

STARWOOD PROPERTY TRUST, INC.

Form 10-Q

November 05, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2014**

**OR**

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

**Commission file number 001-34436**

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**Starwood Property Trust, Inc.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

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

**06830**  
(Zip Code)

Registrant's telephone number, including area code:

**(203) 422-8100**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(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 Exchange Act). Yes  No

The number of shares of the issuer's common stock, \$0.01 par value, outstanding as of October 31, 2014 was 222,402,882.

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**Special Note Regarding Forward-Looking Statements**

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

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

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2013, this Quarterly Report on Form 10-Q and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014, 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;
- availability of mortgage origination and acquisition opportunities acceptable to us;
- our ability to fully integrate LNR Property LLC, a Delaware limited liability company ( LNR ), which was acquired on April 19, 2013, into our business and achieve the benefits that we anticipate from this acquisition;
- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;
- national and local economic and business conditions;

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

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

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Starwood Property Trust, Inc. and Subsidiaries****Condensed Consolidated Balance Sheets**

(Unaudited, amounts in thousands, except share data)

|  | As of<br>September 30, 2014 | As of<br>December 31, 2013 |
|--|-----------------------------|----------------------------|
| <b>Assets:</b>   |                             |                            |
| Cash and cash equivalents  | \$ 327,322                  | \$ 317,627                 |
| Restricted cash  | 45,725                      | 69,052                     |
| Loans held-for-investment, net   | 5,198,927                   | 4,363,718                  |
| Loans held-for-sale, at fair value   | 248,165                     | 206,672                    |
| Loans transferred as secured borrowings  | 142,516                     | 180,414                    |
| Investment securities (\$522,835 and \$566,789 held at fair value)                                 | 894,302                     | 935,107                    |
| Intangible assets - servicing rights (\$130,420 and \$150,149 held at fair value)                  | 145,790                     | 177,173                    |
| Residential real estate, net   |                             | 749,214                    |
| Non-performing residential loans   |                             | 215,371                    |
| Investment in unconsolidated entities  | 110,569                     | 122,954                    |
| Goodwill   | 140,437                     | 140,437                    |
| Derivative assets  | 13,354                      | 7,769                      |
| Accrued interest receivable  | 35,065                      | 37,630                     |
| Other assets   | 123,472                     | 95,813                     |
| Variable interest entity ( VIE ) assets, at fair value   | 109,468,293                 | 103,151,624                |
| <b>Total Assets</b>  | <b>\$ 116,893,937</b>       | <b>\$ 110,770,575</b>      |
| <b>Liabilities and Equity</b>  |                             |                            |
| <b>Liabilities:</b>  |                             |                            |
| Accounts payable, accrued expenses and other liabilities   | \$ 154,058                  | \$ 225,374                 |
| Related-party payable  | 24,866                      | 17,793                     |
| Dividends payable  | 108,056                     | 90,171                     |
| Derivative liabilities   | 5,462                       | 24,192                     |
| Secured financing agreements, net  | 2,708,108                   | 2,257,560                  |
| Convertible senior notes, net  | 1,006,927                   | 997,851                    |
| Secured borrowings on transferred loans  | 142,575                     | 181,238                    |
| VIE liabilities, at fair value   | 108,879,922                 | 102,649,263                |
| <b>Total Liabilities</b>   | <b>113,029,974</b>          | <b>106,443,442</b>         |
| Commitments and contingencies (Note 20)  |                             |                            |
| <b>Equity:</b>   |                             |                            |
| <b>Starwood Property Trust, Inc. Stockholders Equity:</b>  |                             |                            |
| Preferred stock, \$0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding |                             |                            |
|  | 2,236                       | 1,961                      |

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|   |           |                    |                       |
|---|-----------|--------------------|-----------------------|
| Common stock, \$0.01 per share, 500,000,000 shares authorized, 223,602,551 issued and 222,388,801 outstanding as of September 30, 2014 and 196,139,045 issued and 195,513,195 outstanding as of December 31, 2013 |           |                    |                       |
| Additional paid-in capital  |           | 3,793,428          | 4,300,479             |
| Treasury stock (1,213,750 shares and 625,850 shares)  |           | (23,635)           | (10,642)              |
| Accumulated other comprehensive income  |           | 69,681             | 75,449                |
| Retained earnings (accumulated deficit)   |           | 7,302              | (84,719)              |
| Total Starwood Property Trust, Inc. Stockholders' Equity  |           | 3,849,012          | 4,282,528             |
| Non-controlling interests in consolidated subsidiaries  |           | 14,951             | 44,605                |
| <b>Total Equity</b>   |           | <b>3,863,963</b>   | <b>4,327,133</b>      |
| <b>Total Liabilities and Equity</b>   | <b>\$</b> | <b>116,893,937</b> | <b>\$ 110,770,575</b> |

See notes to condensed consolidated financial statements.

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## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Operations

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

|   | For the Three Months Ended<br>September 30, |                  | For the Nine Months Ended<br>September 30, |                   |
|---|---|------------------|--|-------------------|
|   | 2014  | 2013             | 2014                                       | 2013              |
| <b>Revenues:</b>  |   |                  |  |                   |
| Interest income from loans  | \$ 110,669                                  | \$ 94,045        | \$ 321,034                                 | \$ 236,671        |
| Interest income from investment securities                                    | 28,640                                      | 17,804           | 85,714                                     | 52,621            |
| Servicing fees  | 34,641                                      | 36,509           | 101,533                                    | 75,644            |
| Other revenues  | 7,418                                       | 2,034            | 15,816                                     | 3,908             |
| <b>Total revenues</b>   | <b>181,368</b>                              | <b>150,392</b>   | <b>524,097</b>                             | <b>368,844</b>    |
| <b>Costs and expenses:</b>  |   |                  |  |                   |
| Management fees   | 24,943                                      | 20,925           | 77,849                                     | 52,140            |
| Interest expense  | 39,739                                      | 34,017           | 115,265                                    | 74,091            |
| General and administrative  | 47,640                                      | 47,474           | 136,835                                    | 95,847            |
| Business combination costs  |   | 342              |  | 17,958            |
| Acquisition and investment pursuit costs                                      | 759   | 1,393            | 1,924                                      | 2,390             |
| Depreciation and amortization   | 3,017                                       | 3,435            | 12,807                                     | 5,663             |
| Loan loss allowance, net  | 1,575                                       | 1,160            | 1,933                                      | 1,915             |
| Other expense   | 2,701                                       | 513              | 10,416                                     | 742               |
| <b>Total costs and expenses</b>   | <b>120,374</b>                              | <b>109,259</b>   | <b>357,029</b>                             | <b>250,746</b>    |
| <b>Income before other income, income taxes and non-controlling interests</b> | <b>60,994</b>                               | <b>41,133</b>    | <b>167,068</b>                             | <b>118,098</b>    |
| <b>Other income:</b>  |   |                  |  |                   |
| Income of consolidated VIEs, net  | 87,778                                      | 47,963           | 190,810                                    | 79,912            |
| Change in fair value of servicing rights                                      | (7,897)                                     | (1,867)          | (18,671)                                   | 1,031             |
| Change in fair value of investment securities, net                            | 1,860                                       | (2,278)          | 15,180                                     | (3,265)           |
| Change in fair value of mortgage loans held-for-sale, net                     | 15,517                                      | 25,857           | 48,018                                     | 26,315            |
| Earnings from unconsolidated entities   | 3,805                                       | 2,222            | 13,432                                     | 6,733             |
| Gain on sale of investments, net  | 1,332                                       | 6,184            | 12,965                                     | 19,690            |
| Gain (loss) on derivative financial instruments, net                          | 29,275                                      | (22,451)         | 11,619                                     | (65)              |
| Foreign currency (loss) gain, net   | (21,466)                                    | 9,580            | (16,212)                                   | 3,495             |
| Total other-than-temporary impairment ( OTTI )                                | (264)                                       | (86)             | (2,256)                                    | (1,460)           |
| Noncredit portion of OTTI recognized in other comprehensive income            | 264   | 34               | 1,246                                      | 1,007             |
| Net impairment losses recognized in earnings                                  |   | (52)             | (1,010)                                    | (453)             |
| Other income, net   | 28  | 374              | 738  | 413               |
| <b>Total other income</b>   | <b>110,232</b>                              | <b>65,532</b>    | <b>256,869</b>                             | <b>133,806</b>    |
| <b>Income from continuing operations before income taxes</b>                  | <b>171,226</b>                              | <b>106,665</b>   | <b>423,937</b>                             | <b>251,904</b>    |
| Income tax provision  | (3,836)                                     | (13,721)         | (13,733)                                   | (25,679)          |
| <b>Income from continuing operations</b>                                      | <b>167,390</b>                              | <b>92,944</b>    | <b>410,204</b>                             | <b>226,225</b>    |
| Loss from discontinued operations, net of tax (Note 3)                        |   | (3,698)          | (1,551)                                    | (12,044)          |
| <b>Net income</b>   | <b>167,390</b>                              | <b>89,246</b>    | <b>408,653</b>                             | <b>214,181</b>    |
| Net income attributable to non-controlling interests                          | (2,346)                                     | (1,886)          | (5,140)                                    | (4,124)           |
| <b>Net income attributable to Starwood Property Trust, Inc.</b>               | <b>\$ 165,044</b>                           | <b>\$ 87,360</b> | <b>\$ 403,513</b>                          | <b>\$ 210,057</b> |

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

Basic:



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|                                     |    |      |    |        |    |        |    |        |
|-------------------------------------|----|------|----|--------|----|--------|----|--------|
| Income from continuing operations   | \$ | 0.73 | \$ | 0.53   | \$ | 1.89   | \$ | 1.41   |
| Loss from discontinued operations   |    |      |    | (0.02) |    | (0.01) |    | (0.08) |
| Net income                          | \$ | 0.73 | \$ | 0.51   | \$ | 1.88   | \$ | 1.33   |
| Diluted:                            |    |      |    |        |    |        |    |        |
| Income from continuing operations   | \$ | 0.73 | \$ | 0.53   | \$ | 1.88   | \$ | 1.41   |
| Loss from discontinued operations   |    |      |    | (0.02) |    | (0.01) |    | (0.08) |
| Net income                          | \$ | 0.73 | \$ | 0.51   | \$ | 1.87   | \$ | 1.33   |
| Dividends declared per common share | \$ | 0.48 | \$ | 0.46   | \$ | 1.44   | \$ | 1.36   |

See notes to condensed consolidated financial statements.

Table of Contents**Starwood Property Trust, Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income**

(Unaudited, amounts in thousands)

|   | For the Three Months Ended<br>September 30, |                  | For the Nine Months Ended<br>September 30, |                   |
|---|---|------------------|--|-------------------|
|   | 2014  | 2013             | 2014                                       | 2013              |
| <b>Net income</b>   | \$ 167,390                                  | \$ 89,246        | \$ 408,653                                 | \$ 214,181        |
| Other comprehensive income (loss) (net change by component):              |   |                  |  |                   |
| Cash flow hedges  | 530   | (197)            | 559  | 1,583             |
| Available-for-sale securities   | 3,954                                       | (1,768)          | (2,166)                                    | (15,895)          |
| Foreign currency remeasurement  | (9,765)                                     | 10,967           | (4,161)                                    | 3,924             |
| Other comprehensive (loss) income   | (5,281)                                     | 9,002            | (5,768)                                    | (10,388)          |
| <b>Comprehensive income</b>   | <b>162,109</b>                              | <b>98,248</b>    | <b>402,885</b>                             | <b>203,793</b>    |
| Less: Comprehensive income attributable to non-controlling interests      | (2,346)                                     | (1,886)          | (5,140)                                    | (4,124)           |
| <b>Comprehensive income attributable to Starwood Property Trust, Inc.</b> | <b>\$ 159,763</b>                           | <b>\$ 96,362</b> | <b>\$ 397,745</b>                          | <b>\$ 199,669</b> |

See notes to condensed consolidated financial statements.

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## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

