us and, accordingly, may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties.

In the Separation Agreement, we agreed to indemnify Colony Starwood Homes and its affiliates and representatives against losses arising from: (a) any liability of ours or our subsidiaries (excluding any liabilities related to Colony Starwood Homes); (b) any failure of us and our subsidiaries (other than Colony Starwood Homes and its subsidiaries) (collectively, the "Starwood Group") to pay, perform or otherwise promptly discharge any liability listed under (a) above in accordance with their respective terms, whether prior to, at or after the time of effectiveness of the Separation Agreement; (c) any breach by any member of the Starwood Group of any provision of the Separation Agreement and any agreements ancillary thereto (if any), subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and (d) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in Colony Starwood Homes' information statement or the registration statement of which Colony Starwood Homes' information statement is a part that relates solely to any assets owned, directly or indirectly by us, other than Colony Starwood Homes' initial portfolio of assets, which included all of our single-family rental homes and distressed and non-performing residential mortgage loans and certain cash transferred to Colony Starwood Homes or its subsidiaries by us. Any indemnification payments that we may be required to make could have a significantly negative effect on our liquidity and results of operations.

Our conflicts of interest policy may not adequately address all of the conflicts of interest that may arise with respect to our investment activities and also may limit the allocation of investments to us.

In order to avoid any actual or perceived conflicts of interest with our Manager, Starwood Capital Group, any of their affiliates or any investment vehicle sponsored or managed by Starwood Capital Group or any of its affiliates, which we refer to as the Starwood parties, we have adopted a conflicts of interest policy to specifically address some of the conflicts relating to our investment opportunities. Although under this policy the approval of a majority of our independent directors is required to approve (i) any purchase of our assets by any of the Starwood parties and (ii) any purchase by us of any assets of any of the Starwood parties, there is no assurance that this policy will be adequate to address all of the conflicts that may arise or will address such conflicts in a manner that results in the allocation of a particular investment opportunity to us or is otherwise favorable to us. In addition, the Starwood Private Real Estate Fund currently, and additional competing vehicles may in the future, participate in some of our investments, possibly at a more senior level in the capital structure of the underlying borrower and related real estate than our investment. Our interests in such investments may also conflict with the interests of these entities in the event of a default or restructuring of the investment. Participating investments will not be the result of arm's length negotiations and will involve potential conflicts between our interests and those of the other participating entities in obtaining favorable terms. Since certain of our executives are also executives of Starwood Capital Group, the same personnel may determine the price and terms for the investments for both us and these entities and there can be no assurance that any procedural protections, such as obtaining market prices or other reliable indicators of fair value, will prevent the consideration we pay for these investments from exceeding their fair value or ensure that we receive terms for a particular investment opportunity that are as favorable as those available from an independent third party.

Our board of directors has approved very broad investment guidelines for our Manager and does not approve each investment and financing decision made by our Manager unless required by our investment guidelines.

Our Manager is authorized to follow very broad investment guidelines which enable our Manager to make investments on our behalf in a wide array of assets. Our board of directors will periodically review our investment guidelines and our investment portfolio but will not, and will not be required to, review all of our proposed investments, except that any investment that is equal to or in excess of $250 million but less than $400 million will require approval of the investment committee of our board of directors and any investment that is equal to or in excess of $400 million will require approval of our board of directors. In addition, in conducting periodic reviews, our board of directors may rely and may make investments through affiliates primarily on information provided to them by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager (or such affiliates) has great latitude within the broad parameters of our investment guidelines in determining the types and amounts of target assets it decides are attractive investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect our business operations and results. Further, decisions made and investments and financing arrangements entered into by our Manager

may not fully reflect the best interests of our stockholders.

New investments may not be profitable (or as profitable as we expect), may increase our exposure to certain industries, may increase our exposure to interest rate, foreign currency, real estate market or credit market fluctuations, may divert managerial attention from more profitable opportunities, and may require significant financial resources. A change in our investment strategy may also increase any guarantee obligations we agree to incur or increase the number of transactions we enter into with affiliates. Moreover, new investments may present risks that are difficult for us to adequately assess, given our lack of familiarity with a particular type of investment or other reasons. The risks related to new investments or the financing risks associated with such investments could adversely affect our results of operations, financial condition and liquidity, and could impair our ability to make distributions to our stockholders.

Risks Related to Our Company

Our board of directors has in the past and may in the future at any time change one or more of our investment strategy or guidelines, financing strategy or leverage policies without stockholder consent.

Our board of directors has in the past and may in the future at any time change one or more of our investment strategy or guidelines, financing strategy or leverage policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions without the consent of our stockholders, which could result in an investment portfolio with a different risk profile. Any change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations. These changes could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

We are highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to make distributions to our stockholders.

Our business is highly dependent on communications and information systems of Starwood Capital Group. Any failure or interruption of Starwood Capital Group's systems could cause delays or other problems, which could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to make distributions to our stockholders.

Terrorist attacks and other acts of violence or war may affect the real estate industry and our business, financial condition and results of operations.

The terrorist attacks on September 11, 2001 disrupted the U.S. financial markets, including the real estate capital markets, and negatively impacted the U.S. economy in general. Any future terrorist attacks, the anticipation of any such attacks, the consequences of any military or other response by the U.S. and its allies, and other armed conflicts could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. The economic impact of these events could also adversely affect the credit quality of some of our loans and investments and the properties underlying our interests.

We may suffer losses as a result of the adverse impact of any future attacks and these losses may adversely impact our performance and may cause the market value of our common stock to decline or be more volatile. A prolonged economic slowdown, a recession or declining real estate values could impair the performance of our investments and harm our financial condition and results of operations, increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. We cannot predict the severity of the effect that potential future terrorist attacks would have on us. Losses resulting from these types of events may not be fully insurable.

We have not established a minimum distribution payment level and no assurance can be given that we will be able to make distributions to our stockholders in the future at current levels or at all.

We are generally required to distribute to our stockholders at least 90% of our taxable income each year for us to qualify as a REIT under the Code, which requirement we currently intend to satisfy through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. We have not established a minimum distribution payment level, and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors contained in this Annual Report on Form 10-K. Although we have made, and anticipate continuing to make, quarterly distributions to our stockholders, our board of directors has the sole discretion to determine the timing, form and amount of any future distributions to our stockholders, and such determination will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We believe that a change in any one of the following factors could adversely affect our results of operations and impair our ability to continue to pay distributions to our stockholders:

- the profitability of the investment of the net proceeds from our equity offerings;
- our ability to make profitable investments;
- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

As a result, no assurance can be given that we will be able to continue to make distributions to our stockholders in the future or that the level of any future distributions we do make to our stockholders will achieve a market yield or increase or even be maintained over time, any of which could materially and adversely affect us.

In addition, distributions that we make to our stockholders are generally taxable to our stockholders as ordinary income. However, a portion of our distributions may be designated by us as long-term capital gains to the extent that they are attributable to capital gain income recognized by us or may constitute a return of capital to the extent that they exceed our earnings and profits as determined for tax purposes. A return of capital is not taxable, but has the effect of reducing the basis of a stockholder's investment in our common stock.

Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

As has been widely publicized, the SEC, the Financial Accounting Standards Board and other regulatory bodies that establish the accounting rules applicable to us have proposed or enacted a wide array of changes to accounting rules over the last several years. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business or changes in applicable accounting rules. We cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we believe that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially and adversely affect us by, for example, leading to a decline in our stock price and impairing our ability to raise capital.

Risks Related to Sources of Financing

Our access to sources of financing may be limited and thus our ability to maximize our returns may be adversely affected.

Our financing sources currently include our credit agreements, our master repurchase agreements, our convertible senior notes, our 5.00% Senior Notes due 2021 (the “2021 Notes”), our mortgage debt on certain investment properties and common stock and debt offerings. Subject to market conditions and availability, we may seek additional sources of financing in the form of bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities, structured financing arrangements, public and private equity and debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements.

Our access to additional sources of financing will depend upon a number of factors, over which we have little or no control, including:

- general market conditions;
- the market’s view of the quality of our assets;
- the market’s perception of our growth potential;
- our current and potential future earnings and cash distributions; and
- the market price of the shares of our common stock.

A dislocation and/or weakness in the capital and credit markets could adversely affect one or more private lenders and could cause one or more of our private lenders to be unwilling or unable to provide us with financing or to increase the costs of that financing. In addition, if regulatory capital requirements imposed on our private lenders change, they may be required to limit, or increase the cost of, financing they provide to us. In general, this could potentially increase our financing costs and reduce our liquidity or require us to sell assets at an inopportune time or price.

To the extent structured financing arrangements are unavailable, we may have to rely more heavily on additional equity issuances, which may be dilutive to our stockholders, or on less efficient forms of debt financing that require a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future

business opportunities, cash distributions to our stockholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our asset acquisition activities and/or dispose of assets, which could negatively affect our results of operations.

Our significant indebtedness subjects us to increased risk of loss and may reduce cash available for distributions to our stockholders.

We currently have a significant amount of indebtedness outstanding. As of December 31, 2016, our total consolidated indebtedness was approximately $6.2 billion (excluding accounts payable, accrued expenses, other liabilities, VIE liabilities and unfunded commitments). Our outstanding indebtedness currently includes our credit agreements, our repurchase agreements, our convertible senior notes, the 2021 Notes and mortgage debt on certain investment properties. Subject to market conditions and availability, we may incur additional debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities, structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. The percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders and the lenders' and rating agencies' estimate of the stability of our investment portfolio's cash flow. Our governing documents contain no limitation on the amount of debt we may incur. We may significantly increase the amount of leverage we utilize at any time without approval of our board of directors. However, under our current repurchase agreements and bank credit facilities, our total leverage may not exceed 75% of total assets (as defined therein), as adjusted to remove the impact of bona-fide loan sales that are accounted for as financings and the consolidation of VIEs pursuant to GAAP. Moreover, the indenture governing the 2021 Notes contains covenants that, subject to a number of exceptions and adjustments, among other things,limit our ability to incur additional indebtedness and require that we maintain total unencumbered assets (as defined therein) of not less than 120% of the aggregate principal amount of our outstanding unsecured indebtedness (as defined therein). In addition, we may leverage individual assets at substantially higher levels. Incurring substantial debt subjects us to many risks that, if realized, would materially and adversely affect us, including the risk that:

- our cash flow from operations may be insufficient to make required payments of principal of and interest on the debt or we may fail to comply with all of the other covenants contained in the debt, which is likely to result in (i) acceleration of such debt (and any other debt containing a cross-default or cross-acceleration provision) that we may be unable to repay from internal funds or to refinance on favorable terms, or at all, (ii) our inability to borrow unused amounts under our financing arrangements, even if we are current in payments on borrowings under those arrangements and/or (iii) the loss of some or all of our assets to foreclosure or sale;

- our debt may increase our vulnerability to adverse economic and industry conditions with no assurance that investment yields will increase with higher financing costs;

- we may be required to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, future business opportunities, stockholder distributions or other purposes; and

- we may not be able to refinance debt that matures prior to the investment it was used to finance on favorable terms, or at all.

We are subject to margin calls from our lenders under our credit facilities.

Subject to certain conditions, the lenders under our credit facilities retain the sole discretion over the market value of loans and/or securities that serve as collateral for the borrowings under our credit facilities for purposes of determining whether we are required to pay margin to such lenders.

Interest rate fluctuations could significantly decrease our results of operations and cash flows and the market value of our investments.

Our primary interest rate exposures relate to the following:

- changes in interest rates may affect the yield on our investments and the financing cost of our debt, as well as the performance of our interest rate swaps that we utilize for hedging purposes, which could result in operating losses for us should interest expense exceed interest income;

- declines in interest rates may reduce the yield on existing floating rate assets and/or the yield on prospective investments;

- changes in the level of interest rates may affect our ability to source investments;

- increases in the level of interest rates may negatively impact the value of our investments and our ability to realize gains from the disposition of assets;

- increases in the level of interest rates may (x) increase the credit risk of our assets by negatively impacting the ability of our borrowers to pay debt service on our floating rate loan assets or our ability to refinance our assets upon maturity, and (y) negatively impact the value of the real estate supporting our investments (or that we own directly) through the impact such increases can have on property valuation capitalization rates; and

- changes in interest rates and/or the differential between U.S. dollar interest rates and those of non-dollar currencies in which we invest can adversely affect the value of our non-dollar assets and/or associated currency hedging transactions.

Our warehouse facilities may limit our ability to acquire assets, and we may incur losses if the collateral is liquidated.

We utilize warehouse facilities pursuant to which we accumulate mortgage loans in anticipation of a securitization financing, which assets are pledged as collateral for such facilities until the securitization transaction is consummated. In order to borrow funds to acquire assets under any additional warehouse facilities, we expect that our lenders thereunder would have the right to review the potential assets for which we are seeking financing. We may be unable to obtain the consent of a lender to acquire assets that we believe would be beneficial to us and we may be unable to obtain alternate financing for such assets. In addition, no assurance can be given that a securitization transaction would be consummated with respect to the assets being warehoused. If the securitization is not consummated, the lender could liquidate the warehoused collateral and we would then have to pay any amount by which the original purchase price of the collateral assets exceeds its sale price, subject to negotiated caps, if any, on our exposure. In addition, regardless of whether the securitization is consummated, if any of the warehoused collateral is sold before the consummation, we would have to bear any resulting loss on the sale. No assurance can be given that we will be able to obtain additional warehouse facilities on favorable terms, or at all.

The utilization of any of our repurchase agreements is subject to the pre-approval of the lender.

We utilize repurchase agreements to finance the purchase of certain investments. In order for us to borrow funds under a repurchase agreement, our lender must have the right to review the potential assets for which we are seeking financing and approve such assets in its sole discretion. Accordingly, we may be unable to obtain the consent of a lender to finance an investment and alternate sources of financing for such asset may not exist.

A failure to comply with restrictive covenants in our financing arrangements would have a material adverse effect on us, and any future financings may require us to provide additional collateral or pay down debt.

We are subject to various restrictive covenants contained in our existing financing arrangements and may become subject to additional covenants in connection with future financings. Our credit agreements contain covenants that restrict our ability to incur additional debt or liens, make certain investments or acquisitions, merge, consolidate or

transfer or dispose of substantially all of our assets or otherwise dispose of property and assets, pay dividends and make certain other restricted payments, change the nature of our business, or enter into transactions with affiliates. Our credit agreements, as well as our master repurchase agreements, each requires us to maintain compliance with various financial covenants, including a minimum tangible net worth and cash liquidity, and specified financial ratios, such as total debt to total assets and EBITDA to fixed charges. In addition, the indenture governing the 2021 Notes contains covenants that, subject to a number of exceptions and adjustments, among other things: limit our ability to incur additional indebtedness; require that we maintain total unencumbered assets (as defined therein) of not less than 120% of the aggregate principal amount of our outstanding unsecured indebtedness (as defined therein); and impose certain requirements in order for us to merge or consolidate with another person. Certain of these covenants will be automatically suspended if the 2021 Notes have investment grade credit ratings from each of two specified rating agencies and no default or event of default has occurred and is continuing, subject to automatic reinstatement if the 2021 Notes cease to have an investment grade credit rating from both of those two rating agencies.

These covenants may limit our flexibility to pursue certain investments or incur additional debt. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements and our indebtedness could be declared due and payable. In addition, our lenders could terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. Further, this could also make it difficult for us to satisfy the distribution requirements necessary to maintain our status as a REIT for U.S. federal income tax purposes.

Our credit agreements and master repurchase agreements also involve the risk that the market value of the loans pledged or sold by us to the repurchase agreement counterparty or provider of the bank credit facility may decline in value, in which case the lender may require us to provide additional collateral or to repay all or a portion of the funds advanced. We may not have the funds available to repay our debt at that time, which would likely result in defaults unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. Posting additional collateral would reduce our liquidity and limit our ability to leverage our assets. If we cannot meet these requirements, the lender could accelerate our indebtedness, increase the interest rate on advanced funds and terminate our ability to borrow funds from them, which could materially and adversely affect our financial condition and ability to continue to implement our business plan. In addition, in the event that the lender files for bankruptcy or becomes insolvent, our loans may become subject to bankruptcy or insolvency proceedings, thus depriving us, at least temporarily, of the benefit of these assets. Such an event could restrict our access to bank credit facilities and increase our cost of capital.

If one or more of our Manager's executive officers are no longer employed by our Manager, the financial institutions providing us financing may not provide future financing to us, which could materially and adversely affect us.

If financial institutions with whom we seek to finance our investments require that one or more of our Manager's executives continue to serve in such capacity and if one or more of our Manager's executives are no longer employed by our Manager, it may constitute an event of default and the financial institution providing the arrangement may have acceleration rights with respect to outstanding borrowings and termination rights with respect to our ability to finance our future investments with that institution. If we are unable to obtain financing for our accelerated borrowings and for our future investments under such circumstances, we could be materially and adversely affected.

We directly or indirectly utilize non-recourse securitizations, and such structures expose us to risks that could result in losses to us.

We utilize non-recourse securitizations of our investments in mortgage loans to the extent consistent with the maintenance of our REIT qualification and exemption from the Investment Company Act in order to generate cash for funding new investments and/or to leverage existing assets. In most instances, this involves us transferring our loans to a special purpose securitization entity in exchange for cash. In some sale transactions, we also retain a subordinated interest in the loans sold. The securitization of our portfolio investments might magnify our exposure to losses on those portfolio investments because the subordinated interest we retain in the loans sold would be subordinate to the senior interest in the loans sold, and we would, therefore, absorb all of the losses sustained with respect to a loan sold before the

owners of the senior interest experience any losses. Moreover, we cannot be assured that we will be able to access the securitization market in the future, or be able to do so at favorable rates. The inability to consummate securitizations of our portfolio investments to finance our investments on a long-term basis could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to continue to grow our business.

We may not have the ability to raise funds on acceptable terms necessary to settle conversions of our outstanding convertible senior notes or to purchase our outstanding convertible senior notes upon a fundamental change.

As of December 31, 2016, we had $1.4 billion in principal amount of convertible senior notes outstanding. If a fundamental change within the meaning of our outstanding convertible senior notes occurs, holders of those notes will have the right to require us to purchase for cash any or all of their notes. The fundamental change purchase price will equal 100% of the principal amount of the notes to be purchased, plus accrued and unpaid interest thereon. In addition, upon conversion of the convertible senior notes, we will be required to make cash payments in respect of the notes being converted, unless we elect to settle the conversion entirely in shares of our common stock. However, we may not have sufficient funds at the time we are required to purchase the notes surrendered therefor or to make cash payments on the notes being converted, and we may not be able to arrange necessary financing on acceptable terms. If we were unable to raise necessary funding on acceptable terms, our operating results and financial position could be negatively impacted if we were required to repurchase the notes or to pay cash upon conversion.

Risks Related to Hedging

We enter into hedging transactions that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, part of our investment strategy involves entering into hedging transactions that require us to fund cash payments in certain circumstances (such as the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses will be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could adversely impact our financial condition.

Hedging may adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

Subject to maintaining our qualification as a REIT, we pursue various hedging strategies to seek to reduce our exposure to adverse changes in interest rates. Our hedging activity varies in scope based on the level and volatility of interest rates, exchange rates, the types of assets held and other changing market conditions. Hedging may fail to protect or could adversely affect us because, among other things:

- interest rate, currency and/or credit hedging can be expensive and may result in us receiving less interest income;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- due to a credit loss, prepayment or asset sale, the duration of the hedge may not match the duration of the related asset or liability;
- the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Code or that are done through a TRS) to offset losses is limited by U.S. federal tax provisions governing REITs;

- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

In addition, we may fail to recalculate, readjust or execute hedges in an efficient manner.

Any hedging activity in which we engage may materially and adversely affect our results of operations and cash flows. Therefore, while we may enter into such transactions seeking to reduce risks, unanticipated changes in interest rates, credit spreads or currencies may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions or liabilities being hedged may vary materially. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio positions or liabilities being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss.

Hedging instruments often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities and involve risks and costs that could result in material losses.

The cost of using hedging instruments increases as the period covered by the instrument increases and during periods of rising and volatile interest rates. In addition, some hedging instruments involve risk because they often are not traded on regulated exchanges, guaranteed by an exchange or its clearing house, or regulated by any U.S. or foreign governmental authorities. Consequently, in many cases, there are no requirements with respect to record keeping, financial responsibility or segregation of customer funds and positions. Furthermore, the enforceability of agreements underlying hedging transactions may depend on compliance with applicable securities, commodity and other regulatory requirements and, depending on the identity of the counterparty, applicable international requirements. The business failure of a hedging counterparty with whom we enter into a hedging transaction that is not cleared on a regulated centralized clearing house will most likely result in its default. Default by a party with whom we enter into a hedging transaction may result in the loss of unrealized profits and force us to cover our commitments, if any, at the then current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure you that a liquid secondary market will exist for hedging instruments purchased or sold, and we may be required to maintain a position until exercise or expiration, which could result in significant losses.

We may fail to qualify for, or choose not to elect, hedge accounting treatment.

We record derivative and hedging transactions in accordance with GAAP. Under these standards, we may fail to qualify for, or choose not to elect, hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the definition of a derivative (such as short sales), we fail to satisfy hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for, or choose not to elect, hedge accounting treatment, our operating results may be volatile because changes in the fair value of the derivatives that we enter into may not be offset by a change in the fair value of the related hedged transaction or item.

We enter into derivative contracts that could expose us to contingent liabilities in the future.

Subject to maintaining our qualification as a REIT, we enter into derivative contracts that could require us to fund cash payments in the future under certain circumstances (*e.g.*, the early termination of the derivative agreement caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the derivative contract). The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. These economic losses may materially and adversely affect our results of operations and cash flows.

Risks Related to Our Investments

We may not be able to identify additional assets that meet our investment objective.

We cannot assure you that we will be able to identify additional assets that meet our investment objective, that we will be successful in consummating any investment opportunities we identify or that one or more investments we may make will yield attractive risk-adjusted returns. Our inability to do any of the foregoing likely would materially and adversely affect our results of operations and cash flows and our ability to make distributions to our stockholders.