|   | Common stock<br>Shares | Par<br>Value    | Additional<br>Paid-In<br>Capital | Treasury Stock<br>Shares | Amount             | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Starwood<br>Property<br>Trust, Inc.<br>Stockholders<br>Equity | Non-<br>Controlling<br>Interests | Total<br>Equity     |
|---|------------------------|-----------------|----------------------------------|--------------------------|--------------------|--|--|--|----------------------------------|---------------------|
| <b>Balance, January 1, 2014</b>               | <b>196,139,045</b>     | <b>\$ 1,961</b> | <b>\$ 4,300,479</b>              | <b>625,850</b>           | <b>\$ (10,642)</b> | <b>\$ (84,719)</b>                               | <b>\$ 75,449</b>                           | <b>\$ 4,282,528</b>  | <b>\$ 44,605</b>                 | <b>\$ 4,327,133</b> |
| Proceeds from public offering of common stock | 25,300,000             | 253             | 564,442                          |                          |                    |  |  | 564,695  |                                  | 564,695             |
| Proceeds from ATM Agreement                   | 759,000                | 8               | 18,338                           |                          |                    |  |  | 18,346   |                                  | 18,346              |
| Proceeds from DRIP Plan                       | 2,430                  |                 | 58                               |                          |                    |  |  | 58   |                                  | 58                  |
| Equity offering costs                         |                        |                 | (1,623)                          |                          |                    |  |  | (1,623)  |                                  | (1,623)             |
| Common stock repurchased                      |                        |                 |                                  | 587,900                  | (12,993)           |  |  | (12,993)   |                                  | (12,993)            |
| Stock-based compensation                      | 1,025,144              | 10              | 21,491                           |                          |                    |  |  | 21,501   |                                  | 21,501              |
| Manager incentive fee paid in stock           | 376,932                | 4               | 8,986                            |                          |                    |  |  | 8,990  |                                  | 8,990               |
| Net income                                    |                        |                 |                                  |                          |                    | 403,513  |  | 403,513  | 5,140                            | 408,653             |
| Dividends declared, \$1.44 per share          |                        |                 |                                  |                          |                    | (311,492)  |  | (311,492)  |                                  | (311,492)           |
| Spin-off of SWAY                              |                        |                 | (1,118,743)                      |                          |                    |  |  | (1,118,743)  | (1,594)                          | (1,120,337)         |
| Other comprehensive income, net               |                        |                 |                                  |                          |                    |  | (5,768)                                    | (5,768)  |                                  | (5,768)             |
| VIE non-controlling interests                 |                        |                 |                                  |                          |                    |  |  |  | 382                              | 382                 |
| Distribution to non-controlling interests     |                        |                 |                                  |                          |                    |  |  |  | (33,582)                         | (33,582)            |
| <b>Balance, September 30, 2014</b>            | <b>223,602,551</b>     | <b>\$ 2,236</b> | <b>\$ 3,793,428</b>              | <b>1,213,750</b>         | <b>\$ (23,635)</b> | <b>\$ 7,302</b>                                  | <b>\$ 69,681</b>                           | <b>\$ 3,849,012</b>  | <b>\$ 14,951</b>                 | <b>\$ 3,863,963</b> |
| <b>Balance, January 1, 2013</b>               | <b>136,125,356</b>     | <b>\$ 1,361</b> | <b>\$ 2,721,353</b>              | <b>625,850</b>           | <b>\$ (10,642)</b> | <b>\$ (72,401)</b>                               | <b>\$ 79,675</b>                           | <b>\$ 2,719,346</b>  | <b>\$ 77,859</b>                 | <b>\$ 2,797,205</b> |
| Proceeds from public offering of common stock | 59,225,000             | 593             | 1,512,926                        |                          |                    |  |  | 1,513,519  |                                  | 1,513,519           |
| Equity offering costs                         |                        |                 | (955)                            |                          |                    |  |  | (955)  |                                  | (955)               |
| Convertible senior notes                      |                        |                 | 48,502                           |                          |                    |  |  | 48,502   |                                  | 48,502              |
| Stock-based compensation                      | 523,731                | 5               | 12,865                           |                          |                    |  |  | 12,870   |                                  | 12,870              |
| Manager incentive fee paid in stock           | 13,188                 |                 | 367                              |                          |                    |  |  | 367  |                                  | 367                 |
| Net income                                    |                        |                 |                                  |                          |                    | 210,057  |  | 210,057  | 4,124                            | 214,181             |
| Dividends declared, \$1.36 per share          |                        |                 |                                  |                          |                    | (227,177)  |  | (227,177)  |                                  | (227,177)           |
| Other comprehensive loss, net                 |                        |                 |                                  |                          |                    |  | (10,388)                                   | (10,388)   |                                  | (10,388)            |
| VIE non-controlling interests                 |                        |                 |                                  |                          |                    |  |  |  | (1,067)                          | (1,067)             |
|   |                        |                 |                                  |                          |                    |  |  |  | 8,705                            | 8,705               |

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|  |                    |                 |                     |                |                    |                    |                  |                     |                  |                     |          |
|--|--------------------|-----------------|---------------------|----------------|--------------------|--------------------|------------------|---------------------|------------------|---------------------|----------|
| Non-controlling interest assumed through LNR acquisition |                    |                 |                     |                |                    |                    |                  |                     |                  |                     |          |
| Contributions from non-controlling interests             |                    |                 |                     |                |                    |                    |                  |                     | 1,399            |                     | 1,399    |
| Distribution to non-controlling interests                |                    |                 |                     |                |                    |                    |                  |                     | (47,914)         |                     | (47,914) |
| <b>Balance, September 30, 2013</b>                       | <b>195,887,275</b> | <b>\$ 1,959</b> | <b>\$ 4,295,058</b> | <b>625,850</b> | <b>\$ (10,642)</b> | <b>\$ (89,521)</b> | <b>\$ 69,287</b> | <b>\$ 4,266,141</b> | <b>\$ 43,106</b> | <b>\$ 4,309,247</b> |          |

See notes to condensed consolidated financial statements.

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## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

|   | For the Nine Months Ended |                |
|---|---------------------------|----------------|
|   | September 30,             |                |
|   | 2014                      | 2013           |
| <b>Cash Flows from Operating Activities:</b>                                      |                           |                |
| Net income  | \$ 408,653                | \$ 214,181     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                |
| Amortization of deferred financing costs  | 8,501                     | 7,044          |
| Amortization of convertible debt discount and deferred fees                       | 9,376                     | 5,693          |
| Accretion of net discount on investment securities                                | (17,174)                  | (23,484)       |
| Accretion of net deferred loan fees and discounts                                 | (16,756)                  | (26,917)       |
| Amortization of premium from secured borrowings on transferred loans              | (862)                     | (1,211)        |
| Share-based compensation  | 21,501                    | 12,870         |
| Share-based component of incentive fees   | 8,990                     | 367            |
| Change in fair value of fair value option investment securities                   | (15,180)                  | 3,265          |
| Change in fair value of consolidated VIEs   | (71,105)                  | (22,428)       |
| Change in fair value of servicing rights  | 18,671                    | (1,031)        |
| Change in fair value of loans held-for-sale                                       | (48,018)                  | (26,315)       |
| Change in fair value of derivatives   | (14,595)                  | (2,196)        |
| Foreign currency loss (gain), net   | 15,767                    | (3,481)        |
| Gain on non-performing loans and sale of investments                              | (13,907)                  | (23,728)       |
| Other-than-temporary impairment   | 1,010                     | 989            |
| Loan loss allowance, net  | 1,933                     | 1,915          |
| Depreciation and amortization   | 13,178                    | 8,022          |
| Earnings from unconsolidated entities   | (13,432)                  | (3,245)        |
| Distributions of earnings from unconsolidated entities                            | 9,354                     | 2,315          |
| Capitalized costs written off   |                           | 1,517          |
| Changes in operating assets and liabilities:                                      |                           |                |
| Related-party payable, net  | 7,073                     | 25,475         |
| Accrued interest receivable, less purchased interest                              | (29,770)                  | (8,603)        |
| Other assets  | (6,192)                   | (6,874)        |
| Accounts payable, accrued expenses and other liabilities                          | (46,997)                  | 36,087         |
| Originations of loans held-for-sale, net of principal collections                 | (1,159,058)               | (847,844)      |
| Proceeds from sale of loans held-for-sale   | 1,165,583                 | 851,609        |
| <b>Net cash provided by operating activities</b>                                  | <b>236,544</b>            | <b>173,992</b> |
| <b>Cash Flows from Investing Activities:</b>                                      |                           |                |
| Spin-off of Starwood Waypoint Residential Trust                                   | (111,960)                 |                |
| Purchase of LNR, net of cash acquired   |                           | (586,383)      |
| Purchase of investment securities   | (67,230)                  | (82,754)       |
| Proceeds from sales of investment securities                                      | 100,166                   | 442,877        |
| Proceeds from principal collections on investment securities                      | 40,999                    | 56,793         |
| Origination and purchase of loans held-for-investment                             | (2,123,947)               | (1,658,240)    |
| Proceeds from principal collections on loans                                      | 966,350                   | 394,616        |
| Proceeds from loans sold  | 341,472                   | 369,621        |
| Acquisition and improvement of single family homes                                | (61,901)                  | (458,733)      |
| Proceeds from sale of single family homes   | 1,784                     | 6,696          |

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|  |                  |                    |
|--|------------------|--------------------|
| Purchase of other assets                                 | (18,731)         | (1,631)            |
| Purchase of non-performing loans                         |                  | (153,141)          |
| Proceeds from sale of non-performing loans               | 1,153            | 27,198             |
| Investment in unconsolidated entities                    | (21,973)         | (8,558)            |
| Distribution of capital from unconsolidated entities     | 38,946           | 3,210              |
| Payments for purchase or termination of derivatives      | (16,081)         | (648)              |
| Proceeds from termination of derivatives                 | 5,611            | 9,940              |
| Return of investment basis in purchased derivative asset | 1,222            | 1,533              |
| Decrease (increase) in restricted cash, net              | 8,890            | (54,860)           |
| <b>Net cash used in investing activities</b>             | <b>(915,230)</b> | <b>(1,692,464)</b> |

See notes to condensed consolidated financial statements.

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## Starwood Property Trust, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

|   | For the Nine Months Ended |                  |
|---|---------------------------|------------------|
|   | September 30,             |                  |
|   | 2014                      | 2013             |
| <b>Cash Flows from Financing Activities:</b>                              |                           |                  |
| Borrowings under financing agreements                                     | \$ 2,917,281              | \$ 2,691,382     |
| Proceeds from issuance of convertible senior notes                        |                           | 1,037,926        |
| Principal repayments on borrowings  | (2,459,837)               | (3,123,571)      |
| Payment of deferred financing costs                                       | (11,536)                  | (13,281)         |
| Proceeds from secured borrowings  |                           | 95,000           |
| Proceeds from common stock issuances                                      | 583,099                   | 1,513,519        |
| Payment of equity offering costs  | (1,623)                   | (955)            |
| Payment of dividends  | (293,607)                 | (210,843)        |
| Contributions from non-controlling interests                              |                           | 1,399            |
| Distributions to non-controlling interests                                | (33,582)                  | (47,914)         |
| Issuance of debt of consolidated VIEs                                     | 88,412                    | 8,760            |
| Repayment of debt of consolidated VIEs                                    | (129,724)                 | (93,293)         |
| Distributions of cash from consolidated VIEs                              | 32,601                    | 18,598           |
| <b>Net cash provided by financing activities</b>                          | <b>691,484</b>            | <b>1,876,727</b> |
| Net increase in cash and cash equivalents                                 | 12,798                    | 358,255          |
| Cash and cash equivalents, beginning of period                            | 317,627                   | 177,671          |
| Effect of exchange rate changes on cash                                   | (3,103)                   | 908              |
| Cash and cash equivalents, end of period                                  | \$ 327,322                | \$ 536,834       |
| Supplemental disclosure of cash flow information:                         |                           |                  |
| Cash paid for interest  | \$ 110,208                | \$ 54,548        |
| Income taxes paid   | 19,040                    | 24,794           |
| Supplemental disclosure of non-cash investing and financing activities:   |                           |                  |
| Net assets distributed in spin-off of Starwood Waypoint Residential Trust | \$ 1,008,377              | \$ 90,130        |
| Dividends declared, but not yet paid                                      | 108,056                   | 90,130           |
| Consolidation of VIEs (VIE asset/liability additions)                     | 27,094,681                | 15,033,274       |
| Deconsolidation of VIEs (VIE asset/liability reductions)                  | 8,502,882                 | 584,804          |
| Unsettled common stock repurchased  | 12,993                    |                  |
| Fair value of assets acquired   |                           | 1,152,360        |
| Fair value of liabilities assumed   |                           | 562,279          |
| Unsettled trades and loans receivable                                     |                           | 14,338           |
| Interest only security received in connection with securitization         |                           | 1,889            |

See notes to condensed consolidated financial statements.

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**Starwood Property Trust, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements**  
**As of September 30, 2014**  
**(Unaudited)**

**1. Business and Organization**

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

- commercial real estate mortgage loans, including 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 two reportable business segments as of September 30, 2014:

- Real estate investment lending (the Lending Segment ) includes all business activities of the Company, excluding the LNR business, which generally represents investments in real estate-related loans and securities that are held-for-investment.
  
- LNR includes all business activities of the acquired LNR Property LLC ( "LNR" ) business excluding the consolidation of securitization VIEs.



On April 19, 2013, we acquired the equity of LNR and certain of its subsidiaries for an initial agreed upon purchase price of approximately \$859 million, which was reduced for transaction expenses and distributions occurring after September 30, 2012, resulting in cash consideration of approximately \$730 million. Immediately prior to the acquisition, an affiliate of the Company acquired the remaining equity comprising LNR's commercial property division for a purchase price of \$194 million. The portion of the LNR business acquired by us includes the following: (i) servicing businesses in both the U.S. and Europe that manage and work out problem assets, (ii) an investment business that is focused on selectively acquiring and managing real estate finance investments, including unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, and high yielding real estate loans; and (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions.

On January 31, 2014, we completed the spin-off of our former single family residential ( SFR ) segment to our stockholders. The newly-formed real estate investment trust, Starwood Waypoint Residential Trust ( SWAY ), is listed on the New York Stock Exchange ( NYSE ) and trades under the ticker symbol SWAY. Our stockholders received one common share of SWAY for every five shares of our common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed \$100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of January 31, 2014, SWAY held net assets of \$1.1 billion. The net assets of SWAY consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans as of January 31, 2014. In connection with the spin-off, 40.1 million shares of SWAY were issued. Refer to Note 3 herein for additional information regarding SFR segment financial information, which has been presented within discontinued operations in the condensed consolidated statements of operations included herein.

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.

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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.

**2. Summary of Significant Accounting Policies**

***Balance Sheet Presentation of LNR Variable Interest Entities***

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

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

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

Please refer to the segment data in Note 21 herein for a presentation of the LNR business without consolidation of these VIEs.

***Basis of Accounting and Principles of Consolidation***

The accompanying condensed consolidated financial statements include our accounts and those of our consolidated subsidiaries and VIEs. Intercompany amounts have been eliminated in consolidation. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows have been included.

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These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "Form 10-K"), as filed with the Securities and Exchange Commission ( "SEC" ). The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the operating results for the full year.

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Refer to our Form 10-K for a description of our recurring accounting policies. We have included disclosure in this Note 2 regarding principles of consolidation and other accounting policies that (i) are required to be disclosed quarterly, (ii) we view as critical, or (iii) became significant since December 31, 2013 due to a corporate action or increase in the significance of the underlying business activity.

***Variable Interest Entities***

We evaluate all of our interests in VIEs for consolidation. When our interests are determined to be variable interests, we assess whether we are deemed to be the primary beneficiary of the VIE. The primary beneficiary of a VIE is required to consolidate the VIE. ASC 810, *Consolidation*, defines the primary beneficiary as the party that has both (i) the power to direct the activities of the VIE that most significantly impact its economic performance, and (ii) the obligation to absorb losses and the right to receive benefits from the VIE which could be potentially significant. We consider our variable interests as well as any variable interests of our related parties in making this determination. Where both of these factors are present, we are deemed to be the primary beneficiary and we consolidate the VIE. Where either one of these factors is not present, we are not the primary beneficiary and do not consolidate the VIE.

To assess whether we have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, we consider all facts and circumstances, including our role in establishing the VIE and our ongoing rights and responsibilities. This assessment includes first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE or have the right to unilaterally remove those decision makers are deemed to have the power to direct the activities of a VIE.

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

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

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

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

We have elected the fair value option in measuring the assets and liabilities of any VIEs we consolidate. Fluctuations in the fair values of the VIE assets and liabilities, along with trust interest income and trust interest and administrative expenses, are presented net in income of consolidated VIEs in our consolidated statements of operations.

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***Discontinued Operations***

On January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders as discussed in Note 1. In accordance with Accounting Standards Codification ( ASC ) Topic 205, *Presentation of Financial Statements*, the results of the SFR segment are presented within discontinued operations in our condensed consolidated statements of operations for the nine months ended September 30, 2014 and the three and nine months ended September 30, 2013.

***Fair Value Option***

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

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

***Loans Receivable and Provision for Loan Losses***

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

We perform a quarterly review of our portfolio of loans. In connection with this review, we assess the performance of each loan and assign a risk rating based on several factors including risk of loss, loan-to-value ratio ( LTV ), collateral performance, structure, exit plan, and sponsorship. Loans are rated 1 through 5 , from less risk to greater risk, in connection with this review.

***Use of Estimates***

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

***Reclassifications and Measurement Period Adjustments***

As a result of the spin-off, the results from our SFR segment have been reclassified as discontinued operations in our condensed consolidated statements of operations for the nine months ended September 30, 2014 and the three and nine months ended September 30, 2013. In addition, certain prior period amounts have been reclassified to conform to the current period presentation, which had no effect on our previously reported net income. In that regard, we reclassified \$449.1 million of proceeds from sales of loans held-for-sale by LNR to cash flows from operating activities in the condensed consolidated statement of cash flows for the nine months ended September 30, 2013 in order to conform to the current period presentation, which is also consistent with the presentation in our Form 10-K. These proceeds were previously reported as a non-cash financing activity and reflected net against principal repayments on borrowings for the related repurchase agreements that were settled net with those proceeds.

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The prior period financial statements included herein reflect the retrospective measurement period adjustment related to the LNR acquisition as described in Note 3 to the consolidated financial statements included in our Form 10-K. Such adjustment reduced earnings from unconsolidated entities and net income by \$2.4 million and \$4.2 million in the three and nine months ended September 30, 2013, respectively.

***Recent Accounting Developments***

On April 10, 2014 the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which requires only those disposals which represent a strategic shift that has or will have a major impact on an entity s operations or financial results be presented as discontinued operations. The ASU is effective for annual periods beginning on or after December 15, 2014, and interim periods within those annual periods, and requires prospective application. Early adoption is permitted for disposals not already reported in previously issued financial statements. We do not expect the application of this ASU to materially impact the Company.

On May 28, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which establishes key principles by which an entity determines the amount and timing of revenue recognized from customer contracts. The ASU is effective for the first interim or annual period beginning after December 15, 2016. Early application is not permitted. We do not expect the application of this ASU to materially impact the Company.

On June 12, 2014 the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*, which requires entities to account for repurchase-to-maturity transactions as secured borrowings rather than as sales and expands disclosure requirements related to certain transfers of financial assets. The ASU is effective for the first interim or annual period beginning after December 15, 2014. Early application is not permitted. We do not expect the application of this ASU to materially impact the Company.

On August 5, 2014, the FASB issued ASU 2014-13, *Consolidation (Topic 810) - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity* ( CFE ), which establishes a measurement alternative allowing qualifying entities to measure both the CFE s financial assets and financial liabilities based on the fair value of the financial assets or financial liabilities, whichever is more observable. The measurement alternative is available upon initial consolidation of the CFE or adoption of this ASU and can be applied on a CFE-by-CFE basis. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2015. Early application is permitted. We have elected to apply this measurement alternative to all of our existing consolidated CFEs. Application of this ASU has no impact on the Company as it is consistent with our existing accounting practices.

**3. Acquisitions and Divestitures**

*SFR Spin-off*



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As described in Note 1, on January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders. The results of operations for the SFR segment are presented within discontinued operations in our condensed consolidated statements of operations for all periods presented. We have no continuing involvement with the SFR segment following the spin-off. Subsequent to the spin-off, SWAY entered into a management agreement with an affiliate of our Manager. The following table presents the summarized consolidated results of discontinued operations for the SFR segment prior to the spin-off (in thousands):

|  | For the Three Months Ended |           | For the Nine Months Ended |                |                 |
|--|----------------------------|-----------|---------------------------|----------------|-----------------|
|  | September 30,              |           | September 30,             |                |                 |
|  | 2014                       | 2013      | 2014                      | 2013           | 2013            |
| Total revenues                                   | \$                         | \$        | 5,155                     | \$             | 8,913           |
| Total costs and expenses                         |                            |           | 14,048(1)                 | 6,369          | 27,543(1)       |
| <b>Loss before other income and income taxes</b> |                            |           | <b>(8,893)</b>            | <b>(2,493)</b> | <b>(18,630)</b> |
| Total other income                               |                            |           | 5,195                     | 942            | 6,598           |
| <b>Loss before income taxes</b>                  |                            |           | <b>(3,698)</b>            | <b>(1,551)</b> | <b>(12,032)</b> |
| Income tax benefit (provision)                   |                            |           |                           |                | (12)            |
| <b>Net loss</b>                                  | <b>\$</b>                  | <b>\$</b> | <b>(3,698)</b>            | <b>(1,551)</b> | <b>(12,044)</b> |

(1) Costs and expenses for the three and nine months ended September 30, 2013 include allocated interest expense of \$2.3 million and \$3.6 million, respectively. Refer to Note 21 for discussion of our cost allocation method.

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The following table presents the summarized consolidated balance sheet of the SFR segment as of January 31, 2014, the date of the spin-off (in thousands):

|  | January 31, 2014 |                  |
|--|------------------|------------------|
| <b>Assets:</b>   |                  |                  |
| Cash and cash equivalents                                | \$               | 111,960          |
| Restricted cash  |                  | 189              |
| Residential real estate, net                             |                  | 812,017          |
| Non-performing residential loans                         |                  | 211,019          |
| Other assets   |                  | 9,498            |
| <b>Total Assets</b>                                      | <b>\$</b>        | <b>1,144,683</b> |
| <b>Liabilities and Equity</b>                            |                  |                  |
| <b>Liabilities:</b>                                      |                  |                  |
| Accounts payable, accrued expenses and other liabilities | \$               | 24,346           |
| <b>Equity:</b>   |                  |                  |
| Additional paid-in capital                               |                  | 1,130,405        |
| Accumulated deficit                                      |                  | (11,662)         |
| Total Stockholders' Equity                               |                  | 1,118,743        |
| Non-controlling interests in consolidated subsidiaries   |                  | 1,594            |
| <b>Total Equity</b>                                      |                  | <b>1,120,337</b> |
| <b>Total Liabilities and Equity</b>                      | <b>\$</b>        | <b>1,144,683</b> |

*LNR Acquisition*

As described in Note 1, on April 19, 2013, we acquired the equity of LNR for an initial agreed upon purchase price of \$859 million, which was reduced for transaction expenses and distributions occurring after September 30, 2012, resulting in cash consideration of approximately \$730 million. We applied the provisions of ASC 805 in accounting for our acquisition of LNR. Refer to Note 3 to the consolidated financial statements included in our Form 10-K for further discussion of the LNR acquisition including the final purchase price allocation and retrospective measurement period adjustments.

**4. Loans**

Our loans held-for-investment are accounted for at amortized cost and our loans held-for-sale are accounted for at the lower of cost or fair value, unless we have elected the fair value option. The following tables summarize our investments in mortgages and loans by subordination class as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|                           | Carrying<br>Value | Face<br>Amount | Weighted<br>Average<br>Coupon | Weighted<br>Average Life<br>( WAL )<br>(years)(2) |
|---------------------------|-------------------|----------------|-------------------------------|---|
| <b>September 30, 2014</b> |                   |                |                               |   |
| First mortgages           | \$ 3,384,985      | \$ 3,445,226   | 5.6%                          | 3.7   |

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|   |              |              |       |     |
|---|--------------|--------------|-------|-----|
| Subordinated mortgages(1)                       | 386,865      | 418,221      | 8.5%  | 4.0 |
| Mezzanine loans                                 | 1,432,994    | 1,429,777    | 10.6% | 3.1 |
| Total loans held-for-investment                 | 5,204,844    | 5,293,224    |       |     |
| Loans held-for-sale, fair value option elected  | 248,165      | 248,620      | 4.7%  | 9.8 |
| Loans transferred as secured borrowings         | 142,516      | 142,681      | 5.3%  | 2.5 |
| Total gross loans                               | 5,595,525    | 5,684,525    |       |     |
| Loan loss allowance (loans held-for-investment) | (5,917)      |              |       |     |
| Total net loans                                 | \$ 5,589,608 | \$ 5,684,525 |       |     |

**December 31, 2013**

|   |              |              |       |     |
|---|--------------|--------------|-------|-----|
| First mortgages                                 | \$ 2,714,512 | \$ 2,766,217 | 5.5%  | 4.3 |
| Subordinated mortgages(1)                       | 407,462      | 442,475      | 9.7%  | 4.2 |
| Mezzanine loans                                 | 1,245,728    | 1,246,841    | 11.7% | 3.5 |
| Total loans held-for-investment                 | 4,367,702    | 4,455,533    |       |     |
| Loans held-for-sale, fair value option elected  | 206,672      | 209,099      | 5.3%  | 9.6 |
| Loans transferred as secured borrowings         | 180,414      | 180,483      | 5.4%  | 2.9 |
| Total gross loans                               | 4,754,788    | 4,845,115    |       |     |
| Loan loss allowance (loans held-for-investment) | (3,984)      |              |       |     |
| Total net loans                                 | \$ 4,750,804 | \$ 4,845,115 |       |     |

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(1) Subordinated mortgages include B-notes and junior participations in first mortgages where we do not own the senior A-note or senior participation. If we own both the A-note and B-note, we categorize the loan as a first mortgage loan.

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

As of September 30, 2014, approximately \$4.2 billion, or 74.5%, of all of our loans were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 6.18%. The following table summarizes our investments in floating rate loans (amounts in thousands):

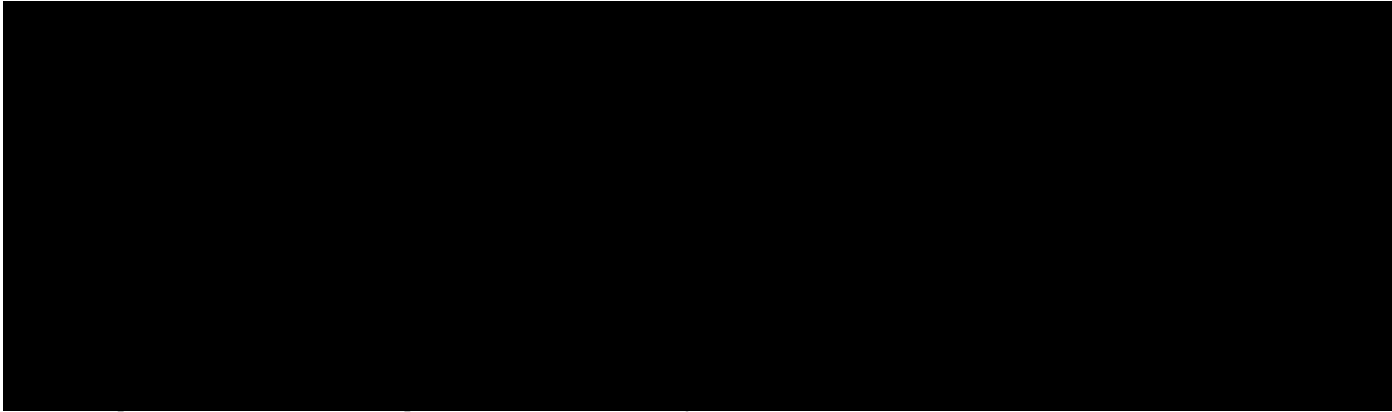
| Index             | September 30, 2014 |                | December 31, 2013 |                |
|-------------------|--------------------|----------------|-------------------|----------------|
|                   | Base Rate          | Carrying Value | Base Rate         | Carrying Value |
| 1 Month LIBOR USD | 0.1565%            | \$ 129,608     | 0.1677%           | \$ 150,076     |
| 3 Month LIBOR GBP | 0.5653%            | 385,448        | 0.5253%           | 392,950        |
| 3 Month LIBOR EUR | 0.0571%            | 28,658         |                   |                |
| LIBOR floor       | 0.15% - 3.00% (1)  | 3,618,041      | 0.19% - 3.00% (1) | 2,688,308      |
| Total             |                    | \$ 4,161,755   |                   | \$ 3,231,334   |

(1) The weighted-average LIBOR floor was 0.36% and 0.49% as of September 30, 2014 and December 31, 2013, respectively.