The lack of liquidity in our investments may adversely affect our business.

The lack of liquidity of our investments in real estate loans and investments, other than certain of our investments in mortgage-backed securities (“MBS”), may make it difficult for us to sell such investments if the need or desire arises. Many of the securities we purchase are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or their disposition except in a transaction that is exempt from the registration requirements of, or otherwise in accordance with, those laws. In addition, certain investments such as B-Notes, mezzanine loans and bridge and other loans are also particularly illiquid investments due to their short life, their potential unsuitability for securitization and/or the greater difficulty of recovery in the event of a borrower default. As a result, many of our current investments are, and our future investments will be, illiquid and if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our Manager has or could be attributed with material non-public information regarding such business entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

Our investments may be concentrated and are subject to risk of default.

While we seek to diversify our portfolio of investments, we are not required to observe specific diversification criteria, except as may be set forth in the investment guidelines adopted by our board of directors. Therefore, our investments in our target assets may at times be concentrated in certain property types that are subject to higher risk of foreclosure, or secured by properties concentrated in a limited number of geographic locations. To the extent that our portfolio is concentrated in any one region or type of asset, downturns relating generally to such region or type of asset may result in defaults on a number of our investments within a short time period, which may reduce our net income and the value of our common stock and accordingly reduce our ability to make distributions to our stockholders.

Difficult conditions in the mortgage, commercial and residential real estate markets may cause us to experience market losses related to our holdings.

Our results of operations are materially affected by conditions in the real estate markets, the financial markets and the economy generally. Concerns about the real estate market, as well as inflation, energy costs, geopolitical issues and the availability and cost of credit, have contributed to increased volatility and diminished expectations for the economy and markets going forward. The residential mortgage market has been affected by changes in the lending landscape and there is no assurance that these conditions have stabilized or that they will not worsen. The disruption in the residential mortgage market has an impact on new demand for homes, which weigh on future home price performance. There is a strong correlation between home price growth rates and mortgage loan delinquencies. Deterioration in the real estate market may cause us to experience losses related to our assets and to sell assets at a loss. Declines in the market values of our investments may adversely affect our results of operations and credit availability, which may reduce earnings and, in turn, cash available for distribution to our stockholders.

Our preferred equity investments involve a greater risk of loss than conventional debt financing.

We make preferred equity investments. These investments involve a higher degree of risk than conventional debt financing due to a variety of factors, including their non-collateralized nature and subordinated ranking to other loans and liabilities of the entity in which such preferred equity is held. Accordingly, if the issuer defaults on our

investment, we would only be able to proceed against such entity in accordance with the terms of the preferred security, and not against any property owned by such entity. Furthermore, in the event of bankruptcy or foreclosure, we would only be able to recoup our investment after all lenders to, and other creditors of, such entity are paid in full. As a result, we may lose all or a significant part of our investment, which could result in significant losses.

Our commercial construction lending may expose us to increased lending risks.

Our commercial construction lending may expose us to increased lending risks. At December 31, 2016, our loan portfolio consisted of $1.0 billion of commercial real estate construction loans. Construction loans generally expose a lender to greater risk of non-payment and loss than permanent commercial mortgage loans because repayment of the loans often depends on the borrower's ability to secure permanent "take-out" financing, which requires the successful completion of construction and stabilization of the project, or operation of the property with an income stream sufficient to meet operating expenses, including debt service on such replacement financing. For construction loans, increased risks include the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction—all of which may be affected by unanticipated construction delays and cost over-runs. Such loans typically involve an expectation that the borrower's sponsors will contribute sufficient equity funds in order to keep the loan "in balance," and the sponsors' failure or inability to meet this obligation could result in delays in construction or an inability to complete construction. Commercial construction loans also expose the lender to additional risks of contractor non-performance, or borrower disputes with contractors resulting in mechanic's or materialmen's liens on the property and possible further delay in construction. In addition, since such loans generally entail greater risk than mortgage loans on income producing property, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with such loans. Further, as the lender under a construction loan, we may be obligated to fund all or a significant portion of the loan at one or more future dates. We may not have the funds available at such future date(s) to meet our funding obligations under the loan. In that event, we would likely be in breach of the loan unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. In addition, many of our construction loans have multiple lenders and if another lender fails to fund we could be faced with the choice of either funding for that defaulting lender or suffering a delay or protracted interruption in the progress of construction.

We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments in our target assets and could also affect the pricing of these investment opportunities.

We operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices. In acquiring our target assets, we compete with a variety of institutional investors, including other REITs, commercial and investment banks, specialty finance companies, public and private funds (including other funds managed by Starwood Capital Group), commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Several other REITs have raised significant amounts of capital and may have investment objectives that overlap with ours, which may create additional competition for investment opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. government, if we are not eligible to participate in programs established by the U.S. government. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than we do. Furthermore, competition for investments in our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to continue to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make additional investments that are consistent with our investment objectives.

The commercial mortgage loans we originate or acquire and the mortgage loans underlying our CMBS investments are subject to the ability of the commercial property owner to generate net income from operating the property as well as the risks of delinquency and foreclosure.

Commercial mortgage loans are secured by multifamily or commercial property and are subject to risks of delinquency and foreclosure, and risks of loss that may be greater than similar risks associated with loans made on the security of single-family residential property. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower’s ability to repay the loan may be impaired. Net operating income of an income-producing property can be adversely affected by, among other things,

- tenant mix;
- success of tenant businesses;
- property management decisions;
- property location, condition and design;
- competition from comparable types of properties;
- changes in laws that increase operating expenses or limit rents that may be charged;
- changes in national, regional or local economic conditions and/or specific industry segments, including the credit and securitization markets;
- declines in regional or local real estate values;
- declines in regional or local rental or occupancy rates;
- increases in interest rates, real estate tax rates and other operating expenses;
- costs of remediation and liabilities associated with environmental conditions;
- the potential for uninsured or underinsured property losses;
- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance; and
- acts of God, terrorist attacks, social unrest and civil disturbances.

In the event of any default under a mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on our cash flow from operations and limit amounts available for distribution to our stockholders. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on our anticipated return on the foreclosed mortgage loan.

Our investments in CMBS are generally subject to losses.

Our investments in CMBS are subject to losses. In general, losses on a mortgaged property securing a mortgage loan included in a securitization will be borne first by the equity holder of the property, then by a cash reserve fund or letter of credit, if any, then by the holder of a mezzanine loan or B-Note, if any, then by the "first loss" subordinated security holder (generally, the "B-Piece" buyer) and then by the holder of a higher-rated security. In the event of default and the exhaustion of any equity support, reserve fund, letter of credit, mezzanine loans or B-Notes, and any classes of securities junior to those in which we invest, we will not be able to recover all of our investment in the securities we purchase. In addition, if the underlying mortgage portfolio has been overvalued by the originator, or if the values subsequently decline and, as a result, less collateral is available to satisfy interest and principal payments due on the related CMBS, there would be an increased risk of loss. The prices of lower credit quality securities are generally less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual issuer developments.

Dislocations, illiquidity and volatility in the market for commercial real estate as well as the broader financial markets could adversely affect the performance and value of commercial mortgage loans, the demand for CMBS and the value of CMBS investments.

In recent years, the real estate and securitization markets, including the market for CMBS, as well as global financial markets and the economy generally, experienced significant dislocations, illiquidity and volatility. We cannot assure you that dislocations in the commercial mortgage loan market will not occur in the future.

Challenging economic conditions have affected the financial strength of many commercial, multi-family and other tenants and have resulted in increased rent delinquencies and decreased occupancy. Economic challenges may lead to decreased occupancy, decreased rents or other declines in income from, or the value of, commercial, multi-family and manufactured housing community real estate.

In past years, declining commercial real estate values, coupled with tighter underwriting standards for commercial real estate loans, prevented many commercial borrowers from refinancing their mortgages, which resulted in increased delinquencies and defaults on commercial, multi-family and other mortgage loans. Past declines in commercial real estate values also resulted in reduced borrower equity, further hindering borrowers' ability to refinance in an environment of increasingly restrictive lending standards and giving them less incentive to cure delinquencies and avoid foreclosure. The lack of refinancing opportunities in past years has impacted and could impact in the future, in particular, mortgage loans that do not fully amortize and on which there is a substantial balloon payment due at maturity, because borrowers generally expect to refinance these types of loans on or prior to their maturity date. There are substantial amounts of U.S. mortgage loans with balloon payment obligations in excess of their respective current property values that are scheduled to mature over the next 18 months. Finally, declining commercial real estate values and the associated increases in loan-to-value ratios would result in lower recoveries on foreclosure and an increase in losses above those that would have been realized had commercial property values remained the same or increased. Continuing defaults, delinquencies and losses would further decrease property values, thereby resulting in additional defaults by commercial mortgage borrowers, further credit constraints and further declines in property values.

If our Manager overestimates the yields or incorrectly prices the risks of our investments, we may experience losses.

Our Manager values our potential investments based on yields and risks, taking into account estimated future losses on the mortgage loans and the underlying collateral included in the securitization's pools, and the estimated impact of these losses on expected future cash flows and returns. Our Manager's loss estimates may not prove accurate, as actual results may vary from estimates. In the event that our Manager underestimates the asset level losses relative to the price we pay for a particular investment, we may experience losses with respect to such investment.

Real estate valuation is inherently subjective and uncertain.

The valuation of real estate and therefore the valuation of any underlying security relating to loans made by us is inherently subjective due to, among other factors, the individual nature of each property, its location, the expected future rental revenues from that particular property and the valuation methodology adopted. In addition, where we invest in construction loans, initial valuations will assume completion of the project. As a result, the valuations of the real estate assets against which we will make loans are subject to a degree of uncertainty and are made on the basis of assumptions and methodologies that may not prove to be accurate, particularly in periods of volatility, low transaction flow or restricted debt availability in the commercial or residential real estate markets.

Any investments in corporate bank debt and debt securities of commercial real estate operating or finance companies are subject to the specific risks relating to the particular companies and to the general risks of investing in real estate-related loans and securities, which may result in significant losses.

We may invest in corporate bank debt and in debt securities of commercial real estate operating or finance companies. These investments involve special risks relating to the particular company, including its financial condition, liquidity, results of operations, business and prospects. In particular, the debt securities are often non-collateralized and may also be subordinated to its other obligations. We also invest in debt securities of companies that are not rated or are rated non-investment grade by one or more rating agencies. Investments that are not rated or are rated non-investment grade have a higher risk of default than investment grade rated assets and therefore may result in losses to us. We have not adopted any limit on such investments.

These investments also subject us to the risks inherent with real estate-related investments, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of, and net income from, real property;
- risks generally incident to interests in real property; and
- risks specific to the type and use of a particular property.

These risks may adversely affect the value of our investments in commercial real estate operating and finance companies and the ability of the issuers thereof to make principal and interest payments in a timely manner, or at all, and could result in significant losses.

Investments in non-conforming and non-investment grade rated loans or securities involve increased risk of loss.

Many of our investments do not conform to conventional loan standards applied by traditional lenders and either are not rated or rated as non-investment grade by the rating agencies. The non-investment grade credit ratings for these assets typically result from the overall leverage of the loans, the lack of a strong operating history for the properties underlying the loans, the borrowers' credit history, the properties' underlying cash flow or other factors. As a result, these investments have a higher risk of default and loss than investment grade rated assets. Any loss we incur may be significant and may reduce distributions to our stockholders and adversely affect the market value of our common stock. There are no limits on the percentage of unrated or non-investment grade rated assets we may hold in our investment portfolio.

Any credit ratings assigned to our investments are subject to ongoing evaluations and revisions and we cannot assure you that those ratings will not be downgraded.

Some of our investments are rated by Moody's Investors Service, Inc., Fitch Ratings, Inc., Standard & Poor's Ratings Services, DBRS, Inc., Kroll Bond Rating Agency, Inc. or Morningstar Credit Ratings, LLC. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If

rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value of these investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us.

The B-Notes that we acquire may be subject to additional risks related to the privately negotiated structure and terms of the transaction, which may result in losses to us.

We invest in B-Notes. A B-Note is a mortgage loan typically (i) secured by a first mortgage on a single large commercial property or group of related properties and (ii) subordinated to an A-Note secured by the same first mortgage on the same collateral. As a result, if a borrower defaults, there may not be sufficient funds remaining for a B-Note holder after payment to the A-Note holder. However, because each transaction is privately negotiated, B-Notes can vary in their structural characteristics and risks. For example, the rights of holders of B-Notes to control the process following a borrower default may vary from transaction to transaction. Further, B-Notes typically are secured by a single property and so reflect the risks associated with significant concentration. Significant losses related to our B-Notes would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Our mezzanine loans involve greater risks of loss than senior loans secured by income-producing properties.

We invest in mezzanine loans, which sometimes take the form of subordinated loans secured by second mortgages on the underlying property or more commonly take the form of loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity that owns the interest in the entity owning the property. These types of assets involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property because the loan may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal. Significant losses related to our mezzanine loans would result in operating losses for us and may limit our ability to make distributions to our stockholders.

Bridge loans involve a greater risk of loss than traditional investment-grade mortgage loans with fully insured borrowers.

We may acquire bridge loans secured by first lien mortgages on a property to borrowers who are typically seeking short-term capital to be used in an acquisition, construction or rehabilitation of a property, or other short-term liquidity needs. The typical borrower under a bridge loan has usually identified an undervalued asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the bridge loan, and we bear the risk that we may not recover some or all of our initial expenditure.

In addition, borrowers usually use the proceeds of a conventional mortgage to repay a bridge loan. A bridge loan therefore is subject to the risk of a borrower's inability to obtain permanent financing to repay the bridge loan. Bridge loans are also subject to risks of borrower defaults, bankruptcies, fraud, losses and special hazard losses that are not covered by standard hazard insurance. In the event of any default under bridge loans held by us, we bear the risk of loss of principal and non-payment of interest and fees to the extent of any deficiency between the value of the mortgage collateral and the principal amount and unpaid interest of the bridge loan. To the extent we suffer such losses with respect to our bridge loans, the value of our company and the price of our shares of common stock may be adversely affected.

We purchase securities backed by subprime or alternative documentation residential mortgage loans, which are subject to increased risks.

We own non-agency RMBS backed by collateral pools of mortgage loans that have been originated using underwriting standards that are less restrictive than those used in underwriting "prime" mortgage loans. These lower standards include mortgage loans made to borrowers having imperfect or impaired credit histories, mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgaged property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of the higher delinquency rates and losses associated with subprime mortgage loans and alternative documentation ("Alt-A") mortgage loans, the performance of non-agency RMBS backed by subprime mortgage loans and Alt-A mortgage loans that we acquire could be correspondingly adversely affected, which could adversely impact our results of operations, financial condition and business.

We may acquire and sell from time to time residential mortgage loans, including "non-QM" loans, which may subject us to legal, regulatory and other risks, which could adversely impact our business and financial results.

We may from time to time acquire residential mortgage loans, including residential mortgage loans sometimes referred to as "non-qualified mortgages" or "non-QMs" that will not have the benefit of enhanced legal protections otherwise available in connection with the origination of residential mortgage loans to a more restrictive credit standard than just determining a borrower's ability to repay, as further described below.

The ownership of residential mortgage loans, including non-QMs, will subject us to legal, regulatory and other risks, including those arising under federal consumer protection laws and regulations designed to regulate residential mortgage loan underwriting and originators' lending processes, standards, and disclosures to borrowers. These laws and regulations include the Consumer Financial Protection Bureau's ("CFPB") TILA-RESPA Integrated Disclosure rule (also referred to as "TRID"), the "ability-to-repay" rules ("ATR Rules") under the Truth-in-Lending Act and "qualified mortgage" regulations, in addition to various federal, state and local laws and regulations intended to discourage predatory lending practices by residential mortgage loan originators. The ATR Rules specify the characteristics of a "qualified mortgage" and two levels of presumption of compliance with the ATR Rules: a safe harbor and a rebuttable presumption for higher priced loans. The "safe harbor" under the ATR Rules applies to a covered transaction that meets the definition of "qualified mortgage" and is not a "higher-priced covered transaction." For any covered transaction that meets the definition of a "qualified mortgage" and is not a "higher-priced covered transaction," the creditor or assignee will be deemed to have complied with the ability-to-repay requirement and, accordingly, will be conclusively presumed to have made a good faith and reasonable determination of the consumer's ability to repay. Creditors or assignees will have the benefit of a rebuttable presumption of compliance with the applicable ATR Rules if they have complied with the qualified mortgage characteristics of the ATR Rules other than the residential mortgage loan being higher-priced in excess of certain thresholds. Non-QMs, such as residential mortgage loans with a debt-to-income ratio exceeding 43%, are among the loan products that we may acquire that do not constitute qualified mortgages and, accordingly, do not have the benefit of either a safe harbor from liability under the ATR Rules or a rebuttable presumption of compliance with the ATR Rules. Application of certain standards set forth in the ATR Rules is highly subjective and subject to interpretive uncertainties. As a result, a court may determine that a residential mortgage loan did not meet the standard or test even if the originator reasonably believed such standard or test had been satisfied. Failure of residential mortgage loan originators or servicers to comply with these laws and regulations could subject us, as an assignee or purchaser of these loans (or as an investor in securities backed by these loans), to monetary penalties assessed by the CFPB through its administrative enforcement authority and by mortgagors through a private right of action against lenders or as a defense to foreclosure, including by recoupment or setoff of finance charges and fees collected, and could result in rescission of the affected residential mortgage loans, which could adversely impact our business and financial results. Such risks may be higher in connection with the acquisition of non-QMs. Borrowers under Non-QMs may be more likely to challenge the analysis conducted under the ATR Rules by lenders. Even if a borrower does not succeed in the challenge, additional costs may be incurred in connection with challenging and defending such claims, which may be more costly in judicial foreclosure jurisdictions than in non-judicial foreclosure jurisdictions, and there may be more of a

likelihood such claims are made since the borrower is already exposed to the judicial system to process the foreclosure.

In addition, when certain of our wholly-owned subsidiaries sell, finance or sponsor securitizations of residential mortgage loans, such subsidiaries may make representations and warranties to the purchaser, the financing provider or to other third parties regarding, among other things, certain characteristics of those assets, including characteristics sought to be verified through underwriting and due diligence efforts. In the event of breaches of representations and warranties with respect to any asset, such subsidiaries may be obligated to repurchase that asset or pay damages or remove that asset from the borrowing base, as applicable, which may result in a loss. Even if representations and warranties are made by counterparties from whom we acquired the loans, they may not parallel the representations and warranties our subsidiaries make or may otherwise not protect us from losses, including, for example, due to the fact that the counterparty may be insolvent or otherwise unable to make a payment at the time of a claim against such counterparty for damages for a breach of representation or warranty.

The residential mortgage loans that we may acquire, and that underlie the RMBS we acquire, are subject to risks particular to investments secured by mortgage loans on residential property. These risks are heightened because we may purchase non-performing loans.

Residential mortgage loans are secured by single family residential property and are subject to risks of delinquency and foreclosure and risks of loss. The ability of a borrower to repay a loan secured by a residential property typically is dependent upon the income and/or assets of the borrower. A number of factors may impair borrowers' abilities to repay their loans, including:

- changes in the borrowers' income or assets;
- acts of God, which may result in uninsured losses;
- acts of war or terrorism, including the consequences of such events;
- adverse changes in national and local economic and market conditions;

- changes in governmental laws and regulations, including fiscal policies, zoning ordinances and environmental legislation and the related costs of compliance;

- costs of remediation and liabilities associated with environmental conditions; and

- the potential for uninsured or under-insured property losses.

In the event of any default under a residential mortgage loan held directly by us, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral and the price we paid for the loan and any accrued interest of the mortgage loan plus advances made, which could have a material adverse effect on our cash flow from operations. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Additionally, foreclosure on a mortgage loan could subject us to greater concentration of the risks of the residential real estate markets and risks related to the ownership and management of real property.

We may acquire non-agency RMBS, which are backed by residential property but, in contrast to agency RMBS, their principal and interest are not guaranteed by federally chartered entities such as the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation and, in the case of the Government National Mortgage Association, the U.S. government. Our investments in RMBS are subject to the risks of defaults, foreclosure timeline extension, fraud, home price depreciation and unfavorable modification of loan principal amount, interest rate and amortization of principal accompanying the underlying residential mortgage loans. To the extent that assets underlying our investments are concentrated geographically, by property type or in certain other respects, we may be subject to

certain of the foregoing risks to a greater extent. In the event of defaults on the residential mortgage loans that underlie our investments in agency RMBS and the exhaustion of any underlying or any additional credit support, we may not realize our anticipated return on our investments and we may incur a loss on these investments.

Our inability to promptly foreclose upon defaulted residential mortgage loans could increase our cost of doing business and/or diminish our expected return on investments.

Our ability to promptly foreclose upon defaulted residential mortgage loans and liquidate the underlying real property plays a critical role in our valuation of, and expected return on, those investments. There are a variety of factors that may inhibit our ability to foreclose upon a residential mortgage loan and liquidate the real property within the time frames we model as part of our valuation process. These factors include, without limitation: federal, state or local legislative action or initiatives designed to provide homeowners with assistance in avoiding residential mortgage loan foreclosures and that serve to delay the foreclosure process; Home Affordable Modification Program and other programs that require specific procedures to be followed to explore the refinancing of a mortgage loan prior to the commencement of a foreclosure proceeding; and continued declines in real estate values and sustained high levels of unemployment that increase the number of foreclosures and place additional pressure on the already overburdened judicial and administrative systems.

Prepayment rates may adversely affect the value of our investment portfolio.

The value of our investment portfolio is affected by prepayment rates on our mortgage assets. In many cases, borrowers are not prohibited from making prepayments on their mortgage loans. Prepayment rates are influenced by changes in interest rates and a variety of economic, geographic and other factors beyond our control, including, without limitation, housing and financial markets and relative interest rates on fixed rate mortgage loans, and adjustable rate mortgage loans (“ARMs”) and consequently prepayment rates cannot be predicted.