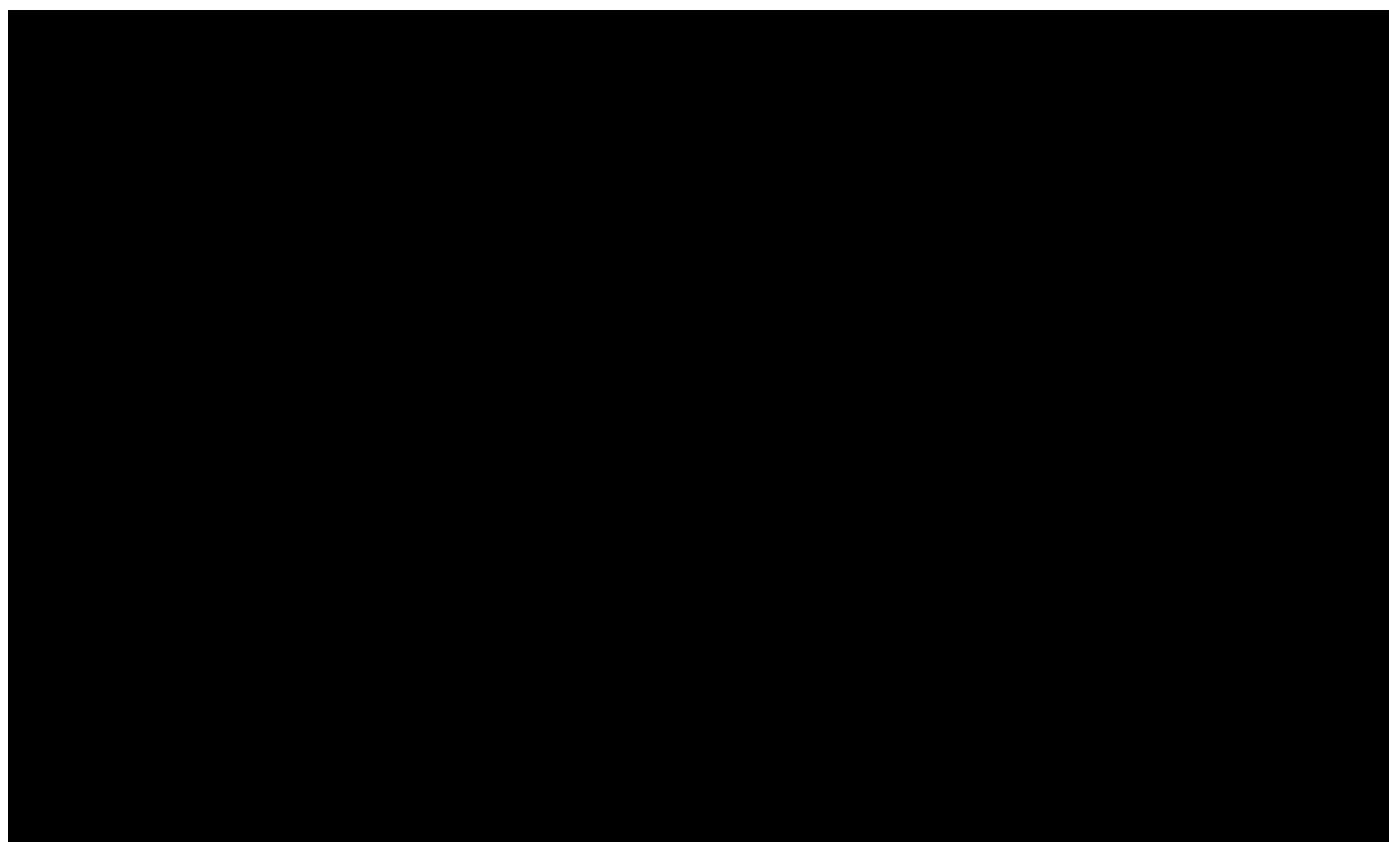
Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically,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

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

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



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As of September 30, 2014, the risk ratings for loans subject to our rating system, which excludes loans on the cost recovery method and loans for which the fair value option has been elected, by class of loan were as follows (amounts in thousands):

| Risk Rating Category | Balance Sheet Classification |                        |                 |                     | Loans Held-For-Sale | Loans Transferred As Secured Borrowings | Total        | % of Total Loans |
|----------------------|------------------------------|------------------------|-----------------|---------------------|---------------------|---|--------------|------------------|
|                      | First Mortgages              | Subordinated Mortgages | Mezzanine Loans | Cost Recovery Loans |                     |   |              |                  |
| 1                    | \$                           | \$                     | \$              | \$                  | \$                  | \$                                      | \$           | %                |
| 2                    | 102,161                      | 113,510                | 214,834         |                     |                     | 12,936                                  | 443,441      | 7.9%             |
| 3                    | 3,138,864                    | 241,107                | 1,102,588       |                     |                     | 129,580                                 | 4,612,139    | 82.5%            |
| 4                    | 93,446                       | 32,248                 | 115,572         |                     |                     |   | 241,266      | 4.3%             |
| 5                    | 45,965                       |                        |                 |                     |                     |   | 45,965       | 0.8%             |
| N/A                  | 446                          |                        |                 | 4,103               | 248,165             |   | 252,714      | 4.5%             |
|                      | \$ 3,380,882                 | \$ 386,865             | \$ 1,432,994    | \$ 4,103            | \$ 248,165          | \$ 142,516                              | \$ 5,595,525 | 100.0%           |

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As of December 31, 2013, the risk ratings for loans subject to our rating system by class of loan were as follows (amounts in thousands):

| Risk Rating Category | Balance Sheet Classification |                        |                 |                     |                     | Loans Transferred As Secured Borrowings | Total     | % of Total Loans |
|----------------------|------------------------------|------------------------|-----------------|---------------------|---------------------|---|-----------|------------------|
|                      | First Mortgages              | Subordinated Mortgages | Mezzanine Loans | Cost Recovery Loans | Loans Held-For-Sale |   |           |                  |
| 1                    | \$                           | \$                     | \$              | \$                  | \$                  | \$                                      | \$        | %                |
| 2                    |                              | 94,981                 | 103,369         | 153,119             |                     | 13,022                                  | 364,491   | 7.7%             |
| 3                    |                              | 2,452,763              | 272,375         | 1,012,674           |                     | 167,392                                 | 3,905,204 | 82.1%            |
| 4                    |                              | 153,987                | 31,718          | 79,935              |                     |   | 265,640   | 5.6%             |
| 5                    |                              |                        |                 |                     |                     |   |           | %                |
| N/A                  |                              |                        |                 | 12,781              | 206,672             |   | 219,453   | 4.6%             |
|                      | \$                           | \$                     | \$              | \$                  | \$                  | \$                                      | \$        |                  |
|                      | 2,701,731                    | 407,462                | 1,245,728       | 12,781              | 206,672             | 180,414                                 | 4,754,788 | 100.0%           |

After completing our impairment evaluation process, we concluded that no impairment charges were required on any individual loans held-for-investment as of September 30, 2014 or December 31, 2013. As of September 30, 2014, approximately \$4.1 million of our loans held-for-investment were in default, all of which are within the LNR Segment and were acquired as non-performing loans prior to the April 19, 2013 acquisition.

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

|   | For the Nine Months Ended |            |
|---|---------------------------|------------|
|   | September 30,             |            |
|   | 2014                      | 2013       |
| Allowance for loan losses at January 1                              | \$ 3,984                  | \$ 2,061   |
| Provision for loan losses   | 1,933                     | 1,915      |
| Charge-offs   |                           |            |
| Recoveries  |                           |            |
| Allowance for loan losses at September 30                           | \$ 5,917                  | \$ 3,976   |
| Recorded investment in loans related to the allowance for loan loss | \$ 287,231                | \$ 265,068 |

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

|  | For the Nine Months Ended |             |
|--|---------------------------|-------------|
|  | September 30,             |             |
|  | 2014                      | 2013        |
| Balance at January 1                         | \$ 4,750,804              | 3,000,335   |
| Acquisitions/originations/additional funding | 3,283,546                 | 2,770,895   |
| Capitalized interest(1)                      | 31,994                    | 12,481      |
| Basis of loans sold(2)                       | (1,505,764)               | (1,221,396) |
| Loan maturities/principal repayments         | (1,009,222)               | (394,908)   |
| Discount accretion/premium amortization      | 16,756                    | 26,917      |

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|   |              |              |
|---|--------------|--------------|
| Changes in fair value                                 | 48,018       | 26,315       |
| Unrealized foreign currency remeasurement gain (loss) | (21,088)     | 3,784        |
| Capitalized costs written off                         |              | (1,517)      |
| Change in loan loss allowance, net                    | (1,933)      | (1,915)      |
| Transfer to other assets                              | (3,503)      |              |
| Balance at September 30                               | \$ 5,589,608 | \$ 4,220,991 |

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

(2) See Note 10 for additional disclosure on these transactions.



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Investment securities were comprised of the following as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|  | Carrying Value as of |                   |
|--|----------------------|-------------------|
|  | September 30, 2014   | December 31, 2013 |
| RMBS, available-for-sale                 | \$ 216,319           | \$ 296,236        |
| Single-borrower CMBS, available-for-sale | 106,086              | 114,346           |
| CMBS, fair value option (1)              | 697,733              | 550,282           |
| Held-to-maturity ( HTM ) securities      | 371,467              | 368,318           |
| Equity security, fair value option       | 15,471               | 15,247            |
| Subtotal - Investment securities         | 1,407,076            | 1,344,429         |
| VIE eliminations (1)                     | (512,774)            | (409,322)         |
| Total investment securities              | \$ 894,302           | \$ 935,107        |

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

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

| Three Months ended<br>September 30, 2014 | Available-for-sale |        | CMBS, fair<br>value option | HTM<br>Securities | Equity<br>Security | Total     |
|--|--------------------|--------|----------------------------|-------------------|--------------------|-----------|
|  | RMBS               | CMBS   |                            |                   |                    |           |
| Purchases                                | \$                 | \$     | \$ 13,777                  | \$                | \$                 | \$ 13,777 |
| Sales                                    |                    | 5,588  |                            |                   |                    | 5,588     |
| Principal collections                    |                    | 21,870 | 1                          | 14                |                    | 21,885    |

|                       |    |        |         |    |        |    |    |         |
|-----------------------|----|--------|---------|----|--------|----|----|---------|
| Purchases             | \$ | \$     | 1,889   | \$ | 21,982 | \$ | \$ | 23,871  |
| Sales                 |    |        | 206,972 |    |        |    |    | 206,972 |
| Principal collections |    | 14,124 | 2,546   |    |        |    |    | 16,670  |

|                       |    |        |     |        |    |    |    |         |
|-----------------------|----|--------|-----|--------|----|----|----|---------|
| Purchases             | \$ | \$     | \$  | 67,230 | \$ | \$ | \$ | 67,230  |
| Sales                 |    | 68,134 |     | 32,032 |    |    |    | 100,166 |
| Principal collections |    | 40,155 | 805 | 1      | 38 |    |    | 40,999  |

| September 30, 2013    |    |        |    |         |    |        |    |        |    |         |
|-----------------------|----|--------|----|---------|----|--------|----|--------|----|---------|
| Purchases             | \$ | 20,090 | \$ | 1,889   | \$ | 23,601 | \$ | 37,174 | \$ | 82,754  |
| Sales                 |    | 12,713 |    | 413,323 |    | 10,072 |    | 6,769  |    | 442,877 |
| Principal collections |    | 46,762 |    | 10,031  |    |        |    |        |    | 56,793  |



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

With the exception of one CMBS classified as HTM, the Company classified all of its RMBS and CMBS investments where the fair value option has not been elected as available-for-sale as of September 30, 2014 and December 31, 2013. These RMBS and CMBS are reported at fair value in the balance sheet with changes in fair value recorded in accumulated other comprehensive income ( AOCI ).

The tables below summarize various attributes of our investments in available-for-sale RMBS and single-borrower CMBS where the fair value option has not been elected as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|                                  | Purchase<br>Amortized<br>Cost | Credit<br>OTTI | Recorded<br>Amortized<br>Cost | Non-Credit<br>OTTI | Unrealized Gains or (Losses)<br>Recognized in AOCI |                               | Net<br>Fair Value<br>Adjustment | Fair Value |
|----------------------------------|-------------------------------|----------------|-------------------------------|--------------------|--|-------------------------------|---------------------------------|------------|
|                                  |                               |                |                               |                    | Gross<br>Unrealized<br>Gains                       | Gross<br>Unrealized<br>Losses |                                 |            |
| <b><u>September 30, 2014</u></b> |                               |                |                               |                    |  |                               |                                 |            |
| RMBS                             | \$ 170,026                    | \$ (10,152)    | \$ 159,874                    | \$ (264)           | \$ 56,709  | \$                            | \$ 56,445                       | \$ 216,319 |
| Single-borrower<br>CMBS          | 97,817                        |                | 97,817                        |                    | 8,269  |                               | 8,269                           | 106,086    |
| Total                            | \$ 267,843                    | \$ (10,152)    | \$ 257,691                    | \$ (264)           | \$ 64,978  | \$                            | \$ 64,714                       | \$ 322,405 |
| <b><u>December 31, 2013</u></b>  |                               |                |                               |                    |  |                               |                                 |            |
| RMBS                             | \$ 253,912                    | \$ (11,134)    | \$ 242,778                    | \$ (55)            | \$ 55,154  | \$ (1,641)                    | \$ 53,458                       | \$ 296,236 |
| Single-borrower<br>CMBS          | 100,687                       |                | 100,687                       |                    | 13,659   |                               | 13,659                          | 114,346    |
| Total                            | \$ 354,599                    | \$ (11,134)    | \$ 343,465                    | \$ (55)            | \$ 68,813  | \$ (1,641)                    | \$ 67,117                       | \$ 410,582 |

|                                  | Weighted Average<br>Coupon(1) | Weighted Average<br>Rating<br>(Standard & Poor's) | WAL (Years)(3) |
|----------------------------------|-------------------------------|---|----------------|
| <b><u>September 30, 2014</u></b> |                               |   |                |
| RMBS                             | 1.0%                          | B   | 7.0            |
| Single-borrower CMBS             | 11.6%                         | BB+(2)  | 3.4            |
| <b><u>December 31, 2013</u></b>  |                               |   |                |
| RMBS                             | 1.0%                          | B   | 6.8            |
| Single-borrower CMBS             | 11.5%                         | BB+(2)  | 5.9            |

(1) Calculated using the September 30, 2014 and December 31, 2013 one-month LIBOR rate of 0.157% and 0.168%, respectively, for floating rate securities.

(2) As of September 30, 2014 and December 31, 2013, approximately 99.4% and 98.8%, respectively, of the CMBS securities were rated BB+.