We generally receive payments from principal payments that are made on our mortgage assets, including residential mortgage loans underlying the agency RMBS or the non-agency RMBS that we acquire. When borrowers prepay their mortgage loans faster than expected, it results in prepayments that are faster than expected. Faster than expected prepayments could adversely affect our profitability and our ability to recoup our cost of certain investments purchased at a premium over par value, including in the following ways:

- We may purchase RMBS that have a higher interest rate than the prevailing market interest rate at the time. In exchange for this higher interest rate, we may pay a premium over the par value to acquire our mortgage asset. In accordance with GAAP, we may amortize this premium over the estimated term of our mortgage asset. If our mortgage asset is prepaid in whole or in part prior to its maturity date, however, we may be required to expense the allocable portion of the premium at the time of the prepayment.

- Prepayment rates generally increase when interest rates fall and decrease when interest rates rise, making it unlikely that we would be able to reinvest the proceeds of any prepayment in mortgage assets of similar quality and terms (including yield). If we are unable to invest in similar mortgage assets, we would be adversely affected.

While we seek to minimize prepayment risk to the extent practical, in selecting investments we must balance prepayment risk against other risks and the potential returns of each investment. No strategy can completely insulate us from prepayment risk.

Interest rate mismatches between our agency RMBS backed by ARMs and our borrowings used to fund our purchases of these assets may reduce our net interest income and cause us to suffer a loss during periods of rising interest rates.

To the extent that we invest in agency RMBS backed by ARMs, we may finance these investments with borrowings that have interest rates that adjust more frequently than the interest rates of those agency RMBS or the ARMs that back those RMBS. Accordingly, if short-term interest rates increase, our borrowing costs may increase faster

than the interest rates on agency RMBS backed by ARMs adjust. As a result, in a period of rising interest rates, we could experience a decrease in net income or a net loss. In most cases, the interest rates on our agency RMBS and on our borrowings will not be identical, thereby potentially creating an interest rate mismatch between our investments and our borrowings. While the historical spread between relevant short-term interest rate indices has been relatively stable, there have been periods when the spread between these indices was volatile. During periods of changing interest rates, these interest rate index mismatches could reduce our net income or produce a net loss, and adversely affect our ability to make distributions and the market price of our common stock.

In addition, agency RMBS backed by ARMs are typically subject to lifetime interest rate caps which limit the amount that interest rates can increase through the maturity of the agency RMBS. However, our borrowings under repurchase agreements typically are not subject to similar restrictions. Accordingly, in a period of rapidly increasing interest rates, the interest rates paid on our borrowings could increase without limitation while caps could limit the interest rates on these types of agency RMBS. This problem is magnified for agency RMBS backed by ARMs that are not fully indexed. Further, some agency RMBS backed by ARMs may be subject to periodic payment caps that result in a portion of the interest being deferred and added to the principal outstanding. As a result, we may receive less cash income on these types of agency RMBS than we need to pay interest on our related borrowings. These factors could reduce our net interest income and cause us to suffer a loss during periods of rising interest rates.

Risks of cost overruns and noncompletion of renovation of the properties underlying rehabilitation loans may result in significant losses.

The renovation, refurbishment or expansion by a borrower under a mortgaged property involves risks of cost overruns and noncompletion. Estimates of the costs of improvements to bring an acquired property up to standards established for the market position intended for that property may prove inaccurate. Other risks may include rehabilitation costs exceeding original estimates, possibly making a project uneconomical, environmental risks and rehabilitation and subsequent leasing of the property not being completed on schedule. If such renovation is not completed in a timely manner, or if it costs more than expected, the borrower may experience a prolonged impairment of net operating income and may not be able to make payments on our investment, which could result in significant losses.

Interest rate fluctuations could reduce our ability to generate income on our investments and may cause losses.

Changes in interest rates affect our net interest income, which is the difference between the interest income we earn on our interest-earning investments and the interest expense we incur in financing these investments. Changes in the level of interest rates also may affect our ability to originate and acquire assets, the value of our assets and our ability to realize gains from the disposition of assets. Changes in interest rates may also affect borrower default rates. In a period of rising interest rates, our interest expense could increase, while the interest we earn on our fixed-rate debt investments would not change, adversely affecting our profitability. Our operating results depend in large part on differences between the income from our assets, net of credit losses, and our financing costs. We anticipate that for any period during which our assets are not match-funded, the income from such assets will respond more slowly to interest rate fluctuations than the cost of our borrowings. Consequently, changes in interest rates may significantly influence our net income. Interest rate fluctuations resulting in our interest expense exceeding interest income would result in operating losses for us.

We may invest in distressed and non-performing commercial loans which could subject us to increased risks relative to performing loans, which may result in losses to us.

We may invest in distressed and non-performing commercial mortgage loans, which are subject to increased risks of loss. Such loans may be or become non-performing for a variety of reasons, including, without limitation, because the underlying property is too highly leveraged or the borrower falls upon financial distress, in either case, resulting in the borrower being unable to meet its debt service obligations. Such loans may require a substantial amount of workout negotiations and/or restructuring, which may divert the attention of our Manager from other activities and may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of the loan. Moreover, the ability to implement a successful restructuring entails a high degree of uncertainty, and there can be no assurance that our Manager would be able to implement any such restructuring on favorable terms or at all.

The financial or operating difficulties relating to the distressed or non-performing loan may never be overcome and may cause the borrower to become subject to bankruptcy or other similar administrative proceedings. In connection with any such proceeding, we may incur substantial or total losses on our investments and may become subject to certain additional potential liabilities that may exceed the value of our original investment therein. For example, under certain circumstances, a lender that has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to us may be reclaimed if any such payment is later determined to have been a fraudulent conveyance, preferential payment, or similar transaction under applicable bankruptcy and insolvency laws.

Alternatively, we may find it necessary or desirable to foreclose on one of these loans, and the foreclosure process may be lengthy and expensive. Borrowers or junior lenders may resist mortgage foreclosure actions by asserting numerous claims, counterclaims and defenses against us. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property, or defending challenges brought after the completion of a foreclosure, will further reduce the proceeds and thus increase our loss.

We may experience a decline in the fair value of our assets.

A decline in the fair value of our assets may require us to recognize an “other-than-temporary” impairment against such assets under GAAP if we were to determine that, with respect to any assets in unrealized loss positions, we do not have the ability and intent to hold such assets to maturity or for a period of time sufficient to allow for recovery to the amortized cost of such assets. If such a determination were to be made, we would recognize unrealized losses through earnings and write down the amortized cost of such assets to a new cost basis, based on the fair value of such assets on the date they are considered to be other-than-temporarily impaired. Such impairment charges reflect non-cash losses at the time of recognition; subsequent disposition or sale of such assets could further affect our future losses or gains, as they are based on the difference between the sale price received and adjusted amortized cost of such assets at the time of sale.

Some of our portfolio investments are recorded at fair value and, as a result, there is uncertainty as to the value of these investments.

Some of our portfolio investments are in the form of positions or securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We value these investments quarterly at fair value, as determined in accordance with GAAP, which include consideration of unobservable inputs. Because such valuations are subjective, the fair value of certain of our assets may fluctuate over short periods of time and our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of our common stock could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon their disposal.

Liability relating to environmental matters may impact the value of properties that we may purchase or acquire.

We may be subject to environmental liabilities arising from properties we own. Under various U.S. federal, state and local laws, an owner or operator of real property may become liable for the costs of removal of certain hazardous substances released on its property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous substances.

The presence of hazardous substances may adversely affect an owner’s ability to sell real estate or borrow using real estate as collateral. To the extent that an owner of a property underlying one of our debt investments becomes liable for removal costs, the ability of the owner to make payments to us may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us and our ability to make distributions to our stockholders.

The presence of hazardous substances on a property we own may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material

environmental liabilities attached to such properties could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

We invest in commercial properties subject to net leases, which could subject us to losses.

We invest in commercial properties subject to net leases. Typically, net leases require the tenants to pay substantially all of the operating costs associated with the properties. As a result, the value of, and income from, investments in commercial properties subject to net leases will depend, in part, upon the ability of the applicable tenant to meet its obligations to maintain the property under the terms of the net lease. If a tenant fails or becomes unable to so maintain a property, we will be subject to all risks associated with owning the underlying real estate. Under many net leases, however, the owner of the property retains certain obligations with respect to the property, including, among other things, the responsibility for maintenance and repair of the property, to provide adequate parking, maintenance of common areas and compliance with other affirmative covenants in the lease. If we were to fail to meet any such obligations, the applicable tenant could abate rent or terminate the applicable lease, which could result in a loss of our capital invested in, and anticipated profits from, the property.

We expect that some commercial properties subject to net leases in which we invest generally will be occupied by a single tenant and, therefore, the success of these investments will be materially dependent on the financial stability of each such tenant. A default of any such tenant on its lease payments to us would cause us to lose the revenue from the property and cause us to have to find an alternative source of revenue to meet any mortgage payment and prevent a foreclosure if the property is subject to a mortgage. In the event of a default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. If a lease is terminated, we may also incur significant losses to make the leased premises ready for another tenant and experience difficulty or a significant delay in re-leasing such property.

In addition, net leases typically have longer lease terms and, thus, there is an increased risk that contractual rental increases in future years will fail to result in fair market rental rates during those years.

We may acquire these investments through sale-leaseback transactions, which involve the purchase of a property and the leasing of such property back to the seller thereof. If we enter into a sale-leaseback transaction, our Manager will seek to structure any such sale-leaseback transaction such that the lease will be characterized as a “true lease” for U.S. federal income tax purposes, thereby allowing us to be treated as the owner of the property for U.S. federal income tax purposes. However, we cannot assure you that the Internal Revenue Service (the “IRS”) will not challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for U.S. federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the REIT qualification “asset tests” or “income tests” and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated, which might also cause us to fail to meet the REIT distribution requirement for a taxable year.

Investments outside the U.S. that are denominated in foreign currencies subject us to foreign currency risks and to the uncertainty of foreign laws and markets, which may adversely affect our distributions and our REIT status.

Our investments outside the U.S. denominated in foreign currencies subject us to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. As a result, changes in exchange rates of any such foreign currency to U.S. dollars may affect our income and distributions and may also affect the book value of our assets and the amount of stockholders’ equity. In addition, these investments subject us to risks of multiple and conflicting tax laws and regulations, and other laws and regulations that may make foreclosure and the exercise of other remedies in the case of default more difficult or costly compared to U.S. assets, and political and economic instability abroad, any of which factors could adversely affect our receipt of returns on and distributions from these investments.

Changes in foreign currency exchange rates used to value a REIT’s foreign assets may be considered changes in the value of the REIT’s assets. These changes may adversely affect our status as a REIT. Further, bank accounts in foreign currency which are not considered cash or cash equivalents may adversely affect our status as a REIT.

The ongoing Eurozone crisis may have an adverse effect on our investments in Europe, and the pending departure of the United Kingdom, the exit of any other member state or the break-up of the European Union entirely, would create uncertainty and could affect our investments directly.

We currently hold, and may acquire additional, investments that are denominated in Pounds Sterling ("GBP") and EURs (including loans secured by assets located in the United Kingdom or Europe), as well as equity interests in real estate properties located in Europe. The ongoing situation relating to the high levels of sovereign debt of several countries, including Greece, Ireland, Italy, Spain and Portugal, the relatively low levels of economic growth in these countries and the undercapitalization and liquidity problems of many banks in the Eurozone, together with the risk of contagion to other, more financially stable countries, has continued to negatively impact the global financial markets. The situation has also raised a number of uncertainties regarding the stability and overall standing of the European Union.

In addition, on June 23, 2016, the United Kingdom held a referendum 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. 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 or the break-up of the European Union entirely. 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.

Any further deterioration in the global or Eurozone economy, or the effects of Brexit or of the exit of any other member state or the break-up of the European Union entirely, 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.

We invest in equity interests in commercial real estate assets, which subjects us to the general risks of owning commercial real estate.

We acquire and manage equity interests in commercial real estate assets. The economic performance and value of these investments can be adversely affected by many factors that are generally applicable to most real estate, including the following:

- changes in the national, regional, local and international economic climate;
- local conditions, such as oversupply of space or a reduction in demand for real estate in the areas in which they are located;
- competition from other available space;
- the attractiveness of the real estate to tenants;
- increases in operating costs if these costs cannot be passed through to tenants;
- the financial condition of tenants and the ability to collect rent from tenants;
- vacancies, changes in market rental rates and the need to periodically renovate, repair and re-let space;

- changes in interest rates and the availability of financing;
- changes in zoning laws and taxation, government regulation and potential liability under environmental or other laws or regulations;
- acts of God, including, without limitation, earthquakes, hurricanes and other natural disasters, or acts of war or terrorism, in each case which may result in uninsured or underinsured losses; and
- decreases in the underlying value of real estate.

Certain significant expenditures associated with an investment in commercial real estate assets (such as mortgage payments, real estate taxes and maintenance costs) generally do not decline when circumstances cause a reduction in income from the asset. Because real estate investments are relatively illiquid, our ability to vary any investments in commercial real estate assets promptly in response to economic or other conditions would be limited. This relative illiquidity could impede our ability to respond to adverse changes in the performance of such investments. No assurances can be given that the value of our equity investments in commercial real estate assets will not decrease in the future.

We face risks associated with acquisitions of commercial real estate assets.

Our acquisition of equity interests in commercial real estate assets is subject to, and the success of those assets may be adversely affected by, various risks, including those described below:

- we and our Manager may be unable to meet required closing conditions;
- we may be unable to finance acquisitions on favorable terms or at all;
- acquired assets may fail to perform as expected;
- our Manager's estimates of the costs of repositioning or renovating acquired commercial real estate assets may be inaccurate;
- we may not be able to obtain adequate insurance coverage for acquired commercial real estate assets;
- acquisitions may be located in markets where we and our Manager have a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures;
- our Manager may be unable to quickly and efficiently integrate new acquisitions of commercial real estate assets into our existing operations and, therefore, our results of operations and financial condition could be adversely affected; and
- we may acquire equity interests in commercial real estate assets through a joint venture, and such investments could be adversely affected by our lack of sole decision-making authority and reliance upon a co-venturer's financial condition. In addition, if we co-invest with affiliates of our Manager, we may be obligated to pay fees to such affiliates and would be subject to a variety of conflicts of interest with such affiliates, including conflicts similar to those described under the section captioned "—Risks Related to Our Relationship with Our Manager."

We make equity investments in commercial real estate assets subject to both known and unknown liabilities and without any recourse, or with only limited recourse to the seller thereof. As a result, if a liability were asserted against us arising from our ownership of those assets, we might have to pay substantial sums to settle it, which could adversely affect us. Unknown liabilities with respect to commercial real estate assets may include:

- claims by tenants, vendors or other persons arising from dealing with the former owners of the assets;
- liabilities incurred in the ordinary course of business;
- claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the assets; and
- liabilities for clean-up of undisclosed environmental contamination.

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 United States 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.

We are subject to the general risks of owning properties relating to the healthcare industry.

On December 29, 2016, we acquired a portfolio of medical office buildings which are geographically dispersed throughout the U.S. and primarily affiliated with major hospitals or located on or adjacent to a major hospital campus. The economic performance and value of the properties in this portfolio and of some or all of the tenants/operators of such properties could be adversely affected by many factors that are generally applicable to properties relating to the healthcare industry, including the following:

• adverse trends in healthcare provider operations, such as changes in the demand for and methods of delivering healthcare services, changes in third-party reimbursement policies, significant unused capacity in certain areas, which has created substantial competition for patients among healthcare providers in those areas, increased expense for uninsured patients, increased competition among healthcare providers, increased liability insurance expense, continued pressure by private and governmental payors to reduce payments to providers of services and increased scrutiny of billing, referral and other practices by federal and state authorities and private insurers;

• extensive healthcare regulation, changes in enforcement policies with respect to such regulation and potential changes in the regulatory framework of the healthcare industry; and

• significant legal actions brought against tenants/operators that could subject them to increased operating costs and substantial uninsured liabilities.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on joint venture partners' financial condition and liquidity and disputes between us and our joint venture partners.

We may make investments through joint ventures. Such joint venture investments may involve risks not otherwise present when we make investments without partners, including the following:

" we may not have exclusive control over the investment or the joint venture, which may prevent us from taking actions that are in our best interest and could create the potential risk of creating impasses on decisions, such as with respect to acquisitions or dispositions;

" joint venture agreements often restrict the transfer of a partner's interest or may otherwise restrict our ability to sell the interest when we desire and/or on advantageous terms;

" joint venture agreements may contain buy-sell provisions pursuant to which one partner may initiate procedures requiring the other partner to choose between buying the other partner's interest or selling its interest to that partner;

" a partner may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;

" a partner may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT and our exemption from registration under the Investment Company Act;

" a partner may fail to fund its share of required capital contributions or may become bankrupt, which may mean that we and any other remaining partners generally would remain liable for the joint venture's liabilities;

- our relationships with our partners are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or investments underlying such relationship or may need to purchase such interests or investments at a premium to the market price to continue ownership;

- disputes between us and a partner may result in litigation or arbitration that could increase our expenses and prevent our Manager and our officers and directors from focusing their time and efforts on our business and could result in subjecting the investments owned by the joint venture to additional risk; or

- we may, in certain circumstances, be liable for the actions of a partner, and the activities of a partner could adversely affect our ability to qualify as a REIT or maintain our exclusion from registration under the Investment Company Act, even though we do not control the joint venture.

Any of the above may subject us to liabilities in excess of those contemplated and adversely affect the value of our joint venture investments.

Risks Related to Our Investing and Servicing Segment and Our Acquisition of LNR

The business activities of our Investing and Servicing Segment, particularly our special servicing business, expose us to risks that we did not face prior to our acquisition of LNR.

Our Investing and Servicing Segment includes all business activities that we obtained in connection with our acquisition of LNR in April 2013 (excluding the consolidation of securitization VIEs). In our Investing and Servicing Segment, we derive a substantial portion of our cash flows from the special servicing of pools of commercial mortgage loans. As special servicer, we typically receive fees based upon the outstanding balance of the loans that are being specially serviced by us. The balance of loans in special servicing where we act as special servicer could decline significantly and as such our servicing fees could likewise decline materially. The special servicing industry is highly

competitive, and our inability to compete successfully with other firms to maintain our existing servicing portfolio and obtain future servicing opportunities could have a material and adverse impact on our future cash flows and results of operations. Because the right to appoint the special servicer for securitized mortgage loans generally resides with the holder of the "controlling class" position in the relevant trust and may migrate to holders of different classes of securities as additional losses are realized, our ability to maintain our existing servicing rights and obtain future servicing opportunities may require, in many cases, the acquisition of additional CMBS. Accordingly, our ability to compete effectively may depend, in part, on the availability of additional debt or equity capital to fund these purchases. Additionally, our existing servicing portfolio is subject to "run off," meaning that mortgage loans serviced by us may be prepaid prior to maturity, refinanced with a mortgage not serviced by us, or liquidated through foreclosure, deed-in-lieu of foreclosure or other liquidation processes, or repaid through standard amortization of principal, resulting in lower servicing fees and/or lower returns on the subordinated securities owned by us. Improving economic conditions and property prices and declines in interest rates and greater availability of mortgage financing could reduce the incidence of assets going into special servicing and reduce our revenues from special servicing, including as a result of lower fees under new arrangements. The fair value of our servicing rights may decrease under the foregoing circumstances, resulting in losses.

The conduit operations in our Investing and Servicing Segment are subject to volatile market conditions and significant competition. In addition, the conduit business may suffer losses as a result of ineffective or inadequate hedges and credit issues.

We operate a special servicing business, which has certain unique risks.

In connection with the special servicing of mortgage loans, a special servicer may, at the direction of the directing certificateholder, generally take actions with respect to the specially serviced mortgage loans that could adversely affect the holders of some or all of the more senior classes of CMBS. We may hold subordinated CMBS and we may or may not be the directing holder in any CMBS transaction in which we also act as special servicer. We may have conflicts of interest in exercising our rights as holder of subordinated classes of CMBS and in owning the entity that also acts as the special servicer for such transactions. It is possible that we, acting as the directing certificateholder for a CMBS transaction, may direct special servicer actions that conflict with the interests of certain other classes of the CMBS issued in that transaction. The special servicer is not permitted to take actions that are prohibited by law or that violate the applicable servicing standard or the terms of the applicable CMBS documentation or the applicable mortgage loan documentation, and we are subject to the risk of claims asserted by mortgage loan borrowers and the holders of other classes of CMBS that we have violated applicable law or, if applicable, the servicing standard and our other obligations under such CMBS documentation or mortgage loan documentation, as a result of actions we may take.

The business activities in our Investing and Servicing Segment are subject to an evolving regulatory environment that may affect certain aspects of these activities.

In our Investing and Servicing Segment, we acquire subordinated securities issued by and act as special servicer for securitizations. As a result of the dislocation of the credit markets, the securitization industry has become subject to additional regulation. In particular, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), various federal agencies have promulgated a rule that generally requires issuers in securitizations to retain 5% of the risk associated with the securities. While the rule as adopted generally allows the purchase of the CMBS "B-Piece" by a party not affiliated with the issuer to satisfy the risk retention requirement, current CMBS B-Pieces are generally not large enough to fully satisfy the 5% requirement. Accordingly, buyers of B-Pieces such as us may be required to purchase larger B-Pieces, potentially reducing returns on such investments. Furthermore, any such B-Pieces purchased by a party (such as us) unaffiliated with the issuer generally cannot be transferred for a period of five years following the closing date of the securitization or hedged against credit risk. These restrictions would reduce our liquidity and could potentially reduce our returns on such investments.

One of the business activities in our Investing and Servicing Segment is investment in subordinated CMBS. The risks of investment in CMBS are magnified in the case of our Investing and Servicing Segment, where the principal payments received by the CMBS trust are made in priority to the higher rated securities.