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

As of September 30, 2014, \$0.5 million, or 0.5%, of the single-borrower CMBS were variable rate. As of December 31, 2013, \$1.3 million, or 1.2%, of the single-borrower CMBS were variable rate. As of September 30, 2014, approximately \$143.3 million, or 66.3%, of RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.44%. As of December 31, 2013, approximately \$256.1 million, or 86.5%, of RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.37%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

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The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS and single-borrower CMBS as of September 30, 2014 and December 31, 2013, excluding CMBS where we have elected the fair value option (amounts in thousands):

|                           | September 30, 2014 |           | December 31, 2013 |            |
|---------------------------|--------------------|-----------|-------------------|------------|
|                           | RMBS               | CMBS      | RMBS              | CMBS       |
| Principal balance         | \$ 283,891         | \$ 97,817 | \$ 414,020        | \$ 100,687 |
| Accretible yield          | (93,849)           |           | (101,046)         |            |
| Non-accretible difference | (30,168)           |           | (70,196)          |            |
| Total discount            | (124,017)          |           | (171,242)         |            |
| Amortized cost            | \$ 159,874         | \$ 97,817 | \$ 242,778        | \$ 100,687 |

The principal balance of credit deteriorated RMBS was \$228.5 million and \$320.4 million as of September 30, 2014 and December 31, 2013, respectively. Accretible yield related to these securities totaled \$71.2 million and \$78.3 million as of September 30, 2014 and December 31, 2013, respectively.

The following table discloses the changes to accretible yield and non-accretible difference for our RMBS and single-borrower CMBS during the three and nine months ended September 30, 2014, excluding CMBS where we have elected the fair value option (amounts in thousands):

|   | Accretible Yield |      | Non-Accretible Difference |      |
|---|------------------|------|---------------------------|------|
|   | RMBS             | CMBS | RMBS                      | CMBS |
| <b><u>Three Months ended September 30, 2014</u></b> |                  |      |                           |      |
| Balance as of July 1, 2014                          | \$ 90,876        | \$   | \$ 38,642                 | \$   |
| Accretion of discount                               | (4,015)          |      |                           |      |
| Principal write-downs                               |                  |      | (633)                     |      |
| Purchases   |                  |      |                           |      |
| Sales   | (853)            |      |                           |      |
| OTTI  |                  |      |                           |      |
| Transfer to/from non-accretible difference          | 7,841            |      | (7,841)                   |      |
| Balance as of September 30, 2014                    | \$ 93,849        | \$   | \$ 30,168                 | \$   |
| <b><u>Nine Months ended September 30, 2014</u></b>  |                  |      |                           |      |
| Balance as of January 1, 2014                       | \$ 101,046       | \$   | \$ 70,196                 | \$   |
| Accretion of discount                               | (13,902)         |      |                           |      |
| Principal write-downs                               |                  |      | (1,508)                   |      |
| Purchases   |                  |      |                           |      |
| Sales   | (13,091)         |      | (18,937)                  |      |
| OTTI  | 213              |      |                           |      |
| Transfer to/from non-accretible difference          | 19,583           |      | (19,583)                  |      |
| Balance as of September 30, 2014                    | \$ 93,849        | \$   | \$ 30,168                 | \$   |

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets excluding LNR VIEs. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was \$0.4 million and \$0.3 million for the three months ended September 30, 2014 and 2013, respectively, and \$1.5 million and \$1.7 million for the nine months ended September 30, 2014 and 2013, respectively, which has been recorded as management fees in the accompanying condensed consolidated statements of operations.



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The following table presents the gross unrealized losses and estimated fair value of the available-for-sale securities (i) where we have not elected the fair value option, (ii) that were in an unrealized loss position as of September 30, 2014 and December 31, 2013, and (iii) for which OTTI's (full or partial) have not been recognized in earnings (amounts in thousands):

|                                 | Estimated Fair Value                       |   | Unrealized Losses                          |   |
|---------------------------------|--|---|--|---|
|                                 | Securities with a loss less than 12 months | Securities with a loss greater than 12 months | Securities with a loss less than 12 months | Securities with a loss greater than 12 months |
| <b>As of September 30, 2014</b> |  |   |  |   |
| RMBS                            | \$   | \$  | \$   | \$  |
| Single-borrower CMBS            |  |   |  |   |
| Total                           | \$   | \$  | \$   | \$  |
| <b>As of December 31, 2013</b>  |  |   |  |   |
| RMBS                            | \$ 26,344                                  | \$ 1,809                                      | \$ (1,444)                                 | \$ (252)                                      |
| Single-borrower CMBS            |  |   |  |   |
| Total                           | \$ 26,344                                  | \$ 1,809                                      | \$ (1,444)                                 | \$ (252)                                      |

**CMBS, Fair Value Option**

As discussed in the Fair Value Option section of Note 2 herein, we elect the fair value option for LNR's CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of September 30, 2014, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, was \$697.7 million and \$3.9 billion, respectively. These balances represent our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value (\$512.8 million at September 30, 2014) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS. During the three and nine months ended September 30, 2014, we purchased \$43.4 million and \$195.2 million of CMBS, respectively, for which we elected the fair value option. Due to our consolidation of securitization VIEs, \$29.7 million and \$128.0 million, respectively, of these amounts are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statement of cash flows.

As of September 30, 2014 and December 31, 2013, none of our CMBS where we have elected the fair value option were variable rate. The table below summarizes various attributes of our investment in fair value option CMBS as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|                           | Weighted Average Coupon | Weighted Average Rating | WAL (Years)(1) |
|---------------------------|-------------------------|-------------------------|----------------|
| <b>September 30, 2014</b> |                         |                         |                |
| CMBS, fair value option   | 4.8%                    | CCC(2)                  | 5.7            |
| <b>December 31, 2013</b>  |                         |                         |                |
| CMBS, fair value option   | 5.4%                    | CC(2)                   | 4.4            |

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

(2) As of September 30, 2014 and December 31, 2013, excludes \$39.2 million and \$55.5 million, respectively, in fair value option CMBS that are not rated.

***HTM Securities***

The table below summarizes various attributes of our investments in HTM securities as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|                                  | Net Carrying<br>Amount<br>(Amortized<br>Cost) | Gross<br>Unrealized<br>Holding<br>Gains | Gross<br>Unrealized<br>Holding<br>Losses | Fair Value |
|----------------------------------|---|---|--|------------|
| <b><u>September 30, 2014</u></b> |   |   |  |            |
| Preferred interests              | \$ 287,327                                    | \$ 273                                  | \$                                       | \$ 287,600 |
| CMBS                             | 84,140  |   | (40)                                     | 84,100     |
| Total                            | \$ 371,467                                    | \$ 273                                  | \$ (40)                                  | \$ 371,700 |
| <b><u>December 31, 2013</u></b>  |   |   |  |            |
| Preferred interests              | \$ 284,087                                    | \$ 135                                  | \$                                       | \$ 284,222 |
| CMBS                             | 84,231  |   |  | 84,231     |
| Total                            | \$ 368,318                                    | \$ 135                                  | \$                                       | \$ 368,453 |



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During 2013, we originated two preferred equity interests of \$246.1 million and \$37.2 million, respectively, in limited liability companies that own commercial real estate. These preferred equity interests mature in December 2018 and April 2015, respectively. During 2013, we also purchased a CMBS security with a face value and purchase price of \$84.1 million, which we expect to hold to maturity. The stated maturity of this security is November 2016.

**Equity Security, Fair Value Option**

During 2012, we acquired 9,140,000 ordinary shares from a related-party (approximately a 4% interest) in Starwood European Real Estate Finance Limited ( S E R E F ), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange. We have elected to report the investment using the fair value option because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market, and also due to potential lags in reporting resulting from differences in the respective regulatory requirements. The fair value of the investment remeasured in U.S. dollars ( USD ) was \$15.5 million and \$15.2 million as of September 30, 2014 and December 31, 2013, respectively.

**6. Investment in Unconsolidated Entities**

The below table summarizes our investments in unconsolidated entities as of September 30, 2014 and December 31, 2013 (dollar amounts in thousands):

|   | Participation /<br>Ownership % (1) | Carrying value as of |                   | Carrying value over (under)<br>equity in net assets as of |
|---|------------------------------------|----------------------|-------------------|---|
|   |                                    | September 30, 2014   | December 31, 2013 | September 30, 2014(2)                                     |
| <b>Equity method:</b>   |                                    |                      |                   |   |
| Investor entity which owns equity in two real estate services providers           | 50%                                | \$ 20,423            | \$ 19,371         | \$  |
| Small balance bridge loan financing venture                                       | 50%                                | 26,931               | 26,121            |   |
| European investment fund  | 50%                                | 4,569                | 23,779            | (2,883)   |
| Mezzanine loan venture  | 49%                                | 23,335               | 23,676            |   |
| Bridge loan venture   | various                            | 10,282               | 14,163            |   |
| Various   | 25% - 50%                          | 5,185                | 4,371             |   |
|   |                                    | 90,725               | 111,481           | \$ (2,883)  |
| <b>Cost method:</b>   |                                    |                      |                   |   |
| Investment funds which own equity in a loan servicer and other real estate assets | 4% - 6%                            | 9,225                | 8,014             |   |
| Various   | 2% - 10%                           | 10,619               | 3,459             |   |
|   |                                    | 19,844               | 11,473            |   |
|   |                                    | \$ 110,569           | \$ 122,954        |   |

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

(2) Differences between the carrying value of our investment and the underlying equity in net assets of the investee are accounted for as if the investee were a consolidated entity in accordance with ASC 323, *Investments - Equity Method and Joint Ventures*.

In October 2014, we committed \$150 million for a 33% equity interest in SCG Core-Plus Retail Fund, L.P., a newly formed partnership established by an affiliate of our Manager for the purpose of acquiring and operating four regional shopping malls. Refer to Note 22 for further discussion.

## 7. Goodwill and Intangible Assets

### *Goodwill*

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

Table of Contents*Servicing Rights Intangibles*

In connection with the LNR acquisition, we identified domestic and European servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. All of our servicing fees are specified by these Pooling and Servicing Agreements. At September 30, 2014 and December 31, 2013, the balance of the domestic servicing intangible was net of \$57.7 million and \$80.6 million, respectively, that was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs. Before VIE consolidation, as of September 30, 2014 and December 31, 2013, the domestic servicing intangible had a balance of \$188.1 million and \$230.7 million, respectively, which represents our economic interest in this asset.

The table below presents information about our GAAP servicing intangibles for the nine months ended September 30, 2014 and 2013 (in thousands):

|  | 2014              | 2013              |
|--|-------------------|-------------------|
| <b>Domestic servicing rights, at fair value</b>                                      |                   |                   |
| Fair value at January 1  | \$ 150,149        | \$                |
| Acquisition of LNR   |                   | 156,993           |
| Changes in fair value due to changes in inputs and assumptions                       | (18,671)          | 1,030             |
| Other  | (1,058)           |                   |
| Fair value at September 30   | 130,420           | 158,023           |
| <b>European servicing rights</b>   |                   |                   |
| Net carrying amount at January 1 (fair value of \$29.3 million)                      | 27,024            |                   |
| Acquisition of LNR   |                   | 32,649            |
| Foreign exchange (loss) gain   | (190)             | 1,825             |
| Amortization and OTTI  | (11,464)          | (4,765)           |
| Net carrying value at September 30 (fair value of \$15.9 million and \$31.4 million) | 15,370            | 29,709            |
| <b>Total servicing rights at September 30</b>  | <b>\$ 145,790</b> | <b>\$ 187,732</b> |

**8. Secured Financing Agreements**

The following table is a summary of our secured financing agreements in place as of September 30, 2014 and December 31, 2013 (dollars in thousands):

|                        | Current Maturity | Extended Maturity(a) | Pricing                | Pledged Asset Carrying Value | Maximum Facility Size | Carrying Value at September 30, 2014 | December 31, 2013 |
|------------------------|------------------|----------------------|------------------------|------------------------------|-----------------------|--------------------------------------|-------------------|
| <b>Lender 1 Repo 1</b> | (b)              | (b)                  | LIBOR + 1.85% to 5.25% | \$ 1,140,557                 | \$ 1,000,000(c)       | \$ 686,995                           | \$ 449,323        |
| <b>Lender 1 Repo 2</b> | (d)              | N/A                  | LIBOR + 1.90%          | 214,803                      | 145,000               | 130,367                              | 127,943           |
| <b>Lender 1 Repo 3</b> | Dec 2014         | Dec 2016             | LIBOR + 2.75%          | 161,693                      | 120,021               | 120,021                              | 154,133           |
| <b>Lender 2 Repo 1</b> | Oct 2015         | Oct 2018             | LIBOR + 1.75% to 2.75% | 328,615                      | 325,000               | 222,802                              | 100,886           |

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|                        |             |             |                      |              |              |              |              |
|------------------------|-------------|-------------|----------------------|--------------|--------------|--------------|--------------|
| <b>Lender 3 Repo 1</b> | May 2017    | May 2019    | LIBOR + 2.85%        | 180,570      | 126,733      | 126,733      | 50,871       |
| <b>Conduit Repo 1</b>  | Sep 2015    | Sep 2016    | LIBOR + 1.90%        | 219,928      | 250,000      | 165,098      | 129,843      |
| <b>Conduit Repo 2</b>  | Nov 2014(e) | Nov 2014(e) | LIBOR + 2.10%        | 5,444        | 150,000      | 4,125        |              |
| <b>Lender 4 Repo 1</b> | Oct 2015    | Oct 2017    | LIBOR + 2.60%        | 433,216      | 340,473      | 340,473      | 347,697      |
| <b>Lender 5 Repo 1</b> | Dec 2014(f) | Dec 2014(f) | LIBOR + 2.00%        | 84,140       | 58,467       | 58,467       | 58,467       |
| <b>Lender 6 Repo 1</b> | Aug 2017    | Aug 2018    | LIBOR + 2.75%        | 79,493       | 250,000      | 64,000       |              |
| <b>Borrowing Base</b>  | Sep 2015    | Sep 2017    | LIBOR + 3.25%<br>(g) | 809,747      | 285,000(h)   | 124,504      | 169,104      |
| <b>Term Loan</b>       | Apr 2020    | Apr 2020    | LIBOR + 2.75%<br>(g) | 2,985,124    | 666,731      | 664,523(i)   | 669,293(i)   |
|                        |             |             |                      | \$ 6,643,330 | \$ 3,717,425 | \$ 2,708,108 | \$ 2,257,560 |

(a) Subject to certain conditions as defined in the respective facility agreement.