CMBS are subject to the various risks that relate to the pool of underlying commercial mortgage loans and any other assets in which the CMBS represents an interest. In addition, CMBS are subject to additional risks arising from the geographic, property type and other types of concentrations in the pool of underlying commercial mortgage loans, which risks are magnified by the subordinated nature of the CMBS in which we invest in our Investing and Servicing Segment. In the event of defaults on the mortgage loans in the CMBS trusts, we bear a risk of loss on our related subordinated CMBS to the extent of deficiencies between the value of the collateral and the principal, accrued interest and unpaid fees and expenses on the mortgage loans, which may be offset to some extent by the special servicing fees received by us on those mortgage loans. The yield to maturity on the CMBS depends largely upon the price paid for the CMBS, which are generally sold at a discount at issuance and trade at even steeper discounts in the secondary markets. Further, the yield to maturity on CMBS depends, in significant part, upon the rate and timing of principal payments on the underlying mortgage loans, including both voluntary prepayments, if permitted, and involuntary prepayments, such as prepayments resulting from casualty or condemnation, defaults and liquidations or repurchases upon breaches of representations and warranties or document defects. Any changes in the weighted average lives of CMBS may adversely affect yield on the CMBS. Prepayments resulting in a shortening of weighted average lives of CMBS may be made at a time of low interest rates when we may be unable to reinvest the resulting payment of principal on the CMBS at a rate comparable to that being earned on the CMBS, while delays and extensions resulting in a lengthening of those weighted average lives may occur at a time of high interest rates when we may have been able to reinvest scheduled principal payments at higher rates.

The exercise of remedies and successful realization of liquidation proceeds relating to commercial mortgage loans underlying CMBS may be highly dependent on our performance as special servicer. We attempt to underwrite investments on a "loss-adjusted" basis, which projects a certain level of performance. However, there can be no assurance that this underwriting accurately predicts the timing or magnitude of such losses. To the extent that this underwriting has incorrectly anticipated the timing or magnitude of losses, our business may be adversely affected. Some of the mortgage loans underlying the CMBS are already in default and additional loans may default in the future. In the case of such defaults, cash flows of CMBS investments held by us may be adversely affected as any reduction in the mortgage payments or principal losses on liquidation of any mortgage loan may be applied to the class of CMBS securities relating to such defaulted loans that we hold.

The market value of CMBS could fluctuate materially as a result of various risks that are out of our control and may result in significant losses.

The market value of CMBS investments could fluctuate materially over time as the result of changes in mortgage spreads, treasury bond interest rates, capital market supply and demand factors, and many other factors that affect high-yield fixed income products. These factors are out of our control and could impair our ability to obtain short-term financing on the CMBS. CMBS investments, especially subordinated classes of CMBS, may have no, or only a limited, trading market. The financial markets in the past have experienced and could in the future experience a period of volatility and reduced liquidity, which may reoccur or continue and reduce the market value of CMBS. Some or all of the CMBS, especially subordinated classes of CMBS, may be subject to restrictions on transfer and may be considered illiquid.

Mortgage loan servicing is an increasingly regulated business.

The mortgage loan servicing activities of our Investing and Servicing Segment are subject to a still evolving set of regulations, including regulations being promulgated under the Dodd-Frank Act. In addition, various governmental authorities have increased their investigative focus on the activities of mortgage loan servicers. As a result, we may have to spend additional resources and devote additional management time to address any regulatory concerns, which may reduce the resources available to grow our business. In addition, if we fail to operate the servicing activities of our Investing and Servicing Segment in compliance with existing and future regulations, our business, reputation, financial condition or results of operations could be materially and adversely affected.

Most of the assets in our Investing and Servicing Segment are held through, or are ownership interests in, entities subject to entity level or foreign taxes, which cannot be passed through to, or used by, our stockholders to reduce taxes they owe.

Most of the assets in our Investing and Servicing Segment are held through a TRS, which is subject to entity level taxes on income that it earns. Such taxes have materially increased the taxes paid by our TRSs. In addition, certain of the assets in our Investing and Servicing Segment include entities organized or assets located in foreign jurisdictions. Taxes that we or such entities pay in foreign jurisdictions may not be passed through to, or used by, our stockholders as a foreign tax credit or otherwise.

In connection with our prior acquisition of LNR, we may have to bear the costs of certain pre-closing taxes.

The acquisition of LNR involved the purchase of the LNR companies, a significant portion of which were historically C-corporations for U.S. federal income tax purposes. While the sellers of LNR generally agreed to pay (or indemnify us) for any pre-closing tax liabilities, such indemnity obligations are generally limited to the amount of the purchase price for LNR and, in certain situations, limited to certain maximum amounts with respect to certain LNR entities, as agreed upon by the sellers and us. Furthermore, there can be no assurance that we would be able to enforce payment or indemnification by the sellers of or with respect to any such pre-closing tax liabilities. While the sponsors of the sellers provided a limited guarantee on certain pre-closing tax liabilities, such guarantee is limited to certain specified entities and certain specified amounts, as agreed to between us, the sellers and such sponsors. Accordingly, such LNR companies may become liable for pre-closing taxes, which pre-closing taxes may, in the event of an inability to enforce the indemnity or in the event of a tax liability in excess of the agreed upon caps on such liabilities, be borne by us.

Our consolidated financial statements changed materially following our acquisition of LNR, as we became required to consolidate the assets and liabilities of CMBS pools in which we own the controlling class of subordinated securities and are considered the "primary beneficiary."

Following our acquisition of LNR, we became required to consolidate the assets and liabilities of certain CMBS pools in which we own the controlling class of subordinated securities into our financial statements, even though the value of the subordinated securities may represent a small interest relative to the size of the pool. Under GAAP, companies are required to consolidate VIEs in which they are determined to be the primary beneficiary. A VIE must be consolidated only by its primary beneficiary, which is defined as the party who, along with its affiliates and agents, has a potentially significant interest in the entity and controls the entity's significant decisions. As a result of the foregoing, our financial statements are more complex and may be more difficult to understand than if we did not consolidate the CMBS pools.

Risks Related to Our Organization and Structure

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law (the "MGCL"), may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-prevailing market price of our common stock. We are subject to the "business combination" provisions of the MGCL that, subject to limitations, prohibit certain business combinations (including a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of our then outstanding voting capital stock or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting capital stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder. After the five-year prohibition, any business combination between us and an interested stockholder generally must be recommended by our board of directors and approved by the affirmative vote of at least (i) 80% of the votes entitled to be cast by holders of outstanding shares of our voting capital stock and (ii) two-thirds of the votes entitled to be cast by holders of voting capital stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These super-majority voting requirements do not apply if our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. These provisions of the MGCL also do not apply to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution exempted business combinations between us and any other person, provided that such business combination is first approved by our board of directors (including a majority of our directors who are not affiliates or associates of such person).

The "control share" provisions of the MGCL provide that "control shares" of a Maryland corporation (defined as shares which, when aggregated with other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and our personnel who are also our directors. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

The "unsolicited takeover" provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement takeover defenses, some of which (for example, a classified board) we do not yet have. These provisions may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide the holders of shares of common stock with the opportunity to realize a premium over the then current market price.

Our authorized but unissued shares of common and preferred stock may prevent a change in control.

Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares of stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our shares of common stock or otherwise be in the best interest of our stockholders.

Maintenance of our exemption from registration under the Investment Company Act imposes significant limits on our operations.

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Because we are a holding company that conducts our businesses primarily through wholly-owned subsidiaries, the securities issued by these subsidiaries that are excepted from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, together with any other investment securities we own, may not have a combined value in excess of 40%

of the value of our adjusted total assets on an unconsolidated basis. This requirement limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act, which may adversely affect our performance.

If the value of securities issued by our subsidiaries that are excepted from the definition of “investment company” by Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we own, exceeds 40% of our adjusted total assets on an unconsolidated basis, or if one or more of such subsidiaries fail to maintain an exception or exemption from the Investment Company Act, we could, among other things, be required either (i) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company or (ii) to register as an investment company under the Investment Company Act, either of which could have an adverse effect on us and the market price of our securities. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

In August 2011, the SEC solicited public comment on a wide range of issues relating to Section 3(c)(5)(C) of the Investment Company Act, including the nature of the assets that qualify for purposes of the exemption and whether mortgage REITs should be regulated in a manner similar to investment companies. There can be no assurance that the laws and regulations governing the Investment Company Act status of REITs, including the Division of Investment Management of the SEC providing more specific or different guidance regarding these exemptions, will not change in a manner that adversely affects our operations. If we or our subsidiaries fail to maintain an exception or exemption from the Investment Company Act, we could, among other things, be required to (i) change the manner in which we conduct our operations to avoid being required to register as an investment company, (ii) effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so, or (iii) register as an investment company (which, among other things, would require us to comply with the leverage constraints applicable to investment companies), any of which could negatively affect the value of our common stock, the sustainability of our business model, and our ability to make distributions to our stockholders, which could, in turn, materially and adversely affect us and the market price of our common stock.

Rapid changes in the values of our real estate-related investments may make it more difficult for us to maintain our qualification as a REIT or exemption from the Investment Company Act.

If the market value or income potential of real estate-related investments declines as a result of increased interest rates, prepayment rates or other factors, we may need to increase our real estate investments and income and/or liquidate our non-qualifying assets in order to maintain our REIT qualification or exemption from the Investment Company Act. If the decline in real estate asset values and/or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets that we may own. We may have to make investment decisions that we otherwise would not make absent the REIT and Investment Company Act considerations.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions not in your best interests.

Under Maryland law generally, a director’s actions will be upheld if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter authorizes us to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our bylaws require us to indemnify each director or officer, to the maximum extent permitted by Maryland law, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service to us. In addition, we may be obligated to fund the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with other companies.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.

Our charter provides that a director may only be removed for cause upon the affirmative vote of holders of two-thirds of the votes entitled to be cast in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change our management by removing and replacing directors and may prevent a change in control of our company that is in the best interests of our stockholders.

Ownership limitations may restrict change of control or business combination opportunities in which our stockholders might receive a premium for their shares.

In order for us to qualify as a REIT, no more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer individuals during the last half of any calendar year. “Individuals” for this purpose include natural persons, private foundations, some employee benefit plans and trusts, and some charitable trusts. To preserve our REIT qualification, our charter generally prohibits any person from directly or indirectly owning more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our capital stock or more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock. This ownership limitation could have the effect of discouraging a takeover or other transaction in which holders of our common stock might receive a premium for their shares over the then prevailing market price or which holders might believe to be otherwise in their best interests.

Risks Related to Our Taxation as a REIT

If we do not qualify as a REIT or fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.

We intend to continue to operate in a manner that will allow us to qualify as a REIT for U.S. federal income tax purposes. We have not requested nor obtained a ruling from the IRS as to our REIT qualification. Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for U.S. federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements as described below. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes. Accordingly, there can be no assurance that the IRS will not contend that our interests in subsidiaries or in securities of other issuers will not cause a violation of the REIT requirements.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, and applicable state and local taxes, on our taxable income at regular corporate rates, and distributions made to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our common stock. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum tax rate applicable to income from “qualified dividends” payable to domestic stockholders that are individuals, trusts and estates is currently 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

REIT distribution requirements could adversely affect our ability to continue to execute our business plan.

We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to continue to make distributions to our stockholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may be required to accrue income from mortgage loans, MBS, and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets. We may also acquire distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are “significant modifications” under the applicable U.S. Treasury regulations, the modified debt may be considered to have been reissued to us at a gain in a debt-for-debt exchange with the borrower, with gain recognized by us to the extent that the principal amount of the modified debt exceeds our cost of purchasing it prior to modification.

We may also be required under the terms of indebtedness that we incur to use cash received from interest payments to make principal payments on that indebtedness, with the effect of recognizing income but not having a corresponding amount of cash available for distribution to our stockholders.

As a result, we may find it difficult or impossible to meet distribution requirements from our ordinary operations in certain circumstances. In particular, where we experience differences in timing between the recognition of taxable income and the actual receipt of cash, the requirement to distribute a substantial portion of our taxable income could cause us to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt or (iv) make a taxable distribution of our shares, as part of a distribution in which stockholders may elect to receive shares (subject to a limit measured as a percentage of the total distribution), in order to comply with REIT requirements. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

We may choose to make distributions to our stockholders in our own stock, or make a distribution of a subsidiary’s common stock, in which case our stockholders could be required to pay income taxes in excess of the cash dividends they receive.

We may in the future distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. We may also determine to distribute a taxable dividend in the stock of a subsidiary in connection with a spin-off or other transaction, as in the case of our spin-off of our former SFR segment on January 31, 2014. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the stock that it receives as a dividend in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of that stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock.

It is unclear whether and to what extent we will be able to pay taxable dividends in cash and stock. Moreover, various aspects of such a taxable cash/stock dividend are uncertain and have not yet been addressed by the IRS. No assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock dividends, including on a retroactive basis, or assert that the requirements for such taxable cash/stock dividends have not been met.

The stock ownership limit imposed by the Code for REITs and our charter may restrict our business combination opportunities.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year following our first year. Our charter, with certain exceptions, authorizes our board of directors to take the actions that are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person may own more than 9.8% of the aggregate value of our outstanding capital stock. Our board may grant an exemption in its sole discretion, subject to such conditions, representations and undertakings as it may determine. The ownership limits imposed by the tax law are based upon direct or indirect ownership by “individuals,” but only during the last half of a tax year. The ownership limits contained in our charter key off the ownership at any time by any "person," which term includes entities. These ownership limitations in our charter are common in REIT charters and are intended to provide added assurance of compliance with the tax law requirements, and to minimize administrative burdens. However, these ownership limits might also delay or prevent a transaction or a change in our control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes, such as mortgage recording taxes. In addition, in order to continue to meet the REIT qualification requirements, prevent the recognition of certain types of non-cash income, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold a significant amount of our assets through our TRSs or other subsidiary corporations that will be subject to corporate-level income tax at regular rates. In addition, if we lend money to a TRS, the TRS may be unable to deduct all or a portion of the interest paid to us, which could result in an even higher corporate-level tax liability. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, we must satisfy ongoing tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. In addition, in certain cases, the modification of a debt instrument could result in the conversion of the instrument from a qualifying real estate asset to a wholly or partially non-qualifying asset that must be contributed to a TRS or disposed of in order for us to maintain our REIT status. Compliance with the source-of-income requirements may also limit our ability to acquire debt instruments at a discount from their face amount. Thus, compliance with the REIT requirements may hinder our ability to make, and in certain cases to maintain ownership of, certain attractive investments.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and certain kinds of MBS. The remainder of our investment in securities (other than government securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value (20% for taxable years beginning after 2017) of our total securities can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our portfolio otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.

We have entered into financing arrangements that are structured as sale and repurchase agreements pursuant to which we would nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings which are secured by the assets sold pursuant thereto. We believe that we would be treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreement may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to qualify as a REIT.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire debt instruments in the secondary market for less than their face amount. The discount at which such debt instruments are acquired may reflect doubts about their ultimate collectability rather than current market interest rates. The amount of such discount will nevertheless generally be treated as "market discount" for U.S. federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made. Payments on residential mortgage loans are ordinarily made monthly, and consequently accrued market discount may have to be included in income each month as if the debt instrument were assured of ultimately being collected in full. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions. In addition, we may acquire distressed debt investments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding debt are "significant modifications" under applicable U.S. Treasury

regulations, the modified debt may be considered to have been reissued to us at a gain in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified debt exceeds our adjusted tax basis in the unmodified debt, even if the value of the debt or the payment expectations have not changed.

Moreover, some of the MBS that we acquire may have been issued with original issue discount. We will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such MBS will be made. If such MBS turns out not to be fully collectible, an offsetting loss deduction will become available only in the later year that collectability is provable.

Finally, in the event that any debt instruments or MBS acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular debt instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to subordinate MBS at its stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur, and may limit the manner in which we effect future securitizations.

Securitizations could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses, and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their dividend income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we would be precluded from selling equity interests in these securitizations to outside investors, or selling any debt securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

The tax on prohibited transactions will limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, which would be treated as sales for U.S. federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize loans in a manner that was treated as a sale of the loans for U.S. federal income tax purposes. Therefore, in order to avoid the prohibited transactions tax, we may choose not to engage in certain sales of loans at the REIT level, and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us.

Our investments in construction loans require us to make estimates about the fair value of land improvements that may be challenged by the IRS.

We invest in construction loans, the interest from which is qualifying income for purposes of the REIT income tests, provided that the loan value of the real property securing the construction loan is equal to or greater than the highest outstanding principal amount of the construction loan during any taxable year. For purposes of construction loans, the loan value of the real property is the fair value of the land plus the reasonably estimated cost of the

improvements or developments (other than personal property) that secure the loan and that are to be constructed from the proceeds of the loan. There can be no assurance that the IRS would not challenge our estimate of the loan value of the real property.

The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

We invest in mezzanine loans, for which the IRS has provided a safe harbor but not rules of substantive law. Pursuant to the safe harbor, if a mezzanine loan meets certain requirements, it will be treated by the IRS as a real estate asset for purposes of the REIT asset tests, and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% income test. We may acquire mezzanine loans that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the IRS could challenge such loan’s treatment as a real estate asset for purposes of the REIT asset and income tests and, if such a challenge were sustained, we could fail to qualify as a REIT.

Liquidation of assets may jeopardize our REIT qualification.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code substantially limit our ability to hedge our assets and liabilities. Any income from a hedging transaction we enter into either (i) to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets, (ii) to manage risk of currency fluctuations with respect to items of income that qualify for purposes of the REIT 75% or 95% gross income tests or assets that generate such income, or (iii) to hedge another instrument that hedges risks described in clause (i) or (ii) for a period following the extinguishment of the liability or the disposition of the asset that was previously hedged by the instrument, and, in each case, such instrument is properly identified under applicable U.S. Treasury regulations, does not constitute “gross income” for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a domestic TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

Recently enacted legislation with respect to partnership tax audits could increase the tax liability borne by us in the event of a U.S. federal income tax audit of a subsidiary partnership.

Recent legislation may alter who bears the liability in the event any subsidiary partnership is audited and an adjustment is assessed. Congress recently revised the rules applicable to U.S. federal income tax audits of partnerships (such as certain of our subsidiaries) and the collection of any tax resulting from any such audits or other tax proceedings, generally for taxable years beginning after December 31, 2017. Under the new rules, the partnership itself may be liable for a hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit, regardless of changes in the composition of the partners (or their relative ownership) between the year under audit and the year of the adjustment. The new rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners, subject to a higher rate of interest than otherwise would apply. Many questions remain as to how the new rules will apply, especially with respect to partners that are REITs, and it is not clear at this time what effect this new legislation will have on us. However, these changes could increase the U.S. federal income tax, interest, and/or penalties otherwise borne by us in the event of a U.S. federal income tax audit of a subsidiary partnership.

Legislative or other actions affecting REITs could materially and adversely affect us and our stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could materially and adversely affect us and our stockholders. We cannot predict how changes in the tax laws might affect us or our stockholders. New legislation, U.S. Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U.S. federal income tax consequences of such qualification.

Risks Related to Our Common Stock

The market price and trading volume of our common stock could be volatile and the market price of our common stock could decline, resulting in a substantial or complete loss of your investment.

The stock markets, including the NYSE, which is the exchange on which our common stock is listed, have experienced significant price and volume fluctuations. Overall weakness in the economy and other factors have contributed to extreme volatility of the equity markets generally, including the market price of our common stock. As a result, the market price of our common stock has been and may continue to be volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. Some of the factors that could negatively affect our stock price or result in fluctuations in the price or trading volume of our common stock include:

- our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;
- actual or perceived conflicts of interest with our Manager or Starwood Capital Group and individuals, including our executives;
- equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;
- actual or anticipated accounting problems;
- publication of research reports about us or the real estate industry;
- changes in market valuations of similar companies;
- adverse market reaction to the level of leverage we employ;
- additions to or departures of our Manager’s or Starwood Capital Group’s key personnel;
- speculation in the press or investment community;
- our failure to meet, or the lowering of, our earnings estimates or those of any securities analysts;
- increases in market interest rates, which may lead investors to demand a higher distribution yield for our common stock and would result in increased interest expenses on our debt;
- failure to maintain our REIT qualification;
- uncertainty regarding our exemption from the Investment Company Act;
- price and volume fluctuations in the stock market generally; and

•general market and economic conditions, including the current state of the credit and capital markets.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their share price. This type of litigation could result in substantial costs and divert our Manager's attention and resources.

There may be future dilution of our common stock as a result of additional issuances of our securities, which could adversely impact our stock price.

Our board of directors is authorized under our charter to, among other things, authorize the issuance of additional shares of our common stock or the issuance of shares of preferred stock or additional securities convertible or exchangeable into equity securities, without stockholder approval. Future issuances of our common stock or shares of preferred stock or securities convertible or exchangeable into equity securities may dilute the ownership interest of our existing stockholders. Because our decision to issue additional equity or convertible or exchangeable securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future issuances. Additionally, any convertible or exchangeable securities that we issue may have rights, preferences and privileges more favorable than those of our common stock. Also, we cannot predict the effect, if any, of future sales of our common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock or the perception that such sales could occur may adversely affect the prevailing market price for our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company occupies office space in Greenwich, CT; Miami Beach, FL; San Francisco, CA; New York, NY; Atlanta, GA; Los Angeles, CA and Charlotte, NC. Our headquarters is located in Greenwich, CT in office space leased by our Manager. Refer to Schedule III included in Item 8 of this Annual Report on Form 10-K for a listing of investment properties owned as of December 31, 2016.

Item 3. 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 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information and Dividends

The Company's common stock has been listed on the NYSE and is traded under the symbol "STWD" since its IPO in August 2009. The table below sets forth the quarterly high and low prices for our common stock as reported by the NYSE, and dividends made by the Company to holders of the Company's common stock for each quarter for the years ended December 31, 2016 and 2015.