(b) Maturity date for borrowings collateralized by loans of January 2017 before extension options and January 2019 assuming initial extension options. Maturity date for borrowings collateralized by CMBS of January 2015 before extension options and January 2016 assuming initial extension options.

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- (c) In October 2014, we amended the Lender 1 Repo 1 facility to upsize available borrowings from \$1.0 billion to \$1.25 billion.
- (d) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 13, 2015.
- (e) In October 2014, we amended the Conduit Repo 2 facility to extend the maturity date to November 2016 assuming the exercise of a one-year extension.
- (f) In October 2014, we amended the Lender 5 Repo1 facility to extend the maturity date to December 2015.
- (g) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The Term Loan is also subject to a 75 basis point floor.
- (h) Maximum borrowings under this facility were temporarily increased from \$250.0 million to \$285.0 million. This increase expired on October 17, 2014.
- (i) Term loan outstanding balance is net of \$2.2 million and \$2.5 million of unamortized discount as of September 30, 2014 and December 31, 2013.

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

In January 2014, we amended the Lender 1 Repo 1 facility to (i) upsize available borrowings to \$1.0 billion from \$550 million; (ii) extend the maturity date for loan collateral to January 2019 and for CMBS collateral to January 2016, each from August 2014, and each assuming initial extension options; (iii) allow for up to four additional one-year extension options with respect to any loan collateral that remains financed at maturity, in an effort to match the term of the maturity dates of these assets; (iv) reduce pricing and debt-yield thresholds for purchased assets; and (v) amend certain financial covenants to contemplate the spin-off of the SFR segment. STWD guarantees certain of the obligations of the consolidated subsidiary, which is the borrower under the repurchase agreement, up to a maximum liability of either 25% or 100% of the then-currently outstanding repurchase price of purchased assets, depending upon the type of asset being financed. In October 2014, we again amended this facility to upsize available borrowings to \$1.25 billion. Refer to Note 22 for further discussion.

In May 2014, we amended our Lender 3 Repo 1 facility to (i) increase additional borrowings by \$42.7 million; (ii) extend the maturity date for loan collateral to May 2019, assuming the exercise of two one-year extension options; (iii) reduce pricing for all purchased assets; and (iv) increase advance rates for certain purchased assets.

In July 2014, we amended the Lender 2 Repo 1 facility to upsize available borrowings from \$225 million to \$325 million and reduce pricing.

In July 2014, we amended the Lender 1 Repo 2 facility to reduce available borrowings from \$175 million to \$145 million. Term and pricing were unchanged.

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In August 2014, we executed a \$250 million repurchase facility ( Lender 6 Repo 1 ) with a new lender. The facility has a three year term with a one year extension available at the option of the lender. The facility carries an annual interest rate of LIBOR + 2.75% and eligible collateral includes identified commercial mortgage loans and other asset types at the discretion of the lender.

In September 2014, we amended the Conduit Repo 1 facility to extend the maturity date to September 2016, assuming the exercise of a one-year extension option, and reduce pricing.

In October 2014, we amended the Conduit Repo 2 facility to extend the maturity date. Refer to Note 22 for further discussion.

In October 2014, we amended the Lender 5 Repo1 facility to extend the maturity date to December 2015 and reduce pricing.

Our secured financing agreements contain certain financial tests and covenants. As of September 30, 2014, we were in compliance with all such covenants.

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

|                     |    |           |
|---------------------|----|-----------|
| 2014 (remainder of) | \$ | 231,992   |
| 2015                |    | 158,518   |
| 2016                |    | 174,244   |
| 2017                |    | 672,144   |
| 2018                |    | 276,124   |
| Thereafter(1)       |    | 1,197,294 |
| Total               | \$ | 2,710,316 |

(1) Principal paydown of the Term Loan through 2020 excludes \$2.2 million of discount amortization.

Secured financing maturities for the remainder of 2014 primarily relate to \$165.1 million on the Conduit Repo 1 facility and \$58.5 million on the Lender 5 Repo 1 facility.

As of September 30, 2014 and December 31, 2013, we had approximately \$25.7 million and \$22.5 million, respectively, of deferred financing costs from secured financing agreements, net of amortization, which is included in other assets on our condensed consolidated balance sheets. For the three and nine months ended September 30, 2014, approximately \$2.9 million, and \$8.2 million, respectively, of amortization was included in interest expense on our condensed consolidated statements of operations. For the three and nine months ended September 30, 2013, approximately \$2.1 million, and \$7.0 million, respectively, of amortization was included in interest expense on our condensed consolidated statements of operations.

## 9. Convertible Senior Notes

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

|            | Principal<br>Amount | Coupon<br>Rate | Effective<br>Rate(1) | Conversion<br>Rate(2) | Maturity<br>Date | Remaining<br>Period of<br>Amortization |
|------------|---------------------|----------------|----------------------|-----------------------|------------------|--|
| 2018 Notes | \$ 599,981          | 4.55%          | 6.08%                | 44.8925               | 3/1/2018         | 3.4 years                              |
| 2019 Notes | \$ 459,997          | 4.00%          | 5.37%                | 47.7746               | 1/15/2019        | 4.3 years                              |

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|   | As of              |           | As of             |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30, 2014 |           | December 31, 2013 |           |
| Total principal   | \$                 | 1,059,978 | \$                | 1,060,000 |
| Net unamortized discount  |                    | (53,051)  |                   | (62,149)  |
| Carrying amount of debt components  | \$                 | 1,006,927 | \$                | 997,851   |
| Carrying amount of conversion option equity components recorded in additional paid-in capital | \$                 | 48,502    | \$                | 48,502    |

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(1) Effective rate includes the effects of underwriter purchase discount and the adjustment for the conversion option, the value of which reduced the initial liability and was recorded in additional paid-in-capital.

(2) The conversion rate represents the number of shares of common stock issuable per \$1,000 principal amount of Convertible Notes converted, as adjusted in accordance with the applicable indentures as a result of the spin-off of the SFR segment and cash dividend payments. The if-converted value of the 2019 Notes exceeded their principal amount by \$22.6 million at September 30, 2014 since the closing market price of \$21.96 per share exceeded the implicit conversion price of \$20.93 per share for the 2019 Notes. The Company has asserted its intent and ability to settle the principal



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amount of the Convertible Notes in cash. As a result, conversion of this principal amount, totaling 47.9 million and 48.0 million shares for the three and nine months ended September 30, 2014, respectively, was not included in the computation of diluted earnings per share (EPS). However, the conversion spread value, representing 1.0 million and 0.9 million shares for the three and nine months ended September 30, 2014, respectively, was included in the computation of diluted EPS. The if-converted value of the 2018 Notes was less than their principal amount by \$8.6 million at September 30, 2014 since the closing market price of the Company's common stock of \$21.96 per share was less than the implicit conversion price of \$22.28 per share. As a result, no dilution related to the 2018 Notes was included in the computation of diluted EPS for the three and nine months ended September 30, 2014. Refer to Note 16 for further discussion.

As of September 30, 2014 and December 31, 2013, we had approximately \$1.4 million and \$1.6 million, respectively, of deferred financing costs from our Convertible Notes, net of amortization, which is included in other assets on our condensed consolidated balance sheets.

*Conditions for Conversion*

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

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

*Impact of Spin-off on Convertible Senior Notes*

As described in Note 1, on January 31, 2014, the Company distributed all of its interest in the SFR segment to the Company's stockholders of record as of January 24, 2014. As the per-share value of the distribution was expected to exceed 10% of the last reported market price of the Company's common stock on the trading day prior to the announcement for such distribution, holders of the Convertible Notes were eligible to surrender their notes for conversion at any time during the period beginning November 26, 2013 (the 45th trading day immediately prior to the scheduled ex-dividend date for the distribution) and ending on the close of the business day immediately preceding February 3, 2014, the ex-dividend date for such distribution. During this period, the Company received notices of conversion totaling \$19 thousand and \$3 thousand in principal for the 2018 Notes and 2019 Notes, respectively. The cash settlement of these conversions occurred in April 2014.

Due to the distribution, the quarterly dividend threshold amounts for the Convertible Notes were adjusted to \$0.3548 and \$0.3710 (from \$0.44 and \$0.46) per share of common stock for the 2018 Notes and 2019 Notes, respectively, effective February 3, 2014.

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Refer to Note 11 to the consolidated financial statements included in our Form 10-K for further discussion regarding our accounting for the Convertible Notes.

### *October 2014 Convertible Senior Notes*

On October 8, 2014, we issued \$431.3 million of 3.75% Convertible Senior Notes due 2017. Refer to Note 22 for further discussion.

### **10. Loan Securitization/Sale Activities**

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

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Within LNR, we originate commercial mortgage loans with the intent to sell these mortgage loans to SPEs for the purposes of securitization. These SPEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the SPE. In certain instances, we retain a subordinated interest in the SPE and serve as special servicer for the SPE. During the three and nine months ended September 30, 2014, we sold \$482.1 million and \$1.1 billion, respectively, par value of loans held-for-sale from our conduit platform for their fair values of \$498.8 million and \$1.2 billion, respectively. During the three and nine months ended September 30, 2014, the sale proceeds were used in part to repay \$361.5 million and \$839.6 million, respectively, of the outstanding balance of the repurchase agreements associated with these loans.

Within the Lending Segment (refer to Note 21), we originate or acquire loans and then subsequently sell a portion, which can be in various forms including first mortgages, A-Notes, senior participations and mezzanine loans. Typically, our motivation for entering into these transactions is to effectively create leverage on the subordinated position that we will retain and hold for investment. In certain instances, we continue to service the loan following its sale. The following table summarizes our loans sold and loans transferred as secured borrowings by the Lending Segment net of expenses (in thousands):

|  | Loan Transfers Accounted for<br>as Sales |            | Loan Transfers Accounted for<br>as Secured Borrowings |          |
|--|--|------------|---|----------|
|  | Face Amount                              | Proceeds   | Face Amount   | Proceeds |
| <b><u>For the three months ended September 30,</u></b> |  |            |   |          |
| 2014   | \$ 142,896                               | \$ 138,958 | \$  | \$       |
| 2013   | 271,553                                  | 272,131    |   |          |
| <b><u>For the nine months ended September 30,</u></b>  |  |            |   |          |
| 2014   | \$ 347,755                               | \$ 341,472 | \$  | \$       |
| 2013   | 368,933                                  | 369,621    | 95,000  | 95,000   |

**11. Derivatives and Hedging Activity*****Risk Management Objective of Using Derivatives***

We are exposed to certain risks arising from both our business operations and economic conditions. Refer to Note 13 to the consolidated financial statements included in our Form 10-K for further discussion of our risk management objectives and policies.

***Designated Hedges***

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

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In connection with our repurchase agreements, we have entered into seven outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of September 30, 2014, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled \$132.6 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.56% to 2.23% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from November 2015 to May 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and nine months ended September 30, 2014 and 2013, we did not recognize any hedge ineffectiveness in earnings.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next twelve months, we estimate that an additional \$0.8 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 80 months.

### *Non-designated Hedges*

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

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condensed consolidated statements of operations. The LNR conduit platform uses interest rate and credit index instruments to manage exposures related to commercial mortgage loans held-for-sale.

We have entered into a series of forward contracts whereby we agreed to sell an amount of foreign currency for an agreed upon amount of USD at various dates through January 2018. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments.

As of September 30, 2014, we had 60 foreign exchange forward derivatives to sell pounds sterling ( GBP ) with a total notional amount of £219.7 million, 30 foreign exchange forward derivatives to sell Euros ( EUR ) with a total notional amount of 109.6 million, 2 foreign exchange forward derivatives to sell Swedish Krona ( SEK ) with a total notional of SEK 23.0 million, 1 foreign exchange forward derivative to sell Norwegian Krone ( NOK ) with a notional of NOK 1.3 million and 1 foreign exchange forward to sell Danish Krone ( DKK ) with a notional of DKK 3.2 million that were not designated as hedges in qualifying hedging relationships. As of September 30, 2014, there were 48 interest rate swaps where the Company is paying fixed rates, with maturities ranging from 2 to 10 years and a total notional amount of \$286.5 million, 3 interest rate swaps where the Company is receiving fixed rates with maturities ranging from 0 to 3 years and a total notional of \$17.4 million and 7 credit index instruments with a total notional amount of \$35.0 million. The table below presents the fair value of our derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|   | Fair Value of Derivatives in an<br>Asset Position(1) As of |                   | Fair Value of Derivatives in a<br>Liability Position(2) As of |                   |
|---|--|-------------------|---|-------------------|
|   | September 30, 2014   | December 31, 2013 | September 30, 2014  | December 31, 2013 |
| <b>Derivatives designated as hedging instruments:</b>     |  |                   |   |                   |
| Interest rate swaps                                       | \$ 198   | \$ 125            | \$ 242  | \$ 729            |
| Total derivatives designated as hedging instruments       | 198  | 125               | 242   | 729               |
| <b>Derivatives not designated as hedging instruments:</b> |  |                   |   |                   |
| Interest rate swaps                                       | 2,213  | 5,102             | 849   | 983               |
| Foreign exchange contracts                                | 10,005   | 269               | 4,371   | 22,480            |
| Credit index instruments                                  | 938  | 2,273             |   |                   |
| Total derivatives not designated as hedging instruments   | 13,156   | 7,644             | 5,220   | 23,463            |
| <b>Total derivatives</b>                                  | <b>\$ 13,354</b>   | <b>\$ 7,769</b>   | <b>\$ 5,462</b>   | <b>\$ 24,192</b>  |

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

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

The tables below present the effect of our derivative financial instruments on the condensed consolidated statements of operations and of comprehensive income for the three and nine months ended September 30, 2014 and 2013:

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| <b>Derivatives Designated as Hedging Instruments<br/>For the Three Months Ended September 30,</b> | <b>Gain (Loss)<br/>Recognized<br/>in OCI<br/>(effective portion)</b> | <b>(Loss)<br/>Reclassified<br/>from AOCI<br/>into Income<br/>(effective portion)</b> | <b>(Loss) Gain<br/>Recognized<br/>in Income<br/>(ineffective portion)</b> | <b>Location of (Loss)<br/>Recognized in Income</b> |
|---|--|--|---|--|
| 2014  | \$ 186   | \$ (344)   | \$  | Interest expense                                   |
| 2013  | \$ (594)   | \$ (397)   | \$  | Interest expense                                   |

| <b>Derivatives Designated as Hedging Instruments<br/>For the Nine Months Ended September 30,</b> | <b>Gain (Loss)<br/>Recognized<br/>in OCI<br/>(effective portion)</b> | <b>(Loss)<br/>Reclassified<br/>from AOCI<br/>into Income<br/>(effective portion)</b> | <b>(Loss) Gain<br/>Recognized<br/>in Income<br/>(ineffective portion)</b> | <b>Location of (Loss)<br/>Recognized in Income</b> |
|--|--|--|---|--|
| 2014   | \$ (522)   | \$ (1,081)   | \$  | Interest expense                                   |
| 2013   | \$ 332   | \$ (1,251)   | \$  | Interest expense                                   |

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| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income    | Amount of Gain (Loss) Recognized in Income for the |             | Amount of Gain (Loss) Recognized in Income for the |          |
|---|---|--|-------------|--|----------|
|   |   | Three Months Ended September 30, 2014              | 2013        | Nine Months Ended September 30, 2014               | 2013     |
| Interest rate swaps                               | Gain (loss) on derivative financial instruments | \$ 1,054   | \$ (4,261)  | \$ (5,639)   | \$ 2,752 |
| Foreign exchange contracts                        | Gain (loss) on derivative financial instruments | 28,123   | (17,459)    | 18,293   | (2,692)  |
| Credit index instruments                          | Gain (loss) on derivative financial instruments | 98   | (731)       | (1,035)  | (125)    |
|   |   | \$ 29,275  | \$ (22,451) | \$ 11,619  | \$ (65)  |

**Credit-risk-related Contingent Features**

We have entered into agreements with certain of our derivative counterparties that contain provisions providing that if we were to default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, we may also be declared in default on our derivative obligations. We also have certain agreements that contain provisions providing that if our ratio of principal amount of indebtedness to total assets at any time exceeds 75%, then we could be declared in default of our derivative obligations.

As of September 30, 2014, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was \$0.3 million. As of September 30, 2014, we had posted collateral of \$20.6 million related to these agreements. If we had breached any of these provisions at September 30, 2014, we could have been required to settle our obligations under the agreements at their termination liability value of \$0.3 million.

**12. Offsetting Assets and Liabilities**

The following tables present the potential effects of netting arrangements on our financial position for financial assets and liabilities within the scope of ASC 210-20, *Balance Sheet Offsetting*, which for us are derivative assets and liabilities as well as repurchase agreement liabilities (amounts in thousands):

|                                 | (i)<br>Gross Amounts<br>Recognized | (ii)<br>Gross Amounts<br>Offset in the<br>Statement of<br>Financial Position | (iii) = (i) - (ii)<br>Net Amounts<br>Presented in<br>the Statement of<br>Financial Position | (iv)<br>Gross Amounts Not<br>Offset in the Statement<br>of Financial Position | Cash<br>Collateral<br>Received /<br>Pledged | (v) = (iii) - (iv)<br>Net Amount |
|---------------------------------|------------------------------------|--|---|---|---|----------------------------------|
| <b>As of September 30, 2014</b> |                                    |  |   |   |   |                                  |
| Derivative assets               | \$ 13,354                          | \$   | \$ 13,354   | \$ 4,832  | \$ 4,683                                    | \$ 3,839                         |
| Derivative liabilities          | \$ 5,462                           | \$   | \$ 5,462  | \$ 4,832  | \$ 630                                      | \$                               |
| Repurchase agreements           | 1,919,081                          |  | 1,919,081   | 1,919,081   |   |                                  |
|                                 | \$ 1,924,543                       | \$   | \$ 1,924,543  | \$ 1,923,913  | \$ 630                                      | \$                               |

**As of December 31,**

|                        |    |           |    |           |    |           |    |       |    |        |
|------------------------|----|-----------|----|-----------|----|-----------|----|-------|----|--------|
| <b>2013</b>            |    |           |    |           |    |           |    |       |    |        |
| Derivative assets      | \$ | 7,769     | \$ | 7,769     | \$ | 692       | \$ | 1,916 | \$ | 5,161  |
| Derivative liabilities | \$ | 24,192    | \$ | 24,192    | \$ | 692       | \$ | 7,150 | \$ | 16,350 |
| Repurchase agreements  |    | 1,419,163 |    | 1,419,163 |    | 1,419,163 |    |       |    |        |
|                        | \$ | 1,443,355 | \$ | 1,443,355 | \$ | 1,419,855 | \$ | 7,150 | \$ | 16,350 |

**13. Variable Interest Entities***Investment Securities*

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

The VIEs consolidated in accordance with ASC 810 are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The assets and other instruments held by these securitization entities are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the



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securitization entities do not have any recourse to the general credit of any other consolidated entities, nor to us as the primary beneficiary. The SPE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

*VIEs in which we are the Primary Beneficiary*

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

*VIEs in which we are not the Primary Beneficiary*

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

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

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization SPEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of September 30, 2014, our maximum risk of loss related to VIEs in which we were not the primary beneficiary was \$185.0 million on a fair value basis.

As of September 30, 2014, the securitization SPEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of \$60.4 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

#### 14. Related-Party Transactions

##### *Management Agreement*

We are party to a management agreement (the *Management Agreement*) with our Manager. Under the Management Agreement, our Manager, subject to the oversight of our board of directors, is required to manage our day-to-day activities, for which our Manager receives a base management fee and is eligible for an incentive fee and stock awards. Our Manager's personnel perform certain due diligence, legal, management and other services that outside professionals or consultants would otherwise perform. As such, in accordance with the terms of our Management Agreement, our Manager is paid or reimbursed for the documented costs of performing such tasks, provided that such costs and reimbursements are in amounts no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis. Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further discussion of this agreement.

*Base Management Fee.* For the three months ended September 30, 2014 and 2013, approximately \$13.8 million and \$13.5 million, respectively, was incurred for base management fees. For the nine months ended September 30, 2014 and 2013, approximately \$40.7 million and \$35.9 million, respectively, was incurred for base management fees. As of September 30, 2014 and December 31, 2013, there were \$13.8 million and \$0, respectively, of unpaid base management fees included in related-party payable in our condensed consolidated balance sheets.

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*Incentive Fee.* For the three months ended September 30, 2014 and 2013, approximately \$4.3 million and \$4.8 million, respectively, was incurred for incentive fees. For the nine months ended September 30, 2014 and 2013, approximately \$15.5 million and \$4.8 million, respectively, was incurred for incentive fees. As of September 30, 2014 and December 31, 2013, approximately \$4.3 million and \$6.8 million, respectively, of unpaid incentive fees were included in related-party payable in our condensed consolidated balance sheets.

*Expense Reimbursement.* For the three months ended September 30, 2014 and 2013, approximately \$1.7 million and \$1.8 million, respectively, was incurred for executive compensation and other reimbursable expenses. For the nine months ended September 30, 2014 and 2013, approximately \$5.7 million and \$6.3 million, respectively, was incurred for executive compensation and other reimbursable expenses. As of September 30, 2014 and December 31, 2013, approximately \$2.1 million and \$4.4 million, respectively, of unpaid reimbursable executive compensation and other expenses were included in related-party payable in our condensed consolidated balance sheets.

***Manager Equity Plan***

In January 2014, we granted 2,489,281 restricted stock units to our Manager under the Starwood Property Trust, Inc. Manager Equity Plan ( *Manager Equity Plan* ). In connection with these grants and prior similar grants, we recognized share-based compensation expense of \$6.3 million and \$3.9 million within management fees in our condensed consolidated statements of operations for the three months ended September 30, 2014 and 2013, respectively. In the nine months ended September 30, 2014 and 2013, we recognized \$19.8 million and \$12.4 million, respectively, related to these awards. Refer to Note 15 herein for further discussion of these grants.

***Investments in Loans***

In October 2012, we co-originated \$475.0 million in financing for the acquisition and redevelopment of a 10-story retail building located at 701 Seventh Avenue in the Times Square area of Manhattan through a joint venture with Starwood Distressed Opportunity Fund IX ( *Fund IX* ), an affiliate of our Manager. In January 2014, we refinanced the initial financing with an \$815.0 million first mortgage and mezzanine financing to facilitate the further development of the property. Fund IX did not participate in the refinancing. As such, the joint venture distributed \$31.6 million to Fund IX for the liquidation of Fund IX's interest in the joint venture.

In July 2014, we announced the co-origination of a £101.75 million first mortgage loan for the development of a 46-story residential tower and 18-story housing development containing a total of 366 private residential and affordable housing units located in London. We will originate £86.75 million of the loan, and private funds managed by an affiliate of our Manager will provide £15.0 million.

In July 2014, we co-originated a \$99.0 million mortgage loan for the refinancing and refurbishment of a 239 key, full service hotel located in Amsterdam, Netherlands with SEREF and other private funds, both affiliates of our Manager. We originated \$58.0 million of the loan, SEREF provided \$25.0 million and the private funds provided \$16.0 million.

***LNR Related-Party Arrangement***

In connection with the LNR acquisition, we were required to cash collateralize certain obligations of LNR, including letters of credit and performance obligations. Fund IX funded \$6.2 million of this obligation, but the account is within our name and is thus reflected within our restricted cash balance. We have recognized a corresponding payable to Fund IX of \$4.4 million and \$6.2 million within related-party payable in our condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013, respectively.

*Investment in Unconsolidated Entity*

In October 2014, we committed \$150 million for a 33% equity interest in SCG Core-Plus Retail Fund, L.P. (the Fund), of which \$132 million was funded on October 14, 2014. The Fund is a newly formed partnership established for the purpose of acquiring and operating four leading regional shopping malls located in Florida, Michigan, North Carolina and Virginia. All leasing services and asset management functions for the newly acquired properties will be conducted by an affiliate of our Manager which specializes in redeveloping, managing and repositioning retail real estate assets. In addition, another affiliate of our Manager will serve as general partner of the Fund. In consideration for its services, the general partner will earn incentive distributions that are payable once we, along with the other limited partners, receive 100% of our capital and a preferred return of 8%.

Table of Contents**15. Stockholders Equity**

During the nine months ended September 30, 2014 we declared the following dividends:

| Record Date | Declare Date | Pay Date | Amount  | Frequency |
|-------------|--------------|----------|---------|-----------|
| 9/30/14     | 8/6/14       | 10/15/14 | \$ 0.48 | Quarterly |
| 6/30/14     | 5/6/14       | 7/15/14  | \$ 0.48 | Quarterly |
| 3/31/14     | 2/24/14      | 4/15/14  | \$ 0.48 | Quarterly |

On April 11, 2014, we issued 22.0 million shares of common stock for gross proceeds of \$491.0 million. In connection with this offering, the underwriters had a 30-day option to purchase an additional 3.3 million shares of common stock, which they exercised in full, resulting in additional gross proceeds of \$73.7 million.

On May 15, 2014, we established the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the DRIP Plan) which provides stockholders with a means of purchasing additional shares of our common stock by reinvesting the cash dividends paid on our common stock and by making additional optional cash purchases. Shares of our common stock purchased under the DRIP Plan will either be issued directly by the Company or purchased in the open market by the plan administrator. The Company may issue up to 11 million shares of common stock under the DRIP Plan. During the nine months ended September 30, 2014, shares issued under the DRIP Plan were not material.

On May 27, 2014, we entered into an amended and restated At-The-Market Equity Offering Sales Agreement (the ATM Agreement) with Merrill Lynch, Pierce, Fenner & Smith Incorporated to sell shares of the Company's common stock of up to \$500 million from time to time, through an at the market equity offering program. Sales of shares under the ATM Agreement will be made by means of ordinary brokers transactions on the NYSE or otherwise at market prices prevailing at the time of sale or at negotiated prices. During the nine months ended September 30, 2014, we issued 759 thousand shares under the ATM Agreement for gross proceeds of \$18.3 million. There were no shares issued under the ATM agreement during the three months ended September 30, 2014.

On September 26, 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. Purchases made pursuant to the program will be made in either the open market or in privately negotiated transactions from time to time as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases are discretionary and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. During the three months ended September 30, 2014, we repurchased 587,900 shares of common stock for a total cost of \$13.0 million under the program.

***Equity Incentive Plans***

The Company currently maintains the Manager Equity Plan, the Starwood Property Trust, Inc. Equity Plan (the Equity Plan), and the Starwood Property Trust, Inc. Non-Executive Director Stock Plan ( Non-Executive Director Stock Plan ). Refer to Note 17 to the consolidated financial statements included in our Form 10-K for further information regarding these plans.

On January 2, 2014, the Company granted 2,000,000 restricted stock units to our Manager under the Manager Equity Plan. These awards vest ratably on a quarterly basis over a three-year period beginning on March 31, 2014 and had a grant date fair value of \$55.4 million. On January 31, 2014, in connection with the spin-off of the SFR segment, the Company granted our Manager 489,281 restricted stock units of the Company in consideration of the Manager's unvested restricted stock units. As part of the spin-off, all holders of the Company's common stock and vested restricted common stock received one SWAY common share for every five shares of the Company's common stock. At the time of the spin-off, the Manager held certain unvested restricted stock units that were not entitled to any SWAY shares. Under the legal documentation governing the outstanding restricted stock units, the Manager was entitled to receive additional restricted stock units in an amount equal to the number of such outstanding restricted stock units times the amount received in the spin-off by a holder of a share of STWD common stock (i.e., the price per share of a SWAY common share divided by five) divided by the fair market value of a share of STWD common stock on the date of the spin-off. Such make-whole issuance resulted in the Manager receiving 489,281 additional restricted stock units. In order to prevent dilution of the rights of our equity plan participants resulting from this make-whole issuance, the Equity Plan and Manager Equity Plan provide for, and, on August 12, 2014, our board of directors authorized, an increase of 489,281 shares to the maximum number of shares available for issuance under the Equity Plan and Manager Equity Plan.