2016	High	Low	Dividend
First quarter	$ 20.95	$ 16.69	$ 0.48
Second quarter	$ 21.19	$ 18.27	$ 0.48
Third quarter	$ 23.46	$ 20.25	$ 0.48
Fourth quarter	$ 22.92	$ 21.11	$ 0.48
2015	**High**	**Low**	**Dividend**

First quarter	$ 24.79	$ 23.12	$ 0.48
Second quarter	$ 24.70	$ 21.54	$ 0.48
Third quarter	$ 22.74	$ 20.01	$ 0.48
Fourth quarter	$ 21.44	$ 19.30	$ 0.48

On February 23, 2017, our board of directors declared a dividend of $0.48 per share for the first quarter of 2017, which is payable on April 14, 2017 to common stockholders of record as of March 31, 2017.

On February 16, 2017, the closing price of our common stock, as reported by the NYSE, was $22.93 per share.

We intend to make regular quarterly distributions to holders of our common stock and distribution equivalents to holders of restricted stock units which are settled in shares of 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 generally intend over time to pay quarterly distributions in an amount equal to our taxable income.

Holders

As of February 16, 2017, there were 190 holders of record of the Company's 259,278,525 shares of common stock outstanding. One of the holders of record is Cede & Co., which holds shares as nominee for The Depository Trust Company which itself holds shares on behalf of other beneficial owners of our common stock.

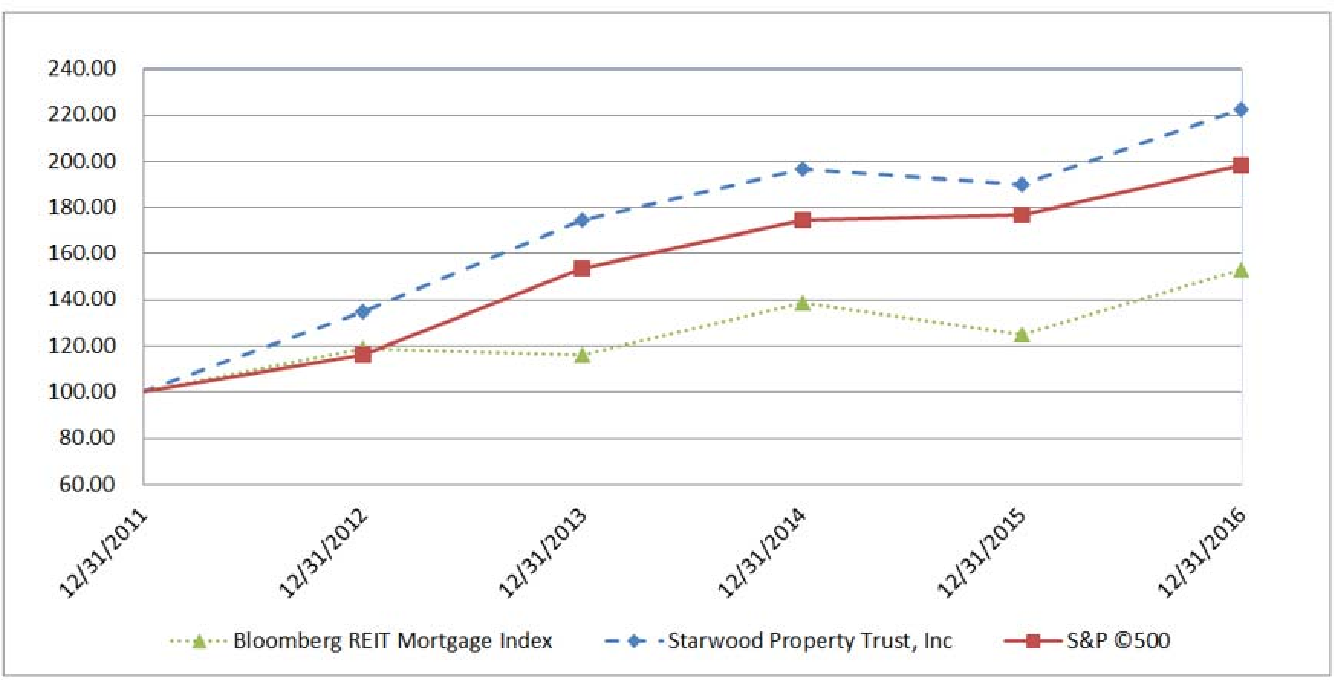
Securities Authorized for Issuance Under Equity Compensation Plans

The information required by this item is set forth under Item 12 of this Annual Report on Form 10-K and is incorporated herein by reference.

Stock Performance Graph

CUMULATIVE TOTAL RETURN

Based upon initial investment of $100 on December 31, 2011(1)



	Starwood Property Trust	S&P © 500	Bloomberg REIT Mortgage Index
12/31/2011	$ 100.00	$ 100.00	$ 100.00
12/31/2012	$ 134.80	$ 116.00	$ 119.18
12/31/2013	$ 174.35	$ 153.57	$ 116.38
12/31/2014	$ 196.85	$ 174.60	$ 138.99
12/31/2015	$ 190.12	$ 177.01	$ 125.24
12/31/2016	$ 222.27	$ 198.18	$ 153.14

(1) Dividend reinvestment is assumed.

Sales of Unregistered Equity Securities

There were no unregistered sales of equity securities during the year ended December 31, 2016.

Issuer Purchases of Equity Securities

There were no purchases of common stock during the three months ended December 31, 2016.

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Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our Consolidated Financial Statements, including the notes thereto, included elsewhere herein. All amounts are in thousands, except per share data.

	For the year ended December 31,				
	2016	2015	2014	2013	2012
Operating Data:					
Revenues (1)	$ 784,667	$ 735,877	$ 702,875	$ 549,495	$ 307,294
Costs and expenses	650,399	536,279	484,009	373,166	121,761
Other income (2)	241,727	269,791	307,319	177,653	21,025
Income tax provision	(8,344)	(17,206)	(24,096)	(23,858)	(871)
Income from continuing operations	367,651	452,183	502,089	330,124	205,687
Loss from discontinued operations, net of tax	—	—	(1,551)	(19,794)	(2,005)
Net income	367,651	452,183	500,538	310,330	203,682
Net income attributable to Starwood Property Trust, Inc.	365,186	450,697	495,021	305,030	201,195
Basic earnings per share:					
Continuing operations	$ 1.52	$ 1.92	$ 2.29	$ 1.94	$ 1.77
Net income	$ 1.52	$ 1.92	$ 2.28	$ 1.82	$ 1.76
Diluted earnings per share:					
Continuing operations	$ 1.50	$ 1.91	$ 2.25	$ 1.94	$ 1.77
Net income	$ 1.50	$ 1.91	$ 2.24	$ 1.82	$ 1.76
Dividends declared per share of common stock (3)	$ 1.92	$ 1.92	$ 1.92	$ 1.82	$ 1.86

Weighted-average basic shares of common stock outstanding	238,529	233,419	214,945	166,356	113,721
Balance Sheet Data:					
Investments in loans	$ 5,946,274	$ 6,263,517	$ 6,300,285	$ 4,750,804	$ 3,000,335
Investments in securities (4)	807,618	724,947	998,248	935,107	884,254
Investments in properties	1,944,720	919,225	39,854	749,214	99,115
Total assets (5)	77,256,266	85,698,354 (6)	116,070,557 (6)	110,746,408 (6)	4,316,573 (6)
Total financing arrangements	6,200,670	5,392,494 (6)	4,656,512 (6)	3,412,482 (6)	1,385,905 (6)
Total liabilities (5)	72,696,193	81,527,411 (6)	112,187,645 (6)	106,419,275 (6)	1,519,368 (6)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,522,274	4,140,316	3,860,856	4,282,528	2,719,346
Total Equity	$ 4,560,073	$ 4,170,943	$ 3,882,912	$ 4,327,133	$ 2,797,205

(1) During the years ended December 31, 2016, 2015, 2014 and 2013, servicing fees and interest income of $180.5 million, $230.8 million, $159.3 million and $92.7 million, respectively, are eliminated in consolidation pursuant to ASC 810.

(2) During the years ended December 31, 2016, 2015, 2014 and 2013, other income includes $181.2 million, $232.0 million, $162.0 million and $93.6 million, respectively, of additive net eliminations in consolidation pursuant to ASC 810.

(3) On January 31, 2014, we completed the spin-off of our SFR segment and our stockholders received one common share of SWAY for every five shares of our common stock held at the close of business on January 24, 2014, effectively a non-cash dividend of $5.77 per share. On the date of the spin-off, the book value of SWAY's assets was estimated to be $1.1 billion.

(4) December 31, 2016, 2015, 2014 and 2013 balances exclude $959.0 million, $825.2 million, $519.8 million and $409.3 million, respectively, of CMBS that are eliminated in consolidation pursuant to ASC 810.

(5) December 31, 2016 balances include $67.1 billion of VIE assets and $66.1 billion of VIE liabilities consolidated pursuant to ASC 810. December 31, 2015 balances include $76.7 billion of VIE assets and $75.8 billion of VIE liabilities consolidated pursuant to ASC 810. December 31, 2014 balances include $107.8 billion of VIE assets and $107.2 billion of VIE liabilities consolidated pursuant to ASC 810. December 31, 2013 balances include $103.1 billion of VIE assets and $102.6 billion of VIE liabilities consolidated pursuant to ASC 810.

(6) Reflects amounts reclassified in accordance with ASU 2015-03 as discussed in Note 2 to the Consolidated Financial Statements. Deferred financing costs of $39.7 million, $28.8 million, $24.2 million and $7.8 million were reclassified from other assets to a direct deduction from the carrying value of the related debt as of December 31, 2015, 2014, 2013 and 2012, respectively.

Item 7. 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" of the Company should be read in conjunction with Item 6, "Selected Financial Data," and our accompanying Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K (this "Form 10-K"). Certain statements we make under this Item 7 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements" preceding Part I of this Form 10-K. You should consider our forward-looking statements in light of our Consolidated Financial Statements and other financial information appearing elsewhere in this Form 10-K and our other filings with the SEC.

Business Objectives and Outlook

Our objective is to provide attractive risk-adjusted returns to our investors over the long-term, primarily through dividends and secondarily through capital appreciation. We intend to achieve our objective by originating and acquiring target assets to create a diversified investment portfolio that is financed in a manner that is designed to deliver attractive returns across a variety of market conditions and economic cycles. We are focused on our three core competencies: transaction access, asset analysis and selection, and identification of attractive relative values within the real estate debt and equity markets.

Since our IPO in August 2009, we have evolved from a company focused on opportunistic acquisitions of real estate debt assets from distressed sellers to that of a full-service real estate finance platform that is primarily focused on the origination and acquisition of commercial real estate debt and equity investments across the capital structure, in both the U.S. and Europe. With the Starwood brand, market presence, and lending/asset management platform that we have developed, we are focused primarily on the following opportunities:

(1) Continue to expand our market presence as a leading provider of acquisition, refinance, development and expansion capital to large real estate projects (greater than $75 million) in infill locations, and other attractive market niches where our size and scale give us an advantage to provide a "one-stop" lending solution for real estate developers, owners and operators;
(2) Continue to expand our investment activities in subordinate CMBS and revenues from special servicing;
(3) Continue to expand our capabilities in syndication and securitization, which serve as a source of attractively priced, matched-term financing;
(4) Continue to leverage our Investing and Servicing Segment's sourcing and credit underwriting capabilities to expand our overall footprint in the commercial real estate debt markets; and
(5) Expand our investment activities in both (i) targeted real estate equity investments and (ii) residential mortgage finance.

There can be no assurance that we will continue to find appropriate investment opportunities.

Recent Developments

Developments During the Fourth Quarter of 2016

Medical Office Portfolio Acquisition

On December 29, 2016, we acquired 34 medical office buildings for a purchase price of $758.8 million (the "Medical Office Portfolio"). These properties, which collectively comprise 1.9 million square feet, are geographically dispersed throughout the U.S. and primarily affiliated with major hospitals or located on or adjacent to a major hospital campus. The portfolio is 94% occupied and primarily net leased to investment-grade health systems and major physician-owned medical groups with a weighted average remaining lease term of 6.8 years.

Other Developments

- The Lending Segment originated or acquired the following loans during the quarter:
  - $380.0 million first mortgage and mezzanine loan for the refinancing and expansion of a real estate portfolio comprised of five office properties, five retail properties, a hotel property and a parking facility all located in New York, New York, which was fully funded upon acquisition.
  - $195.0 million first mortgage and mezzanine loan for the refinancing of a 41-floor office tower located in Atlanta, Georgia, of which the Company funded $175.0 million. The $164.8 million first mortgage was subsequently sold during the quarter.
  - £142.5 million first mortgage loan for the acquisition of 88 parking facilities located throughout the United Kingdom, which was fully funded upon origination.
  - $120.0 million first mortgage and mezzanine loan for the refinancing of a 1.3 million square foot office tower located in Dallas, Texas, of which the Company funded $98.0 million.
  - $116.0 million first mortgage and mezzanine loan for the refinancing of a 29-floor office tower located in Chicago, Illinois, of which the Company funded $98.9 million.
  - $115.0 million first mortgage and mezzanine loan for the acquisition and renovation of a luxury resort located in Kapalua, Hawaii, which was fully funded upon origination.
- Funded $146.0 million of previously originated loan commitments.
- Received proceeds of $623.8 million from maturities, sales and principal repayments on loans held-for-investment.
- Added conduit loans of $473.2 million and received proceeds of $760.9 million from sales of conduit loans.
- Purchased $41.1 million and $0.8 million of CMBS and RMBS, respectively, including $40.8 million of new issue B-pieces.
- Named special servicer on three new issue CMBS deals with a total unpaid principal balance of $2.7 billion at issuance; in the case of two of these CMBS deals, we retained the related B-piece.
- Acquired commercial real estate from CMBS trusts for a gross purchase price of $41.4 million.
- Issued $700.0 million of 5.00% Senior Notes due 2021 (the "2021 Notes").

- Issued 20,470,000 shares of common stock in a public offering with a share price of $21.93 for gross proceeds of $448.8 million.
- Repurchased $19.4 million par value of our 3.75% Convertible Senior Notes due 2017 (the "2017 Notes") for $19.9 million, recognizing a loss on extinguishment of debt of $0.6 million.

Developments During 2016

- Acquired 34 properties comprising our Medical Office Portfolio as discussed above in our "Developments During the Fourth Quarter of 2016."
- Acquired the final 14 of the 32 affordable housing communities which comprise our "Woodstar Portfolio." These 14 properties include 3,710 units, total assets of $276.3 million and assumed liabilities of $170.4 million, which include federal, state and county sponsored financing and other assumed debt.
- The Lending Segment originated or acquired the following loans or CMBS during the year:
  - $380.0 million first mortgage and mezzanine loan for the refinancing and expansion of a real estate portfolio comprised of five office properties, five retail properties, a hotel property and a parking facility all located in New York, New York, which was fully funded upon acquisition.
  - $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 $41.7 million.
  - $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 $212.5 million.
  - €165.4 million investment in a first mortgage loan and a 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.
  - $195.0 million first mortgage and mezzanine loan for the refinancing of a 41-floor office tower located in Atlanta, Georgia, of which the Company funded $175.0 million. The $164.8 million first mortgage was subsequently sold.
  - $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 $155.7 million.
  - $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 $82.6 million.
- Funded $515.4 million of previously originated loan commitments.
- Received proceeds of $3.0 billion from maturities, sales and principal repayments on loans held-for-investment.
- Added conduit loans of $1.7 billion and received proceeds of $1.9 billion from sales of conduit loans.
- Purchased $187.9 million and $98.0 million of CMBS and RMBS, respectively, including $105.0 million of new issue B-pieces.

- Named special servicer on eight new issue CMBS deals with a total unpaid principal balance of $6.3 billion at issuance; in the case of seven of these CMBS deals, we retained the related B-piece.
- Acquired commercial real estate from CMBS trusts for a gross purchase price of $128.6 million.
- Issued $700.0 million of the 2021 Notes.
- Issued 20,470,000 shares of common stock in a public offering with a share price of $21.93 for gross proceeds of $448.8 million.
- Repurchased 1,052,889 shares of common stock at a total cost of $19.7 million.
- Repurchased $19.4 million par value of our 2017 Notes for $19.9 million, recognizing a loss on extinguishment of debt of $0.6 million.

Subsequent Events

Refer to Note 25 to the Consolidated Financial Statements for disclosure regarding significant transactions that occurred subsequent to December 31, 2016.

Results of Operations

The discussion below is based on GAAP and therefore reflects the elimination of certain key financial statement line items related to the consolidation of securitization VIEs, particularly within revenues and other income, as discussed in Note 2 to the Consolidated Financial Statements. For a discussion of our results of operations excluding the impact of ASC 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 years ended December 31, 2016, 2015 and 2014 by business segment (amounts in thousands):

	For the Year Ended December 31,			$ Change	$ Change
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Revenues:					
Lending Segment	$ 497,735	$ 529,449	$ 489,767	$ (31,714)	$ 39,682
Investing and Servicing Segment	352,836	411,806	372,393	(58,970)	39,413
Property Segment	114,599	25,445	—	89,154	25,445
Investing and Servicing VIEs	(180,503)	(230,823)	(159,285)	50,320	(71,538)
	784,667	**735,877**	**702,875**	**48,790**	**33,002**
Costs and expenses:					
Lending Segment	113,770	106,331	93,665	7,439	12,666
Investing and Servicing Segment	173,576	157,055	177,291	16,521	(20,236)
Property Segment	131,365	36,199	—	95,166	36,199
Corporate	231,249	235,749	212,160	(4,500)	23,589
Investing and Servicing VIEs	439	945	893	(506)	52
	650,399	**536,279**	**484,009**	**114,120**	**52,270**
Other income (loss):					
Lending Segment	9,164	2,901	22,180	6,263	(19,279)
Investing and Servicing Segment	4,149	24,043	120,985	(19,894)	(96,942)
Property Segment	51,763	16,711	2,176	35,052	14,535
Corporate	(4,505)	(5,904)	—	1,399	(5,904)
Investing and Servicing VIEs	181,156	232,040	161,978	(50,884)	70,062
	241,727	**269,791**	**307,319**	**(28,064)**	**(37,528)**
Income (loss) from continuing operations before income taxes:					
Lending Segment	393,129	426,019	418,282	(32,890)	7,737
Investing and Servicing Segment	183,409	278,794	316,087	(95,385)	(37,293)
Property Segment	34,997	5,957	2,176	29,040	3,781
Corporate	(235,754)	(241,653)	(212,160)	5,899	(29,493)
Investing and Servicing VIEs	214	272	1,800	(58)	(1,528)
	375,995	**469,389**	**526,185**	**(93,394)**	**(56,796)**

Income tax provision	(8,344)	(17,206)	(24,096)	8,862	6,890
Loss from discontinued operations, net of tax	—	—	(1,551)	—	1,551
Net income attributable to non-controlling interests	(2,465)	(1,486)	(5,517)	(979)	4,031
Net income attributable to Starwood Property Trust, Inc.	**$ 365,186**	**$ 450,697**	**$ 495,021**	**$ (85,511)**	**$ (44,324)**

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Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Lending Segment

Revenues

For the year ended December 31, 2016, revenues of our Lending Segment decreased $31.7 million to $497.7 million, compared to $529.4 million for the year ended December 31, 2015. This decrease was primarily due to (i) a $20.8 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, the absence of $5.4 million of income realized upon the collection of an RMBS in 2015 and the absence of a $5.3 million CMBS prepayment fee recognized in 2015 and (ii) a $10.9 million decrease in interest income from loans principally due to a gradual decline of interest rate spreads and lower average loan balances during 2016, the effects of which were partially offset by higher loan fee income from increased levels of loan prepayments in 2016.

Costs and Expenses

For the year ended December 31, 2016, costs and expenses of our Lending Segment increased $7.4 million to $113.7 million, compared to $106.3 million for the year ended December 31, 2015. This increase was primarily due to a $6.3 million increase in interest expense associated with the various secured financing facilities used to fund a portion of our investment portfolio and a $3.8 million increase in our loan loss allowance, partially offset by a $3.2 million decrease in G&A expenses primarily due to lower compensation costs.

Net Interest Income (amounts in thousands)

	For the Year Ended December 31,		
	2016	2015	Change
Interest income from loans	$ 449,470	$ 460,365	$ (10,895)
Interest income from investment securities	47,241	68,059	(20,818)
Interest expense	(88,000)	(81,676)	(6,324)
Net interest income	**$ 408,711**	**$ 446,748**	**$ (38,037)**

For the year ended December 31, 2016, net interest income of our Lending Segment decreased $38.0 million to $408.7 million, compared to $446.7 million for the year ended December 31, 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 year ended December 31, 2016, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 7.5% and 9.6%, respectively, excluding the impact of bridge financing. During the year ended December 31, 2015, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 8.0% and 10.4%, respectively, excluding the impact of bridge financing. The slight decrease in the weighted average unlevered yields is primarily due to a gradual decline of interest rate spreads over the last twelve months. The decrease in the weighted average levered yields is primarily due to a gradual decline of interest rate spreads over the last twelve months and our utilization of excess cash to pay down outstanding debt.

During the year ended December 31, 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 2.9%, respectively, excluding the impact of bridge financing. The increases in the Lending Segment's weighted average secured borrowing rates are primarily due to increases in LIBOR.

Other Income

For the year ended December 31, 2016, other income of our Lending Segment increased $6.3 million to $9.2 million, compared to $2.9 million for the year ended December 31, 2015. The increase was primarily due to a $10.8 million increase in derivative gains, partially offset by a $3.9 million decrease in net gains from other investments. The $10.8 million increase in derivative gains reflects a $6.8 million increased gain on foreign currency hedges and a $4.0

million decreased loss on interest rate swaps. The foreign currency hedges are used to fix the U.S. dollar amounts of cash flows (both interest and principal payments) we expect to receive from our foreign currency denominated loans and CMBS investments. The gains on those hedges reflect the overall strengthening of the U.S. dollar. The interest rate swaps are used primarily to fix our interest rate payments on certain variable rate borrowings which fund fixed rate investments.

Investing and Servicing Segment and VIEs

Revenues

For the year ended December 31, 2016, revenues of our Investing and Servicing Segment decreased $8.7 million to $172.3 million after consolidated VIE eliminations of $180.5 million, compared to $181.0 million after consolidated VIE eliminations of $230.8 million for the year ended December 31, 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 was primarily due to decreases of $28.5 million in servicing fees, $5.4 million in other fee income and $2.0 million in interest income from CMBS investments, partially offset by an increase of $27.0 million in rental income on our expanded REO Portfolio (see Note 3 to the Consolidated Financial Statements). The $2.0 million decrease in CMBS interest income reflects a $7.7 million decrease in VIE eliminations related to the CMBS trusts we consolidate. Excluding the effect of these eliminations, CMBS interest income decreased by $9.7 million, primarily reflecting a lower level of CMBS interest recoveries.

Costs and Expenses

For the year ended December 31, 2016, costs and expenses of our Investing and Servicing Segment increased $16.0 million to $174.0 million, compared to $158.0 million for the year ended December 31, 2015, inclusive of VIE eliminations, which were nominal for both periods. The increase in costs and expenses was primarily due to increases of $11.5 million in costs of rental operations and $5.1 million in interest expense on secured financings for CMBS and the REO Portfolio.

Other Income

For the year ended December 31, 2016, other income of our Investing and Servicing Segment decreased $70.8 million to $185.3 million including additive net VIE eliminations of $181.2 million, from $256.1 million including additive net VIE eliminations of $232.0 million for the year ended December 31, 2015. The decrease in other income was primarily due to (i) a decrease of $33.9 million in the change in value of net assets related to consolidated VIEs, (ii) a $34.5 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, (iii) the absence of a $17.8 million gain on sale of a commercial real estate asset realized in 2015 and (iv) a $4.3 million unfavorable change in fair value of CMBS securities, all partially offset by (v) a $9.9 million greater increase in fair value of loans held-for-sale and (vi) a $9.9 million lower loss on derivatives which principally hedge our interest rate risk on those loans. The change in net assets related to consolidated VIEs reflects amounts associated with the Investing and Servicing Segment's variable interests in CMBS trusts it consolidates, including special servicing fees, interest income, and changes in fair value of CMBS and servicing rights. As noted above, this number is merely a function of the number of CMBS trusts consolidated in any given period, and as such, is not a meaningful indicator of the operating results for this segment. Before VIE eliminations, there were decreases in fair value of CMBS securities of $44.1 million and $10.0 million in the years ended December 31, 2016 and 2015, respectively.

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 year ended December 31, 2016, as well as the overall effective tax rate, is lower than for the year ended December 31, 2015 primarily due to a decrease in the taxable income of our TRSs.

Property Segment

Revenues

For the year ended December 31, 2016, revenues of our Property Segment increased $89.2 million to $114.6 million, compared to $25.4 million for the year ended December 31, 2015. The increase in revenues was primarily due to increases in rental income of $76.2 million from our Woodstar Portfolio, which we acquired after September 30, 2015, and $12.5 million from our Ireland Portfolio, both of which are described in Note 3 to the Consolidated Financial Statements.

Costs and Expenses

For the year ended December 31, 2016, costs and expenses of our Property Segment increased $95.2 million to $131.4 million, compared to $36.2 million for the year ended December 31, 2015. The increase in costs and expenses was primarily due to increases of $35.6 million in depreciation and amortization, $42.0 million in other rental related costs and $16.4 million in interest expense primarily on the secured financing for the Woodstar and Ireland Portfolios.

Other Income

For the year ended December 31, 2016, other income of our Property Segment increased $35.1 million to $51.8 million, compared to $16.7 million for the year ended December 31, 2015. The increase in other income was primarily due to (i) a $28.4 million increase in derivative gains primarily relating to interest rate swaps entered into in anticipation of debt financing for the recently-acquired Medical Office Portfolio (described in Note 3 to the Consolidated Financial Statements) and (ii) 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.

Corporate

Costs and Expenses

For the year ended December 31, 2016, corporate expenses decreased $4.5 million to $231.2 million, compared to $235.7 million for the year ended December 31, 2015. The decrease was primarily due to an $8.2 million decrease in management fees partially offset by a $3.7 million increase in other corporate expenses, including acquisition and investment pursuit costs.

Other Loss

For the year ended December 31, 2016, corporate other loss decreased $1.4 million to $4.5 million, compared to $5.9 million for the year ended December 31, 2015. The decrease was due to a $4.3 million increase in other income, including reimbursements received in 2016 related to a partnership guarantee arrangement, partially offset by a $2.9 million increase in loss on extinguishment of debt.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Lending Segment

Revenues

For the year ended December 31, 2015, revenues of our Lending Segment increased $39.6 million to $529.4 million, compared to $489.8 million for the year ended December 31, 2014. This increase was primarily due to an increase in interest income from loans resulting from higher average loan balances during 2015 and higher loan fee income driven by increased levels of loan prepayments during 2015.

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Costs and Expenses

For the year ended December 31, 2015, costs and expenses of our Lending Segment increased $12.6 million to $106.3 million, compared to $93.7 million for the year ended December 31, 2014. The increase was primarily due to a $15.8 million increase in interest expense associated with the various secured financing facilities used to fund the growth of our investment portfolio, partially offset by a decrease of $2.0 million in our loan loss allowance. The outstanding balance under the Lending Segment's secured financing facilities increased $67.9 million between December 31, 2014 and 2015.

Net Interest Income (amounts in thousands)

	For the Year ended December 31,		
	2015	**2014**	**Change**
Interest income from loans	$ 460,365	$ 420,683	$ 39,682
Interest income from investment securities	68,059	68,348	(289)
Interest expense	(81,676)	(65,913)	(15,763)
Net interest income	**$ 446,748**	**$ 423,118**	**$ 23,630**

For the year ended December 31, 2015, net interest income of our Lending Segment increased $23.6 million to $446.7 million compared to $423.1 million for the year ended December 31, 2014. The increase primarily reflects higher average loan balances during 2015 and higher loan fee income driven by increased levels of loan prepayments during 2015.

During the year ended December 31, 2015, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 8.0% and 10.4%, respectively, excluding the impact of bridge financing. During the year ended December 31, 2014, the weighted average unlevered and levered yields on the Lending Segment's loans and investment securities were 8.2% and 10.2%, respectively, excluding the impact of bridge financing. The slight decrease in the weighted average unlevered yields is primarily due to a gradual decline of interest rate spreads during 2015.

During the years ended December 31, 2015 and 2014, the Lending Segment's weighted average secured borrowing rates, inclusive of interest rate hedging costs and the amortization of deferred financing fees, were 3.5% and 3.7%, respectively. This decrease in borrowing rates reflects lower interest rate spreads on both our new and amended debt facilities during 2015.

Other Income

For the year ended December 31, 2015, other income of our Lending Segment decreased $19.3 million to $2.9 million, from $22.2 million for the year ended December 31, 2014. The decrease was primarily due to an $8.0 million decrease in gain on sale of investments due to higher sales activity, particularly of RMBS, in 2014, a $7.8 million increase in foreign currency loss and a $3.4 million decrease in equity in earnings of unconsolidated entities.

Investing and Servicing Segment and VIEs

Revenues

For the year ended December 31, 2015, revenues of our Investing and Servicing Segment decreased $32.1 million to $181.0 million after consolidated VIE eliminations of $230.8 million, compared to $213.1 million after consolidated VIE eliminations of $159.3 million for the year ended December 31, 2014. The VIE eliminations are merely a function of the number of CMBS trusts consolidated in any given period, and as such, are not a meaningful indicator of the operating results for this segment. The decrease in revenues was due to decreases of $18.6 million in servicing fees and $18.1 million in interest income from CMBS investments, all partially offset by increases of $3.6 million in interest income from loans and $1.0 million in rental and other revenues. The $18.1 million decrease in CMBS interest income is after a $64.6 million increase in VIE eliminations related to the CMBS trusts we consolidate. Excluding the effect of these eliminations, CMBS interest income increased by $46.5 million.

Costs and Expenses

For the year ended December 31, 2015, costs and expenses of our Investing and Servicing Segment decreased $20.2 million to $158.0 million, compared to $178.2 million for the year ended December 31, 2014. The VIE eliminations were nominal for both periods. The decrease in costs and expenses was primarily due to (i) lower incentive and other compensation and (ii) accruals for contingencies and legal fees incurred in 2014 which did not recur in 2015, partially offset by a $5.6 million increase in interest expense related to higher balances under our conduit loan, CMBS and mortgage financing facilities.

Other Income

For the year ended December 31, 2015, other income of our Investing and Servicing Segment decreased $26.9 million to $256.1 million, including additive net VIE eliminations of $232.0 million, from $283.0 million, including additive net VIE eliminations of $162.0 million for the year ended December 31, 2014. The decrease in other income was primarily due to lesser increases of $27.0 million in the value of net assets related to consolidated VIEs, $11.4 million in the fair value of CMBS securities and $6.1 million in the fair value of loans held-for-sale, all partially offset by a $17.8 million gain on sale of a commercial real estate asset. The change in net assets related to consolidated VIEs reflects amounts associated with the Investing and Servicing Segment’s variable interests in CMBS trusts it consolidates, including special servicing fees, interest income, and changes in fair value of CMBS and servicing rights. As noted above, this number is merely a function of the number of CMBS trusts consolidated in any given period, and as such, is not a meaningful indicator of the operating results for this segment. Before VIE eliminations, there was a decrease in fair value of CMBS securities of $10.0 million in the year ended December 31, 2015 and an increase in fair value of $97.7 million in the year ended December 31, 2014.

Income Tax Provision

Most of our consolidated income tax provision relates to the taxable nature of the Investing and Servicing Segment’s loan servicing and loan conduit businesses, which are housed in TRSs. Our tax provision for the year ended December 31, 2015, as well as the overall effective tax rate, is lower than for the year ended December 31, 2014 primarily due to a decrease in the taxable income of our TRSs.

Property Segment

During the year ended December 31, 2014, there was no activity in the Property Segment except for equity in earnings of the Retail Fund which we acquired in the 2014 fourth quarter. Therefore, a comparison of results of this segment for the year ended December 31, 2014 to the year ended December 31, 2015 is not meaningful.

Revenues

For the year ended December 31, 2015, revenues of our Property Segment of $25.4 million consisted of rental income of $19.2 million relating to our Ireland Portfolio and $6.2 million relating to our Woodstar Portfolio.

Costs and Expenses

For the year ended December 31, 2015, costs and expenses of our Property Segment of $36.2 million consisted of $9.0 million of acquisition and investment pursuit costs, of which $3.4 million and $3.2 million relate to the acquisitions of the Ireland Portfolio and Woodstar Portfolio, respectively, and $27.2 million of other rental related costs, including $15.0 million of depreciation and amortization and $5.6 million of interest expense on our secured financing for the Ireland Portfolio and the Woodstar Portfolio.

Other Income

For the year ended December 31, 2015, other income of our Property Segment of $16.7 million consisted primarily of $10.1 million of equity in earnings from the Retail Fund and a $7.0 million gain on foreign currency contracts that economically hedge our Euro currency exposure with respect to the Ireland Portfolio, partially offset by a $1.9 million loss on interest rate derivatives related to the debt financing for the Ireland Portfolio. For the year ended December 31, 2014, other income of $2.2 million consisted solely of equity in earnings from the Retail Fund.

Corporate

For the year ended December 31, 2015, corporate expenses increased $23.5 million to $235.7 million, compared to $212.2 million for the year ended December 31, 2014. The increase was primarily due to a $14.5 million increase in interest expense related to our October 2014 issuance of the 2017 Notes and an $8.1 million increase in management fees. The increase in management fees reflects the impacts of (i) higher levels of invested capital which resulted in an increased base management fee and (ii) higher levels of Core Earnings (see “Non-GAAP Financial Measures” section below) which resulted in an increased incentive fee. Corporate other loss of $5.9 million for the year ended December 31, 2015 represents a loss on the repurchase of $118.6 million principal amount of our 4.00% Convertible Senior Notes due 2019 (the “2019 Notes”).

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) acquisition costs associated with successful acquisitions (effective July 1, 2015); and

(v) 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 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 Year Ended December 31,		
	2016	2015	2014
Diluted weighted average shares - GAAP	241,794	234,142	218,781
Add: Unvested stock awards	1,469	2,132	2,650
Less: Conversion spread value	(2,697)	(97)	(3,432)
Diluted weighted average shares - Core	240,566	236,177	217,999

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 year ended December 31, 2016.

The following table summarizes our quarterly Core Earnings per weighted average diluted share for the years ended December 31, 2016, 2015 and 2014:

	Core Earnings For the Three-Month Periods Ended			
	March 31	June 30	September 30	December 31
2016	$ 0.50	$ 0.50	$ 0.59	$ 0.50
2015	0.55	0.53	0.56	0.55
2014	0.61	0.52	0.55	0.50

Annual Core Earnings per weighted average diluted share may not equal the sum of each quarter's Core Earnings per weighted average diluted share due to rounding and other computational factors.

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2016, by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Total
Revenues	$ 497,735	$ 352,836	$ 114,599	$ —	$ 965,170
Costs and expenses	(113,770)	(173,576)	(131,365)	(231,249)	(649,960)
Other (loss) income	9,164	4,149	51,763	(4,505)	60,571
Income (loss) before income taxes	393,129	183,409	34,997	(235,754)	375,781
Income tax benefit (provision)	1,610	(9,954)	—	—	(8,344)
Income attributable to non-controlling interests	(1,398)	(853)	—	—	(2,251)
Net income (loss) attributable to Starwood Property Trust, Inc.	**393,341**	**172,602**	**34,997**	**(235,754)**	**365,186**
Add / (Deduct):					
Non-cash equity compensation expense	2,829	7,370	111	22,705	33,015
Management incentive fee	—	—	—	32,842	32,842
Acquisition and investment pursuit costs	—	1,421	7,755	356	9,532
Depreciation and amortization	—	12,768	50,862	—	63,630
Loan loss allowance, net	3,759	—	—	—	3,759
Interest income adjustment for securities	(1,016)	19,376	—	—	18,360

Bargain purchase gains	—	(8,822)	(8,406)	—	(17,228)
Other non-cash items	—	45	(3,109)	—	(3,064)
Reversal of unrealized (gains) / losses on:					
Loans held-for-sale	—	(74,251)	—	—	(74,251)
Securities	(20)	44,094	—	—	44,074
Derivatives	(44,151)	2,526	(33,497)	—	(75,122)
Foreign currency	37,595	(3,661)	38	(5)	33,967
Earnings from unconsolidated entities	(3,447)	(8,937)	(9,736)	—	(22,120)
Recognition of realized gains / (losses) on:					
Loans held-for-sale	—	74,192	—	—	74,192
Securities	—	(2,288)	—	—	(2,288)
Derivatives	33,384	(2,013)	186	—	31,557
Foreign currency	(32,803)	3,352	(38)	5	(29,484)
Earnings from unconsolidated entities	4,051	4,673	7,245	—	15,969
Core Earnings (Loss)	$ **393,522**	$ **242,447**	$ **46,408**	$ **(179,851)**	$ **502,526**
Core Earnings (Loss) per Weighted Average Diluted Share	$ **1.64**	$ **1.01**	$ **0.19**	$ **(0.75)**	$ **2.09**

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2015, by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Total
Revenues	$ 529,449	$ 411,806	$ 25,445	$ —	$ 966,700
Costs and expenses	(106,331)	(157,055)	(36,199)	(235,749)	(535,334)
Other income (loss)	2,901	24,043	16,711	(5,904)	37,751
Income (loss) before income taxes	426,019	278,794	5,957	(241,653)	469,117
Income tax provision	(242)	(16,964)	—	—	(17,206)
(Income) loss attributable to non-controlling interests	(1,389)	175	—	—	(1,214)
Net income (loss) attributable to Starwood Property Trust, Inc.	**424,388**	**262,005**	**5,957**	**(241,653)**	**450,697**
Add / (Deduct):					
Non-cash equity compensation expense	2,314	3,465	—	26,984	32,763
Management incentive fee	—	—	—	37,717	37,717
Acquisition and investment pursuit costs	—	1,020	2,918	—	3,938
Depreciation and amortization	—	3,837	14,861	—	18,698
Loan loss allowance, net	(2)	—	—	—	(2)

Interest income adjustment for securities	(958)	(3,218)	—	—	(4,176)
Other non-cash items	—	(789)	(249)	—	(1,038)
Reversal of unrealized (gains) / losses on:					
Loans held-for-sale	—	(64,320)	—	—	(64,320)
Securities	(209)	9,952	—	—	9,743
Derivatives	(33,930)	10,441	(5,060)	—	(28,549)
Foreign currency	36,956	296	(31)	—	37,221
Earnings from unconsolidated entities	—	(13,042)	—	—	(13,042)
Recognition of realized gains / (losses) on:					
Loans held-for-sale	—	65,443	—	—	65,443
Securities	—	(22,064)	—	—	(22,064)
Derivatives	19,887	(12,929)	61	—	7,019
Foreign currency	(21,252)	(862)	31	—	(22,083)
Earnings from unconsolidated entities	—	9,787	—	—	9,787
Core Earnings (Loss)	**$ 427,194**	**$ 249,022**	**$ 18,488**	**$ (176,952)**	**$ 517,752**
Core Earnings (Loss) per Weighted Average Diluted Share	**$ 1.81**	**$ 1.05**	**$ 0.08**	**$ (0.75)**	**$ 2.19**

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2014, by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Single Family Residential	Total
Revenues	$ 489,767	$ 372,393	$ —	$ —	$ —	$ 862,160
Costs and expenses	(93,665)	(177,291)	—	(212,160)	—	(483,116)
Other income	22,180	120,985	2,176	—	—	145,341
Income (loss) from continuing operations before income taxes	418,282	316,087	2,176	(212,160)	—	524,385
Income tax provision	(1,476)	(22,620)	—	—	—	(24,096)
Loss from discontinued operations, net of tax	—	—	—	—	(1,551)	(1,551)
Income attributable to non-controlling interests	(3,717)	—	—	—	—	(3,717)
Net income (loss) attributable to Starwood Property Trust, Inc.	**413,089**	**293,467**	**2,176**	**(212,160)**	**(1,551)**	**495,021**
Add / (Deduct):						
Non-cash equity compensation expense	881	949	—	26,792	—	28,622
Management incentive fee	—	—	—	34,374	—	34,374
Change in Control Plan	—	1,279	—	—	—	1,279
Depreciation and amortization	—	2,107	—	—	1,540	3,647

Loan loss allowance, net	2,047	—	—	—	—	2,047
Interest income adjustment for securities	(1,136)	10,555	—	—	—	9,419
Other non-cash items	—	250	—	—	—	250
Reversal of unrealized (gains) / losses on:						
Loans held-for-sale	—	(70,420)	—	—	—	(70,420)
Securities	(12,238)	(97,723)	—	—	—	(109,961)
Derivatives	(31,678)	7,019	—	—	—	(24,659)
Foreign currency	29,139	803	—	—	—	29,942
Earnings from unconsolidated entities	—	(13,610)	—	—	—	(13,610)
Recognition of realized gains / (losses) on:						
Loans held-for-sale	—	66,814	—	—	—	66,814
Securities	10,992	12,103	—	—	—	23,095
Derivatives	(1,316)	(5,312)	—	—	—	(6,628)
Foreign currency	(1,540)	(803)	—	—	—	(2,343)
Earnings from unconsolidated entities	—	6,780	—	—	—	6,780
Core Earnings (Loss)	$ **408,240**	$ **214,258**	$ **2,176**	$ **(150,994)**	$ **(11)**	$ **473,669**
Core Earnings (Loss) per Weighted Average Diluted Share	$ **1.87**	$ **0.98**	$ **0.01**	$ **(0.69)**	$ —	$ **2.17**

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Lending Segment

The Lending Segment's Core Earnings decreased by $33.7 million, from $427.2 million during the year ended December 31, 2015 to $393.5 million during the year ended December 31, 2016. After making adjustments for the calculation of Core Earnings, revenues were $496.7 million, costs and expenses were $107.2 million and other income was $3.8 million.

Core revenues, consisting principally of interest income on loans, decreased by $31.8 million during 2016 primarily due to (i) a $20.9 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, the absence of $5.4

million of income realized upon the collection of an RMBS in 2015 and the absence of a $5.3 million CMBS prepayment fee recognized in 2015 and (ii) a $10.9 million decrease in interest income from loans principally due to a gradual decline of interest rate spreads and lower average loan balances during 2016, the effects of which were partially offset by higher loan fee income from increased levels of loan prepayments in 2016.

Core costs and expenses increased by $3.2 million, primarily due to a $6.3 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 $3.7 million decrease in G&A expenses reflecting lower compensation costs.

Core other income decreased by $0.5 million, principally due to an increased loss on foreign currency denominated assets and a decreased gain on sale of loan investments, partially offset by an increased gain on foreign currency derivatives. The nature and timing of investment sales will depend upon a variety of factors, including our current outlook and strategy with respect to an investment, other available investment opportunities, and market pricing. As a result, gains (or losses) from sales of our investments have fluctuated over time, and we would expect this variability to continue for the foreseeable future.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings decreased by $6.6 million, from $249.0 million during the year ended December 31, 2015 to $242.4 million during the year ended December 31, 2016. After making adjustments for the calculation of Core Earnings, revenues were $372.2 million, costs and expenses were $151.9 million, other income was $33.0 million and income taxes were $10.0 million.

Core revenues decreased by $36.5 million in 2016, primarily due to decreases of $70.8 million in servicing fees and $5.7 million in other fee income, partially offset by increases of $26.9 million in rental income on our expanded REO Portfolio and

$12.9 million in interest income from our CMBS portfolio. The treatment of CMBS interest income on a GAAP basis is complicated by our application of the ASC 810 consolidation rules. In an attempt to treat these securities similar to the trust's other investment securities, we compute core interest income pursuant to an effective yield methodology. In doing so, we segregate the portfolio into various categories based on the components of the bonds' cash flows and the volatility related to each of these components. We then accrete interest income on an effective yield basis using the components of cash flows that are reliably estimable. Other minor adjustments are made to reflect management's expectations for other components of the projected cash flow stream.

Core costs and expenses increased by $2.9 million, primarily due to increases of $11.5 million in costs of rental operations and $5.6 million in interest expense on secured financings for CMBS and the REO Portfolio, partially offset by a $7.6 million decrease in amortization of our former European servicing rights and a $5.9 million decrease in G&A expenses primarily reflecting lower compensation costs.

Core other income includes profit realized upon securitization of loans by our conduit business, gains on sales of CMBS, gains and losses on derivatives that were either effectively terminated or novated, and earnings from unconsolidated entities. These items are typically offset by a decrease in the fair value of our domestic servicing rights intangible which reflects the expected amortization of this deteriorating asset, net of increases in fair value due to the attainment of new servicing contracts. Derivatives include instruments which hedge interest rate risk and credit risk on our conduit loans. For GAAP purposes, the loans, CMBS and derivatives are accounted for at fair value, with all changes in fair value (realized or unrealized) recognized in earnings. The adjustments to Core Earnings outlined above are also applied to the GAAP earnings of our unconsolidated entities. Core other income increased by $26.8 million, primarily reflecting a $14.3 million increase in gains on sales of CMBS, a $12.9 million increased gain on settlement of derivatives which principally hedge our interest rate risk on our conduit loans and an $8.7 million increase in gains on sales of conduit loans, all partially offset by an $11.8 million decrease in gain on sale of investments and other assets primarily reflecting the absence of a significant gain on the sale of a commercial real estate asset in 2015.

Income taxes, which principally relate to the operating results of our servicing and conduit businesses which are held in TRSs, decreased $7.0 million due to a decrease in the taxable income of our TRSs.

Property Segment

The Property Segment's Core Earnings increased by $27.9 million, from $18.5 million during the year ended December 31, 2015 to $46.4 million during the year ended December 31, 2016. After making adjustments for the calculation of Core Earnings, revenues were $111.2 million, costs and expenses were $72.8 million and other income was $8.0 million.

Core revenues increased by $86.2 million in 2016 primarily due to an increase in rental income from the Woodstar and Ireland Portfolios.

Core costs and expenses increased by $54.6 million, primarily due to increases in rental related costs of $42.1 million, interest expense primarily on the secured financing for the Woodstar and Ireland Portfolios of $16.4 million and G&A expenses of $2.0 million, all partially offset by a $5.9 million decrease in acquisition and investment pursuit costs.

Core other income decreased by $3.7 million, primarily due to a decrease in equity in earnings from the Retail Fund.

Corporate

Core corporate costs and expenses increased by $2.9 million, from $177.0 million during the year ended December 31, 2015 to $179.9 million during the year ended December 31, 2016. This increase was primarily due to a $4.3 million increase in other corporate expenses, including acquisition and investment pursuit costs, and a $2.9 million increase in loss on extinguishment of debt, partially offset by a $4.3 million increase in other corporate income, including reimbursement received in 2016 related to a partnership guarantee arrangement.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Lending Segment

The Lending Segment's Core Earnings increased by $19.0 million, from $408.2 million during the year ended December 31, 2014 to $427.2 million during the year ended December 31, 2015. After making adjustments for the calculation of Core Earnings, revenues were $528.5 million, costs and expenses were $104.0 million and other income was $4.3 million.

Core revenues, consisting principally of interest income on loans, increased by $39.9 million in 2015 due to higher average loan balances during 2015 and higher loan fee income driven by increased levels of loan prepayments during 2015.

Core costs and expenses increased by $13.3 million, principally due to an increase in interest expense associated with the various facilities utilized to fund the growth of our investment portfolio. The outstanding balance of the Lending Segment's secured financing agreements increased by $67.9 million in 2015.

Core other income decreased by $11.2 million, principally due to gains on sales of RMBS during the 2014 period not recurring during the 2015 period. The nature and timing of investment sales will depend upon a variety of factors, including our current outlook and strategy with respect to an investment, other available investment opportunities, and market pricing. As a result, gains (or losses) from sales of our investments have fluctuated over time, and we would expect this variability to continue for the foreseeable future.

Investing and Servicing Segment

The Investing and Servicing Segment's Core Earnings increased by $34.7 million, from $214.3 million during the year ended December 31, 2014 to $249.0 million during the year ended December 31, 2015. After making adjustments for the calculation of Core Earnings, revenues were $408.7 million, costs and expenses were $149.0 million, other income was $6.2 million and income taxes were $17.0 million.

Core revenues increased by $25.8 million in 2015, primarily due to increases of $32.8 million in interest income from our CMBS portfolio and $3.6 million in interest income on our conduit loans partially offset by a decrease of $11.4 million in servicing fees. The treatment of CMBS interest income on a GAAP basis is complicated by our application of the ASC 810 consolidation rules. In an attempt to treat these securities similar to the trust's other investment securities, we compute core interest income pursuant to an effective yield methodology. In doing so, we segregate the portfolio into various categories based on the components of the bonds' cash flows and the volatility related to each of these components. We then accrete interest income on an effective yield basis using the components of cash flows that are reliably estimable. Other minor adjustments are made to reflect management's expectations for other components of the projected cash flow stream.

Core costs and expenses decreased by $23.6 million, primarily due to accruals for contingencies and legal fees incurred in the 2014 period, which did not recur in the 2015 period, and lower incentive and other compensation, all partially offset by an increase of $5.6 million in interest expense on our conduit loan, CMBS and mortgage financing facilities.

Core other income includes profit realized upon securitization of loans by our conduit business, gains on sales of CMBS, gains and losses on derivatives that were either effectively terminated or novated, and earnings from unconsolidated entities. These items are typically offset by a decrease in the fair value of our domestic servicing rights intangible which reflects the expected amortization of this deteriorating asset, net of increases in fair value due to the attainment of new servicing contracts. Derivatives include instruments which hedge interest rate risk and credit risk on our conduit loans. For GAAP purposes, the loans, CMBS and derivatives are accounted for at fair value, with all changes in fair value (realized or unrealized) recognized in earnings. The adjustments to Core Earnings outlined above are also applied to the GAAP earnings of our unconsolidated entities. Core other income decreased by $20.4 million, primarily due to lower gains on CMBS sales and increased losses on derivatives relating to our conduit loans, partially offset by a gain on sale of a commercial real estate asset.

Income taxes, which principally relate to the operating results of our servicing and conduit businesses which are held in TRSs, decreased $5.6 million due to a net decrease in the taxable income of our TRSs.

Property Segment

During the year ended December 31, 2014, there was only one quarter of activity in the Property Segment consisting of $2.2 million of Core Earnings from our investment in the Retail Fund. Therefore, a comparison of results of this segment for the year ended December 31, 2015 to the year ended December 31, 2014 is not meaningful.

The Property Segment contributed Core Earnings of $18.5 million during the year ended December 31, 2015. After making adjustments for the calculation of Core Earnings, revenues were $25.0 million, costs and expenses were $18.2 million and other income was $11.7 million.

Core revenues consisted of $25.0 million of rental income from the Ireland Portfolio and Woodstar Portfolio following their respective acquisitions during 2015.

Core costs and expenses of $18.2 million consisted of (i) acquisition and investment pursuit costs of $6.0 million, of which $3.4 million and $0.3 million related to the Ireland Portfolio and Woodstar Portfolio, respectively, (ii) $5.6 million of interest expense on secured financing for the Ireland Portfolio and Woodstar Portfolio and (iii) $6.6 million of other rental related costs.

Core other income of $11.7 million consisted primarily of equity in earnings of the Retail Fund.

Corporate

Core corporate costs and expenses increased by $26.0 million, from $151.0 million during the year ended December 31, 2014 to $177.0 million during the year ended December 31, 2015. This increase was primarily due to a

$14.5 million increase in interest expense primarily related to our October 2014 issuance of the 2017 Notes, a $5.9 million loss on extinguishment of a portion of our 2019 Notes and a $4.7 million increase in base management fees.

Single Family Residential Segment

As discussed in Note 3 of our Consolidated Financial Statements, our former SFR segment was spun off to our stockholders on January 31, 2014.

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 primary sources of liquidity are as follows:

Cash and Cash Equivalents

As of December 31, 2016, we had cash and cash equivalents of $615.5 million.

Cash Flows for the Year Ended December 31, 2016 (amounts in thousands)

	GAAP	VIE Adjustments	Excluding Investing and Servicing VIEs
Net cash provided by operating activities	**$ 556,630**	**$ (170)**	**$ 556,460**
Cash Flows from Investing Activities:			
Origination and purchase of loans held-for-investment	(2,815,333)	(44,800)	(2,860,133)
Proceeds from principal collections and sale of loans	3,047,931	—	3,047,931
Purchase of investment securities	(360,341)	(110,400)	(470,741)
Proceeds from sales and collections of investment securities	127,515	94,352	221,867
Real estate business combinations, net of cash acquired	(849,950)	(128,118)	(978,068)
Net cash flows from other investments and assets	46,850	(1,051)	45,799
Increase in restricted cash, net	(9,494)	—	(9,494)
Net cash used in investing activities	**(812,822)**	**(190,017)**	**(1,002,839)**
Cash Flows from Financing Activities:			
Proceeds from borrowings	6,024,032	—	6,024,032
Principal repayments on and repurchases of borrowings	(5,266,115)	—	(5,266,115)
Payment of deferred financing costs	(37,304)	—	(37,304)
Proceeds from common stock issuances, net of offering costs	448,512	—	448,512
Payment of dividends	(458,351)	—	(458,351)
Contributions from non-controlling interests	11,387	—	11,387
Distributions to non-controlling interests	(6,934)	—	(6,934)
Purchase of treasury stock	(19,723)	—	(19,723)
Issuance of debt of consolidated VIEs	35,728	(35,728)	—
Repayment of debt of consolidated VIEs	(283,038)	283,038	—
Distributions of cash from consolidated VIEs	57,293	(57,293)	—
Net cash provided by financing activities	**505,487**	**190,017**	**695,504**
Net increase in cash and cash equivalents	249,295	(170)	249,125
Cash and cash equivalents, beginning of year	368,815	(978)	367,837
Effect of exchange rate changes on cash	(2,588)	—	(2,588)
Cash and cash equivalents, end of year	$ 615,522	$ (1,148)	$ 614,374

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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) principal collections 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 Consolidated Financial Statements for further discussion.

Cash and cash equivalents increased by $249.1 million during the year ended December 31, 2016, reflecting net cash provided by operating activities of $556.5 million and net cash provided by financing activities of $695.5 million, partially offset by net cash used in investing activities of $1.0 billion.

Net cash provided by operating activities of $556.5 million for the year ended December 31, 2016 related primarily to cash interest income of $554.1 million from our loan origination and conduit programs, plus cash interest income on investment securities of $174.6 million. Servicing fees provided cash of $145.7 million, net rental income provided cash of $84.1 million and other income provided $26.0 million. Offsetting these revenues were cash interest expense of $185.1 million, general and administrative expenses of $109.8 million, management fees of $80.3 million, a net change in operating assets and liabilities of $29.6 million, acquisition and investment pursuit costs of $13.5 million and income tax payments of $9.7 million.

Net cash used in investing activities of $1.0 billion for the year ended December 31, 2016 related primarily to the origination and acquisition of new loans held-for-investment of $2.9 billion, the purchase of real estate property of $978.1 million and the purchase of investment securities of $470.7 million, partially offset by proceeds received from principal collections and sales of loans of $3.0 billion and investment securities of $221.9 million

Net cash provided by financing activities of $695.5 million for the year ended December 31, 2016 related primarily to net borrowings after repayments of our secured and unsecured debt of $757.9 million and net proceeds from common stock offerings of $448.5 million, partially offset by dividend distributions of $458.3 million, payment of deferred financing costs of $37.3 million and share repurchases of $19.7 million.

Financing Arrangements

We utilize a variety of financing arrangements to finance certain assets. We generally utilize three types of financing arrangements:

1) *Repurchase Agreements:* Repurchase agreements effectively allow us to borrow against loans and securities that we own. Under these agreements, we sell our loans and securities to a counterparty and agree to repurchase the same loans and securities from the counterparty at a price equal to the original sales price plus interest. The counterparty retains the sole discretion over both whether to purchase the loan and security from us and, subject to certain conditions, the market value of such loan or security for purposes of determining whether we are required to pay margin to the counterparty. Generally, if the lender determines (subject to certain conditions) that the market value of the collateral in a repurchase transaction has decreased by more than a defined minimum amount, we would be required to repay any amounts borrowed in excess of the product of (i) the revised market value multiplied by (ii) the applicable advance rate. During the term of a repurchase agreement, we receive the principal and interest on the related loans and securities and pay interest to the counterparty. As of December 31, 2016, we have various repurchase agreements, with details referenced in the table provided below.
2) *Bank Credit Facilities:* We use bank credit facilities (including term loans and revolving facilities) to finance our assets. These financings may be collateralized or non-collateralized and may involve one or more lenders. Credit facilities typically have maturities ranging from two to five years and may accrue interest at either fixed or floating rates. The lender retains the sole discretion, subject to certain conditions, over the market value of such note for purposes of determining whether we are required to pay margin to the lender.

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3) *Loan Sales, Syndications and Securitizations:* We seek non-recourse long-term financing from loan sales, syndications and/or securitizations of our investments in mortgage loans. The sales, syndications or securitizations generally involve a senior portion of our loan, but may involve the entire loan. Loan sales and syndications generally involve the sale of a senior note component or participation interest to a third party lender. Securitization generally involves transferring notes to a special purpose vehicle (or the issuing entity), which then issues one or more classes of non-recourse notes pursuant to the terms of an indenture. The notes are secured by the pool of assets. In exchange for the transfer of assets to the issuing entity, we receive cash proceeds from the sale of non-recourse notes. Sales,

syndications or securitizations of our portfolio investments might magnify our exposure to losses on those portfolio investments because the retained subordinate interest in any particular overall loan would be subordinate to the loan components sold and we would, therefore, absorb all losses sustained with respect to the overall loan before the owners of the senior notes experience any losses with respect to the loan in question.

4) *Secured Property Financings:* We use long-term mortgage facilities from commercial lenders and government sponsors of affordable housing loans to finance many of the investment properties that we hold. These facilities accrue interest at either fixed or floating rates. We typically hedge our exposure to floating interest rate changes on these facilities through the use of interest rate swap and cap derivatives.

The following table is a summary of our secured financing facilities as of December 31, 2016 (dollars in thousands):

	Current Maturity	Extended Maturity (a)	Pricing	Pledged Asset Carrying Value	Maximum Facility Size	Outstanding Balance	Approved but Undrawn Capacity (b)	Unallocated Financing Amount (c)
Lender 1 Repo 1	(d)	(d)	LIBOR + 1.75% to 5.75%	$ 1,645,064	$ 2,000,000 (e)	$ 944,712	$ 298,349	$ 756,939
Lender 2 Repo 1	Oct 2017	Oct 2020	LIBOR + 1.75% to 2.75%	387,528	500,000	132,941	150,848	216,211
Lender 3 Repo 1	May 2017	May 2019	LIBOR + 2.50% to 2.85%	110,401	78,288	78,288	—	—
Lender 4 Repo 2	Dec 2018	Dec 2020	LIBOR + 2.00% to 2.50%	484,072	1,000,000 (f)	166,394	191,192	642,414
Lender 6 Repo 1	Aug 2019	N/A	LIBOR + 2.50% to 2.75%	376,953	500,000	182,586	77,938	239,476
Lender 6 Repo 2	Nov 2019	Nov 2020	GBP LIBOR + 2.75%	173,621	121,509	121,509	—	—
Lender 9 Repo 1	Dec 2017	Dec 2018	LIBOR + 1.65%	378,152	283,575	283,575	—	—
Lender 7 Secured Financing	Jul 2018	Jul 2019	LIBOR + 2.75% (g)	86,650	650,000 (h)	—	—	650,000
Lender 8 Secured Financing	Aug 2019	N/A	LIBOR + 4.00%	66,243	75,000	43,555	—	31,445
Conduit Repo 2	Nov 2017	N/A	LIBOR + 2.25%	20,035	150,000	14,944	—	135,056
Conduit Repo 3	Feb 2018	Feb 2019	LIBOR + 2.10%	—	150,000	—	—	150,000
Conduit Repo 4	Oct 2017	Oct 2020	LIBOR + 2.25%	—	100,000	—	—	100,000
MBS Repo 1	(i)	(i)	LIBOR + 1.90%	31,840	21,052	21,052	—	—
MBS Repo 2	Jun 2020	N/A	LIBOR/EURIBOR + 2.00% to 2.95%	329,667	239,434	239,434	—	—
MBS Repo 3	(j)	(j)	LIBOR + 1.37% to 2.00%	411,173	285,209	285,209	—	—
MBS Repo 4	(k)	N/A	LIBOR + 1.20% to 1.90%	188,670	225,000	5,633	104,708	114,659
Investing and Servicing Segment Property Mortgages	Feb 2018 to Jun 2026	N/A	Various	218,156	168,811	164,611	—	4,200
Ireland Portfolio Mortgage	May 2020	N/A	EURIBOR + 1.69%	450,158	309,246	309,246	—	—
Woodstar Portfolio Mortgages	Nov 2025 to Oct 2026	N/A	3.72% to 3.97%	376,653	276,748	276,748	—	—
Woodstar Portfolio Government Financing	Mar 2026 to Jun 2049	N/A	1.00% to 5.00%	314,441	135,584	135,584	—	—
Medical Office Portfolio Mortgages	Dec 2021	Dec 2023	LIBOR + 2.50% (l)	767,540	524,499	491,197	—	33,302
Term Loan A	Dec 2020	Dec 2021	LIBOR + 2.25% (g)	1,095,189	300,000	300,000	—	—
Revolving Secured Financing	Dec 2020	Dec 2021	LIBOR + 2.25% (g)	—	100,000	—	—	100,000
				$ 7,912,206	$ 8,193,955	4,197,218	$ 823,035	$ 3,173,702
Unamortized premium, net						2,640		
Unamortized deferred financing costs						(45,732)		
						$ 4,154,126		

(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 September 2018 before extension options and September 2021 assuming exercise of 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 September 2025.

(e) The initial maximum facility size of $1.8 billion may be increased to $2.0 billion at our option, subject to certain conditions.

(f) The initial maximum facility size of $600.0 million may be increased to $1.0 billion at our option, subject to certain conditions.
(g) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement.
(h) The initial maximum facility size of $450.0 million may be increased to $650.0 million at our option, subject to certain conditions.
(i) 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 December 31, 2016.
(j) Facility carries a rolling 12 month term which may reset monthly with the lender's consent. Current maturity is December 2017. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of December 31, 2016.
(k) The date that is 270 days after the buyer delivers notice to seller, subject to a maximum date of May 2018.
(l) Subject to a 25 basis point floor.

Refer to Note 10 of our Consolidated Financial Statements for a detailed discussion of new secured credit facilities and amendments to existing credit facilities entered into during the year ended December 31, 2016.

Variance between Average and Quarter-End Credit Facility Borrowings Outstanding

The following tables compare 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 Balance	Weighted-Average Balance During Quarter	Variance	Explanations for Significant Variances
March 31, 2016	$ 4,516,008	$ 4,227,953	$ 288,055	(a)
June 30, 2016	4,507,395	4,298,538	208,857	(b)
September 30, 2016	4,161,287	4,323,361	(162,074)	(c)
December 31, 2016	4,197,218	4,073,485	123,733	(d)

(a) 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 MBS Repo 3 facility in March 2016.
(b) Variance primarily due to the following: (i) $137.7 million drawn on the MBS Repo 2 facility in June 2016; and (ii) $85.0 million drawn on the MBS Repo 4 facility in June 2016.
(c) Variance primarily due to the following: (i) $130.3 million pay down on the Conduit Repo 3 facility in September 2016; and (ii) $71.3 million pay down on the Lender 4 Repo 2 facility in September 2016.
(d) Variance primarily due to the following: (i) $491.2 million drawn on Medical Office Portfolio Mortgages in December 2016; (ii) $300.0 million drawn on the Term Loan A facility in December 2016; and (iii) $283.6 million drawn on the Lender 9 Repo 1 facility in December 2016; partially offset by (iv) $653.2 million pay down of the former Term Loan B facility in December 2016.

Quarter Ended	Quarter-End Balance	Weighted-Average Balance During Quarter	Variance	Explanations for Significant Variances
March 31, 2015	$ 3,711,834	$ 3,455,082	$ 256,752	(a)
June 30, 2015	3,579,503	3,509,209	70,294	(b)
September 30, 2015	3,682,274	3,581,082	101,192	(c)
December 31, 2015	4,019,035	3,809,666	209,369	(d)

(a) Variance primarily due to the following: (i) $131.7 million drawn on the MBS Repo 3 facility in March 2015; (ii) $67.7 million drawn on the Lender 1 Repo 1 facility in March 2015; and (iii) $63.1 million drawn on Lender 2 Repo 1 facility in March 2015.

(b) Variance primarily due to the following: (i) $245.6 million drawn on the Ireland Portfolio Mortgage in May 2015; partially offset by (ii) $82.0 million repaid on the Lender 7 Secured Financing facility in May 2015.
(c) Variance primarily due to the following: (i) $83.0 million drawn on Ireland Portfolio Mortgage in July 2015; and (ii) $40.6 million draw on the former Conduit Repo 1 in September 2015.
(d) 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.

Borrowings under Unsecured Senior Notes

During both the years ended December 31, 2016 and 2015, the weighted average effective borrowing rate on our unsecured senior notes was 5.7%. These effective borrowing rates include the effects of underwriter purchase discount and the adjustment for the conversion option on the convertible notes, the initial value of which reduced the balance of the notes.

Refer to Note 11 of our Consolidated Financial Statements for further disclosure regarding the issuances and terms of our unsecured senior notes.

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 December 31, 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
First Quarter 2017	$ 220,312	$ 54,906	$ (74,534)	$ 200,684
Second Quarter 2017	268,477	27,270	(18,775)	276,972
Third Quarter 2017	306,879	35,803	(149,112)	193,570
Fourth Quarter 2017	1,006,461	92,198	(850,944)	247,715
Total	$ 1,802,129	$ 210,177	$ (1,093,365)	$ 918,941

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 December 31, 2016, we had 100,000,000 shares of preferred stock available for issuance and 240,713,079 shares of common stock available for issuance.

Refer to Note 17 of our Consolidated Financial Statements for a discussion of our issuances of equity securities during the year ended December 31, 2016.

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 $500.0 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 year ended December 31, 2016, we repurchased $19.4 million aggregate principal amount of our 2017 Notes for $19.9 million. During the year ended December 31, 2016, we also repurchased $19.7 million of common stock under the repurchase program. As of December 31, 2016, we had $262.2 million of remaining capacity to repurchase common stock and/or convertible senior notes under the repurchase program. Refer to Note 25 of our Consolidated Financial Statements for a discussion of subsequent events associated with our repurchase program.

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 15 of our 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 Note 17 of our Consolidated Financial Statements for a detailed dividend history.

The tax treatment for our aggregate distributions per share of common stock paid with respect to the 2016 tax year is as follows:

Record Date	Payable Date	Per Share Dividend Paid	Ordinary Taxable Dividends	Taxable Qualified Dividends	Capital Gain Distribution	Unrecaptured 1250 Gain	Nondividend Distributions
12/31/2015	1/15/2016	$ 0.3294	$ 0.3117	$ 0.0268	$ 0.0177	$ —	$ —
3/31/2016	4/15/2016	0.4800	0.4543	0.0390	0.0257	—	—
6/30/2016	7/15/2016	0.4800	0.4543	0.0390	0.0257	—	—
9/30/2016	10/17/2016	0.4800	0.4543	0.0390	0.0257	—	—
12/30/2016	1/13/2017	0.0938	0.0888	0.0078	0.0050	—	—
		$ 1.8632	$ 1.7634	$ 0.1516	$ 0.0998	$ —	$ —

To the extent that total dividends for the 2016 tax year exceeded 2016 taxable income, the portion of the fourth quarter dividend paid in January of 2017 that is equal to such excess is treated as a 2017 dividend for federal tax purposes.

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Leverage Policies

We employ leverage, to the extent available, to fund the acquisition of our target assets, increase potential returns to our stockholders, or provide temporary liquidity. Leverage can be either direct by utilizing private third party financing, or indirect through originating, acquiring, or retaining subordinated mortgages, B-Notes, subordinated loan participations or mezzanine loans. Although the type of leverage we deploy is dependent on the underlying asset that is being financed, we intend, when possible, to utilize leverage whose maturity is equal to or greater than the maturity of the underlying asset and minimize to the greatest extent possible exposure to the Company of credit losses associated with any individual asset. In addition, we intend to mitigate the impact of potential future interest rate increases on our borrowings through utilization of hedging instruments, primarily interest rate swap agreements.

The amount of leverage we deploy for particular investments in our target assets depends upon our Manager's assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. and European economy and commercial and residential mortgage markets, our outlook for the level, slope, and volatility of interest rates, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve. Under our current repurchase agreements and bank credit facility, our total leverage may not exceed 75% of total assets (as defined), as adjusted to remove the impact of bona-fide loan sales that are accounted for as financings and the consolidation of VIEs pursuant to GAAP. As of December 31, 2016, our total debt to assets ratio was 55.8%.

Contractual Obligations and Commitments

Contractual obligations as of December 31, 2016 are as follows (amounts in thousands):

	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Secured financings (a)	$ 4,197,218	$ 681,480	$ 1,309,657	$ 1,159,361	$ 1,046,720
Unsecured senior notes	2,053,229	411,885	941,344	700,000	—
Secured borrowings on transferred loans (b)	35,000	35,000	—	—	—
Loan funding commitments (c)	1,124,310	759,987	354,696	9,627	—
Future lease commitments	33,180	6,433	12,404	8,192	6,151
Total	$ 7,442,937	$ 1,894,785	$ 2,618,101	$ 1,877,180	$ 1,052,871

(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 $235.1 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.

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

Our financial statements are prepared in accordance with GAAP, which requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We believe that all of the decisions and assessments upon which our financial statements are based were reasonable at the time made, based upon information available to us at that time. The following discussion describes the critical accounting estimates that apply to our operations and require complex management judgment. This summary should be read in conjunction with a more complete discussion of our accounting policies included in Note 2 of our Consolidated Financial Statements.

Loan Impairment

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.

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 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, 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 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.

Significant judgment is required when evaluating loans for impairment; therefore, actual results over time could be materially different. Historically, this segment has not had any realized losses on individual loans. However, we have established a general loan loss allowance based on our risk classification of the loans in our portfolio, as discussed in Note 5 of our Consolidated Financial Statements. The general loan loss allowance was $9.8 million as of December 31, 2016.

Classification and Impairment Evaluation of Investment Securities

Our investment securities consist primarily of RMBS that we classify as available-for-sale, CMBS and mandatorily redeemable preferred equity interests in commercial real estate entities which we expect to hold to maturity and CMBS for which we have elected the fair value option. Investments classified as available-for-sale are carried at their fair value. For securities where we have not elected the fair value option, changes in fair value are recorded through accumulated other comprehensive income, a component of stockholders' equity, rather than through earnings. We do not hold any of our investment securities for trading purposes.

When the estimated fair value of a security for which we have not elected to apply the fair value option is less than its amortized cost, we consider whether there is an other-than-temporary impairment ("OTTI") in the value of the security. An impairment is deemed an OTTI if (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovering our cost basis, or (iii) we do not expect to recover our cost basis even if we do not intend to sell the security or do not believe it is more likely than not that we will be required to sell the security before recovering our cost basis. If the impairment is deemed to be an OTTI, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) our intention to sell the security, or (ii) our judgment that it is more likely than not that we will be required to sell the security before recovering our cost basis, an impairment loss is recognized in earnings equal to the difference between our amortized cost basis and fair value.

Whereas, if the OTTI has resulted from our conclusion that we will not recover our cost basis even if we do not intend to sell the security or do not believe it is more likely than not that we will be required to sell the security before recovering our cost basis, only the credit loss portion of the impairment is recorded in earnings, and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in accumulated other comprehensive income. Determining whether there is an OTTI may require us to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. As a result, actual OTTI losses could differ from reported amounts. Such judgments and assumptions are based upon a number of factors, including (i) credit of the issuer or the borrowers, (ii) credit rating of the security, (iii) key terms of the security, (iv) performance of the loan or underlying loans, including debt service coverage and loan-to-value ratios, (v) the value of the collateral for the loan or underlying loans, (vi) the effect of local, industry, and broader economic factors, and (vii) the historical and anticipated trends in defaults and loss severities for similar securities. As of December 31, 2016, we held $253.9 million of available-for-sale RMBS which had gross unrealized gains of $45.1 million and $0.2 million of unrealized losses. We also had $510.0 million of held-to-maturity securities which had gross unrealized losses of $8.6 million and gross unrealized gains of $2.8 million as of December 31, 2016. There were no OTTI charges recognized during the years ended December 31, 2016 and 2015. We recognized OTTI charges against earnings with respect to our investment securities of $0.3 million during the year ended December 31, 2014.

Valuation of Financial Assets and Liabilities Carried at Fair Value

We measure our VIE assets and liabilities, 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. See Note 20 of our Consolidated Financial Statements for details regarding the various methods and inputs we use in measuring the fair value of our financial assets and liabilities. As of December 31, 2016, we had $67.6 billion and $66.1 billion of financial assets and liabilities, respectively, that are measured at fair value, including $67.1 billion of VIE assets and $66.1 billion of VIE liabilities we consolidate pursuant to ASC 810.

We measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. The VIEs in which we invest are "static"; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a collateralized debt obligation ("CDO"). This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. As a result, the methods and inputs we use in measuring the fair value of the assets and liabilities of our VIEs affect our earnings only to the extent of their impact on our direct investment in the VIEs.

Derivative Instruments and Hedging Activities

We record all derivatives on our consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on whether we have elected to designate a derivative in a hedging relationship and have satisfied the criteria necessary to apply hedge accounting under GAAP. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We regularly enter into derivative contracts that are intended to economically hedge certain of our risks, even though the transactions may not qualify for, or we may not elect to pursue, hedge accounting. In such cases, changes in the fair value of the derivatives are recorded in earnings. The designation of derivative contracts as hedges, the measurement of their effectiveness, and the estimate of the fair value of the contracts all may involve significant judgments by our

management, and changes to those judgments could significantly impact our reported results of operations. As of December 31, 2016, we had $89.4 million of derivative assets and $3.9 million of derivative liabilities. We recognized net gains on derivatives of $70.7 million, $21.6 million and $20.5 million for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, we had less than $0.1 million of net unrecognized losses on derivatives designated as hedges.

Goodwill Impairment

Our goodwill at December 31, 2016 of $140.4 million represents the excess of consideration transferred over the fair value of LNR's net assets acquired on April 19, 2013. In testing goodwill for impairment, we follow ASC 350, *Intangibles—Goodwill and Other*, which permits a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill. If the qualitative assessment determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill, then no impairment is determined to exist for the reporting unit. However, if the qualitative assessment determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value including goodwill, we compare the fair value of that reporting unit with its carrying value, including goodwill ("Step One"). If the carrying value of a reporting unit exceeds its fair value, goodwill is considered impaired with the impairment loss equal to the amount by which the carrying value of the goodwill exceeds the implied fair value of that goodwill.

Based on our qualitative assessment during the 2016 fourth quarter, we believe that the Investing and Servicing Segment reporting unit to which all of our goodwill was attributed is not currently at risk of failing Step One of the impairment test. This qualitative assessment required judgment to be applied in evaluating the effects of multiple factors, including actual and projected financial performance of the reporting unit, macroeconomic conditions, industry and market conditions, and relevant entity specific events in determining whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill.

Property Impairment

We review properties for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability is determined by comparing the carrying amount of the property to the undiscounted future net cash flows it is expected to generate. If such carrying amount exceeds the expected undiscounted future net cash flows, we adjust the carrying amount of the property to its estimated fair value. The estimation of future net cash flows and fair values of our properties involves significant judgments by our management, and changes to these judgments could significantly impact our reported results of operation. As of December 31, 2016 we held properties with a carrying value of $1.9 billion, none of which we determined were impaired at any point during the year ended December 31, 2016.

Impairment of Investments in Unconsolidated Entities

Investments in unconsolidated entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared. As of December 31, 2016, we held investments in unconsolidated entities with a carrying value of $204.6 million, none of which we determined were impaired at any point during the year ended December 31, 2016.

Recent Accounting Developments

Refer to Note 2 of our Consolidated Financial Statements for a discussion of recent accounting developments and the expected impact to the Company.

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Item 7A. 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.

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

	Face Value of Loans Held-for-Sale	Aggregate Notional Value of Credit Index Instruments	Number of Credit Index Instruments
December 31, 2016	$ 63,065	$ 14,000	4
December 31, 2015	$ 203,710	$ 40,000	11

Refer to Note 6 of our Consolidated Financial Statements for a discussion of weighted average ratings of our investment securities.

Capital Market Risk

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

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our investments and the related financing obligations. In general, we seek to match the interest rate characteristics of our investments with the interest rate characteristics of any related financing obligations such as repurchase agreements, bank credit facilities, term loans, revolving facilities and securitizations. In instances where the interest rate characteristics of an investment and the related financing obligation are not matched, we mitigate such interest rate risk through the utilization of interest rate 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 December 31, 2016 and 2015 (dollars in thousands):

	Face Value of Hedged Instruments	Aggregate Notional Value of Interest Rate Derivatives	Number of Interest Rate Derivatives
Instrument hedged as of December 31, 2016			
Loans held-for-investment	$ 8,000	$ 8,000	1
Loans held-for-sale	63,065	50,900	18
RMBS, available-for-sale	399,883	69,000	2
Secured financing agreements	1,011,067	1,003,064	18
	$ 1,482,015	$ 1,130,964	39
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):

Income (Expense) Subject to Interest Rate Sensitivity	Variable-rate investments and indebtedness	3.0% Increase	2.0% Increase	1.0% Increase	1.0% Decrease (1)
Investment income from variable-rate investments	$ 5,880,780	$ 199,434	$ 130,581	$ 63,184	$ (35,019)
Interest expense from variable-rate debt	(3,700,720)	(111,022)	(74,014)	(37,007)	27,329
Net investment income from variable rate instruments	$ 2,180,060	$ 88,412	$ 56,567	$ 26,177	$ (7,690)
Impact per diluted shares outstanding		$ 0.34	$ 0.22	$ 0.10	$ (0.03)

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

Prepayment Risk

Prepayment risk is the risk that principal will be repaid at a different rate than anticipated, causing the return on certain investments to be less than expected. As we receive prepayments of principal on our assets, any premiums paid on such assets are amortized against interest income. In general, an increase in prepayment rates accelerates the amortization of purchase premiums, thereby reducing the interest income earned on the assets. Conversely, discounts on such assets are accreted into interest income. In general, an increase in prepayment rates accelerates the accretion of purchase discounts, thereby increasing the interest income earned on the assets.

Extension Risk

Our Manager computes the projected weighted-average life of our assets based on assumptions regarding the rate at which the borrowers will prepay the mortgages or extend. If prepayment rates decrease in a rising interest rate

environment or extension options are exercised, the life of the fixed-rate assets could extend beyond the term of the secured debt agreements. This could have a negative impact on our results of operations. In some situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

Fair Value Risk

The estimated fair value of our investments fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of the fixed-rate investments would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of the fixed-rate investments would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our assets recorded and/or disclosed may be adversely impacted. Our economic exposure is generally limited to our net investment position as we seek to fund fixed rate investments with fixed rate financing or variable rate financing hedged with interest rate swaps.

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.

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 December 31, 2016 pound sterling ("GBP") closing rate of 1.2336, Euro ("EUR") closing rate of 1.0519, Swedish Krona ("SEK") closing rate of 0.1098, Norwegian Krone ("NOK") closing rate of 0.1158 and Danish Krone ("DKK") closing rate of 0.1416):

Carrying Value of Net Investment	Local Currency	Number of Foreign Exchange Contracts	Aggregate Notional Value of Hedges Applied	Expiration Range of Contracts
$ 86,384	GBP	24	$ 88,051	January 2017 – March 2017
118,704	GBP	24	131,953	January 2018
17,141	GBP	92	21,177	January 2017 – June 2019
26,351	EUR	8	33,896	March 2017 – December 2018
5,003	EUR, DKK, NOK, SEK	4	5,455	September 2017
17,683	EUR	8	22,613	February 2017 – November 2018
52,112	GBP	15	73,088	May 2017 – July 2020
1,552	GBP	2	2,103	June 2017 – March 2018
144,279	EUR	42 (1)	251,657	March 2017 – June 2020
12,177	GBP	6	12,262	January 2017 – January 2018

$ 481,386	225	$ 642,255

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

Real Estate Risk

The market values of commercial and residential mortgage assets are subject to volatility and may be affected adversely by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by industry slowdowns and other factors); local real estate conditions; changes or continued weakness in specific industry segments; construction quality, age and design; demographic factors; and retroactive changes to building or similar codes. In addition, decreases in property values reduce the value of the collateral and the potential proceeds available to a borrower to repay the underlying loans, which could also cause us to suffer losses.

Inflation Risk

Most of our assets and liabilities are interest rate sensitive in nature. As a result, interest rates and other factors influence our performance significantly more than inflation does. Changes in interest rates may correlate with inflation rates and/or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors consistent with our obligation to distribute to our stockholders at least 90% of our REIT taxable income on an annual basis in order to maintain our REIT qualification; in each case, our activities and balance sheet are measured with reference to historical cost and/or fair value without considering inflation.

Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements and Schedules

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All other schedules are omitted because they are not required or the required information is shown in the financial statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Starwood Property Trust, Inc.
Greenwich, Connecticut

We have audited the accompanying consolidated balance sheets of Starwood Property Trust, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Starwood Property Trust, Inc. and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Miami, Florida
February 23, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Starwood Property Trust, Inc.
Greenwich, Connecticut

We have audited the internal control over financial reporting of Starwood Property Trust, Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2016 of the Company and our report dated February 23, 2017 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Certified Public Accountants
Miami, Florida
February 23, 2017

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Starwood Property Trust, Inc. and Subsidiaries

Consolidated Balance Sheets
(Amounts in thousands, except share data)

	As of December 31,	
	2016	2015
Assets:		
Cash and cash equivalents	$ 615,522	$ 368,815
Restricted cash	35,233	23,069
Loans held-for-investment, net	5,847,995	5,973,079
Loans held-for-sale, at fair value	63,279	203,865
Loans transferred as secured borrowings	35,000	86,573
Investment securities ($297,638 and $403,703 held at fair value)	807,618	724,947
Properties, net	1,944,720	919,225
Intangible assets ($55,082 and $119,698 held at fair value)	219,248	201,570
Investment in unconsolidated entities	204,605	199,201
Goodwill	140,437	140,437
Derivative assets	89,361	45,091
Accrued interest receivable	28,224	34,314
Other assets	101,763	102,479
Variable interest entity ("VIE") assets, at fair value	67,123,261	76,675,689
Total Assets	**$ 77,256,266**	**$ 85,698,354**
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 198,134	$ 156,805
Related-party payable	37,818	40,955
Dividends payable	125,075	114,947
Derivative liabilities	3,904	5,196
Secured financing agreements, net	4,154,126	3,980,699
Unsecured senior notes, net	2,011,544	1,323,795
Secured borrowings on transferred loans	35,000	88,000
VIE liabilities, at fair value	66,130,592	75,817,014
Total Liabilities	**72,696,193**	**81,527,411**
Commitments and contingencies (Note 22)		
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, 263,893,806 issued and 259,286,921 outstanding as of December 31, 2016 and 241,044,775 issued and 237,490,779 outstanding as of December 31, 2015	2,639	2,410
Additional paid-in capital	4,691,180	4,192,844
Treasury stock (4,606,885 shares and 3,553,996 shares)	(92,104)	(72,381)
Accumulated other comprehensive income	36,138	29,729
Accumulated deficit	(115,579)	(12,286)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,522,274	4,140,316

Non-controlling interests in consolidated subsidiaries	37,799	30,627
Total Equity	**4,560,073**	**4,170,943**
Total Liabilities and Equity	$ **77,256,266**	$ **85,698,354**

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Operations
(Amounts in thousands, except per share data)

	For the Year Ended December 31,		
	2016	**2015**	**2014**
Revenues:			
Interest income from loans	$ 467,195	$ 477,931	$ 434,662
Interest income from investment securities	70,848	93,665	112,016
Servicing fees	88,956	117,068	135,565
Rental income	152,760	36,622	9,831
Other revenues	4,908	10,591	10,801
Total revenues	**784,667**	**735,877**	**702,875**
Costs and expenses:			
Management fees	117,451	124,733	117,732
Interest expense	230,799	202,550	161,104
General and administrative	152,941	154,628	169,661
Acquisition and investment pursuit costs	13,462	13,429	3,681
Costs of rental operations	65,101	11,542	5,938
Depreciation and amortization	66,786	29,010	16,627
Loan loss allowance, net	3,759	(2)	2,047
Other expense	100	389	7,219
Total costs and expenses	**650,399**	**536,279**	**484,009**
Income before other income, income taxes and non-controlling interests	**134,268**	**199,598**	**218,866**
Other income:			
Change in net assets related to consolidated VIEs	151,593	185,490	212,506
Change in fair value of servicing rights	(47,149)	(12,605)	(16,787)
Change in fair value of investment securities, net	(1,401)	3,084	15,077
Change in fair value of mortgage loans held-for-sale, net	74,251	64,320	70,420
Earnings from unconsolidated entities	21,723	26,674	19,932
Gain on sale of investments and other assets, net	1,942	22,664	12,886
Gain on derivative financial instruments, net	70,734	21,598	20,451
Foreign currency loss, net	(33,967)	(37,221)	(29,942)

Total other-than-temporary impairment ("OTTI")	(782)	(12)	(1,788)
Noncredit portion of OTTI recognized in other comprehensive income	54	12	732
Net impairment losses recognized in earnings	(728)	—	(1,056)
Loss on extinguishment of debt	(8,781)	(5,921)	—
Other income, net	13,510	1,708	3,832
Total other income	**241,727**	**269,791**	**307,319**
Income from continuing operations before income taxes	**375,995**	**469,389**	**526,185**
Income tax provision	(8,344)	(17,206)	(24,096)
Income from continuing operations	**367,651**	**452,183**	**502,089**
Loss from discontinued operations, net of tax (Note 3)	—	—	(1,551)
Net income	**367,651**	**452,183**	**500,538**
Net income attributable to non-controlling interests	(2,465)	(1,486)	(5,517)
Net income attributable to Starwood Property Trust, Inc.	**$ 365,186**	**$ 450,697**	**$ 495,021**
Earnings per share data attributable to Starwood Property Trust, Inc.:			
Basic:			
Income from continuing operations	$ 1.52	$ 1.92	$ 2.29
Loss from discontinued operations	—	—	(0.01)
Net income	$ 1.52	$ 1.92	$ 2.28
Diluted:			
Income from continuing operations	$ 1.50	$ 1.91	$ 2.25
Loss from discontinued operations	—	—	(0.01)
Net income	$ 1.50	$ 1.91	$ 2.24

See notes to consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
(Amounts in thousands)

	For the Year Ended December 31,		
	2016	2015	2014
Net income	**$ 367,651**	**$ 452,183**	**$ 500,538**
Other comprehensive income (loss) (net change by component):			
Cash flow hedges	39	32	507
Available-for-sale securities	7,622	(22,883)	(6,376)
Foreign currency remeasurement	(1,252)	(3,316)	(13,684)
Other comprehensive gain (loss)	6,409	(26,167)	(19,553)
Comprehensive income	**374,060**	**426,016**	**480,985**

Less: Comprehensive income attributable to non-controlling interests	(2,465)	(1,486)	(5,517)
Comprehensive income attributable to Starwood Property Trust, Inc.	**$ 371,595**	**$ 424,530**	**$ 475,468**

See notes to consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Equity
(Amounts in thousands, except share data)