As of September 30, 2014, there were 3.9 million shares available for future grants under the Manager Equity Plan, the Equity Plan and the Non-Executive Director Stock Plan.

Table of Contents**Schedule of Non-Vested Shares and Share Equivalents**

|                                  | <b>Non-Executive<br/>Director<br/>Stock Plan</b> | <b>Equity Plan</b> | <b>Manager<br/>Equity Plan</b> | <b>Total</b> |    | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value<br/>(per share)</b> |
|----------------------------------|--|--------------------|--------------------------------|--------------|----|---|
| Balance as of January 1, 2014    | 11,228   | 22,502             | 510,415                        | 544,145      | \$ | 22.88   |
| Granted                          | 3,852  | 162,458            | 2,489,281                      | 2,655,591    |    | 27.94   |
| Vested                           | (11,228)   | (59,557)           | (858,834)                      | (929,619)    |    | 26.64   |
| Forfeited                        |  |                    |                                |              |    |   |
| Balance as of September 30, 2014 | 3,852  | 125,403            | 2,140,862                      | 2,270,117    | \$ | 27.25   |

**16. Earnings per Share**

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

The Company's unvested restricted stock units and awards contain rights to receive non-forfeitable dividends and thus are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities. For the three and nine months ended September 30, 2014 and 2013, the two-class method resulted in the most dilutive EPS calculation.

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

|  | For the Three Month Ended<br>September 30, |            | For the Nine Month Ended<br>September 30, |             |
|--|--|------------|---|-------------|
|  | 2014                                       | 2013       | 2014                                      | 2013        |
| <b>Basic Earnings</b>  |  |            |   |             |
| <i>Continuing Operations:</i>  |  |            |   |             |
| Income from continuing operations attributable to STWD common stockholders                               | \$ 165,044                                 | \$ 91,058  | \$ 405,064                                | \$ 222,101  |
| Less: Income attributable to unvested shares   | (1,742)                                    | (310)      | (4,898)                                   | (1,133)     |
| Basic Income from continuing operations  | \$ 163,302                                 | \$ 90,748  | \$ 400,166                                | \$ 220,968  |
| <i>Discontinued Operations:</i>  |  |            |   |             |
| Loss from discontinued operations  | \$   | \$ (3,698) | \$ (1,551)                                | \$ (12,044) |
| Basic Net income attributable to STWD common stockholders after allocation to participating securities   | \$ 163,302                                 | \$ 87,050  | \$ 398,615                                | \$ 208,924  |
| <b>Diluted Earnings</b>  |  |            |   |             |
| <i>Continuing Operations:</i>  |  |            |   |             |
| Basic Income from continuing operations attributable to STWD common stockholders                         | \$ 165,044                                 | \$ 91,058  | \$ 405,064                                | \$ 222,101  |
| Less: Income attributable to unvested shares   | (1,742)                                    | (310)      | (4,898)                                   | (1,133)     |
| Add: Undistributed earnings to unvested shares   | 653  |            | 1,187                                     |             |
| Less: Undistributed earnings reallocated to unvested shares  | (650)                                      |            | (1,182)                                   |             |
| Diluted Income from continuing operations  | \$ 163,305                                 | \$ 90,748  | \$ 400,171                                | \$ 220,968  |
| <i>Discontinued Operations:</i>  |  |            |   |             |
| Basic Loss from discontinued operations  | \$   | \$ (3,698) | \$ (1,551)                                | \$ (12,044) |
| Diluted Net income attributable to STWD common stockholders after allocation to participating securities | \$ 163,305                                 | \$ 87,050  | \$ 398,620                                | \$ 208,924  |
| <b>Number of Shares:</b>   |  |            |   |             |
| Basic Average shares outstanding   | 222,481                                    | 171,520    | 212,351                                   | 156,615     |
| Effect of dilutive securities Convertible Notes  | 966  |            | 932                                       |             |
| Effect of dilutive securities Contingently Issuable Shares   | 96   |            | 96  |             |
| Diluted Average shares outstanding   | 223,543                                    | 171,520    | 213,379                                   | 156,615     |
| <b>Earnings Per Share Attributable to STWD Common Stockholders:</b>                                      |  |            |   |             |
| <i>Basic:</i>  |  |            |   |             |
| Income from continuing operations  | \$ 0.73                                    | \$ 0.53    | \$ 1.89                                   | \$ 1.41     |
| Loss from discontinued operations  |  | (0.02)     | (0.01)                                    | (0.08)      |
| Net income   | \$ 0.73                                    | \$ 0.51    | \$ 1.88                                   | \$ 1.33     |
| <i>Diluted:</i>  |  |            |   |             |
| Income from continuing operations  | \$ 0.73                                    | \$ 0.53    | \$ 1.88                                   | \$ 1.41     |
| Loss from discontinued operations  |  | (0.02)     | (0.01)                                    | (0.08)      |
| Net income   | \$ 0.73                                    | \$ 0.51    | \$ 1.87                                   | \$ 1.33     |



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As of September 30, 2014 and 2013, unvested restricted shares of 2.3 million and 0.7 million, respectively, were excluded from the computation of diluted EPS as their effect was determined to be anti-dilutive.

Also as of September 30, 2014, there were 48.9 million potential shares of common stock contingently issuable upon the conversion of the Convertible Notes. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, this principal amount, representing 47.9 million and 48.0 million shares for the three and nine months ended September 30, 2014, respectively, was not included in the computation of diluted EPS. However, as discussed in Note 9, the

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conversion option associated with the 2019 Notes is in-the-money as the if-converted value of the 2019 Notes exceeded its principal amount by \$22.6 million at September 30, 2014. The dilutive effect to EPS is determined by dividing this conversion spread value by the average share price. The conversion spread value is the value that would be delivered to investors in shares based on the terms of the Convertible Notes, upon an assumed conversion. In calculating the dilutive effect of these shares, the treasury stock method was used and resulted in a dilution of 1.0 million shares and 0.9 million shares for the three and nine months ended September 30, 2014, respectively. The conversion option associated with the 2018 Notes is out-of-the-money because the if-converted value of the 2018 Notes was less than their principal amount by \$8.6 million at September 30, 2014, therefore, there was no dilutive effect to EPS for the 2018 Notes.

**17. Accumulated Other Comprehensive Income**

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

|   | Effective Portion of<br>Cumulative Loss on<br>Cash Flow Hedges | Cumulative<br>Unrealized Gain on<br>Available-for-<br>Sale Securities | Foreign<br>Currency<br>Translation | Total     |
|---|--|---|------------------------------------|-----------|
| <b><u>Three Months ended September 30, 2014</u></b> |  |   |                                    |           |
| Balance at July 1, 2014                             | \$ (575)   | \$ 60,446   | \$ 15,091                          | \$ 74,962 |
| OCI before reclassifications                        | 186  | 4,190   | (9,765)                            | (5,389)   |
| Amounts reclassified from AOCI                      | 344  | (236)   |                                    | 108       |
| Net period OCI                                      | 530  | 3,954   | (9,765)                            | (5,281)   |
| Balance at September 30, 2014                       | \$ (45)  | \$ 64,400   | \$ 5,326                           | \$ 69,681 |
| <b><u>Three Months ended September 30, 2013</u></b> |  |   |                                    |           |
| Balance at July 1, 2013                             | \$ (791)   | \$ 68,119   | \$ (7,043)                         | \$ 60,285 |
| OCI before reclassifications                        | (594)  | 6,821   | 10,967                             | 17,194    |
| Amounts reclassified from AOCI                      | 397  | (8,589)   |                                    | (8,192)   |
| Net period OCI                                      | (197)  | (1,768)   | 10,967                             | 9,002     |
| Balance at September 30, 2013                       | \$ (988)   | \$ 66,351   | \$ 3,924                           | \$ 69,287 |
| <b><u>Nine Months ended September 30, 2014</u></b>  |  |   |                                    |           |
| Balance at January 1, 2014                          | \$ (604)   | \$ 66,566   | \$ 9,487                           | \$ 75,449 |
| OCI before reclassifications                        | (522)  | 9,563   | (4,161)                            | 4,880     |
| Amounts reclassified from AOCI                      | 1,081  | (11,729)  |                                    | (10,648)  |
| Net period OCI                                      | 559  | (2,166)   | (4,161)                            | (5,768)   |
| Balance at September 30, 2014                       | \$ (45)  | \$ 64,400   | \$ 5,326                           | \$ 69,681 |
| <b><u>Nine Months ended September 30, 2013</u></b>  |  |   |                                    |           |
| Balance at January 1, 2013                          | \$ (2,571)   | \$ 82,246   | \$                                 | \$ 79,675 |
| OCI before reclassifications                        | 332  | 7,360   | 3,924                              | 11,616    |
| Amounts reclassified from AOCI                      | 1,251  | (23,255)  |                                    | (22,004)  |
| Net period OCI                                      | 1,583  | (15,895)  | 3,924                              | (10,388)  |
| Balance at September 30, 2013                       | \$ (988)   | \$ 66,351   | \$ 3,924                           | \$ 69,287 |



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The reclassifications out of AOCI impacted the condensed consolidated statements of operations for the three and nine months ended September 30, 2014 and 2013 as follows:

| Details about AOCI Components                                  | Amounts Reclassified from<br>AOCI during the Three Months<br>Ended September 30, |          | Amounts Reclassified from<br>AOCI during the Nine Months<br>Ended September 30, |            | Affected Line Item<br>in the Statements |
|--|--|----------|---|------------|---|
|  | 2014   | 2013     | 2014  | 2013       |   |
| Losses on cash flow hedges:                                    |  |          |   |            |   |
| Interest rate contracts  | \$ (344)   | \$ (397) | \$ (1,081)  | \$ (1,251) | Interest expense                        |
| Unrealized gains (losses) on available for<br>sale securities: |  |          |   |            |   |
| Net realized gain on sale of<br>investments                    | 236  | 8,537    | 11,942  | 22,802     | Gain on sale of<br>investments, net     |
| OTTI   |  | 52       | (213)   | 453        | OTTI                                    |
| Total  | 236  | 8,589    | 11,729  | 23,255     |   |
| Total reclassifications for the period                         | \$ (108)   | \$ 8,192 | \$ 10,648   | \$ 22,004  |   |

**18. Fair Value**

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

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

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

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

**Valuation Process**

We have valuation control processes in place to validate the fair value of the Company's financial assets and liabilities measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. Refer to Note 21 to the consolidated financial statements included in our Form 10-K for further discussion of our valuation process.

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

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The following tables present our financial assets and liabilities carried at fair value on a recurring basis in the condensed consolidated balance sheets by their level in the fair value hierarchy as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|  | September 30, 2014    |                  |                       |                       |
|--|-----------------------|------------------|-----------------------|-----------------------|
|  | Total                 | Level I          | Level II              | Level III             |
| <b>Financial Assets:</b>               |                       |                  |                       |                       |
| Loans held-for-sale, fair value option | \$ 248,165            | \$               | \$                    | \$ 248,165            |
| RMBS                                   | 216,319               |                  |                       | 216,319               |
| CMBS                                   | 291,045               |                  |                       | 291,045               |
| Equity security                        | 15,471                | 15,471           |                       |                       |
| Domestic servicing rights              | 130,420               |                  |                       | 130,420               |
| Derivative assets                      | 13,354                |                  | 13,354                |                       |
| VIE assets                             | 109,468,293           |                  |                       | 109,468,293           |
| <b>Total</b>                           | <b>\$ 110,383,067</b> | <b>\$ 15,471</b> | <b>\$ 13,354</b>      | <b>\$ 110,354,242</b> |
| <b>Financial Liabilities:</b>          |                       |                  |                       |                       |
| Derivative liabilities                 | \$ 5,462              | \$               | \$ 5,462              | \$                    |
| VIE liabilities                        | 108,879,922           |                  | 105,068,183           | 3,811,739             |
| <b>Total</b>                           | <b>\$ 108,885,384</b> | <b>\$</b>        | <b>\$ 105,073,645</b> | <b>\$ 3,811,739</b>   |

|  | December 31, 2013     |                  |                       |                       |
|--|-----------------------|------------------|-----------------------|-----------------------|
|  | Total                 | Level I          | Level II              | Level III             |
| <b>Financial Assets:</b>               |                       |                  |                       |                       |
| Loans held-for-sale, fair value option | \$ 206,672            | \$               | \$                    | \$ 206,672            |
| RMBS                                   | 296,236               |                  |                       | 296,236               |
| CMBS                                   | 255,306               |                  | 47,300                | 208,006               |
| Equity security                        | 15,247                | 15,247           |                       |                       |
| Domestic servicing rights              | 150,149               |                  |                       | 150,149               |
| Derivative assets                      | 7,769                 |                  | 7,769                 |                       |
| VIE assets                             | 103,151,624           |                  |                       | 103,151,624           |
| <b>Total</b>                           | <b>\$ 104,083,003</b> | <b>\$ 15,247</b> | <b>\$ 55,069</b>      | <b>\$ 104,012,687</b> |
| <b>Financial Liabilities:</b>          |                       |                  |                       |                       |
| Derivative liabilities                 | \$ 24,192             | \$               | \$ 24,192             | \$                    |
| VIE liabilities                        | 102,649,263           |                  | 101,051,279           | 1,597,984             |
| <b>Total</b>                           | <b>\$ 102,673,455</b> | <b>\$</b>        | <b>\$ 101,075,471</b> | <b>\$ 1,597,984</b>   |

The changes in financial assets and liabilities classified as Level III were as follows for the three and nine months ended September 30, 2014 and 2013 (amounts in thousands):

| Three Months ended September 30, 2014        | Loans         |            | CMBS       | Domestic Servicing Rights | VIE Assets     | VIE Liabilities | Total          |
|--|---------------|------------|------------|---------------------------|----------------|-----------------|----------------|
|  | Held-for-sale | RMBS       |            |                           |                |                 |                |
| <b>July 1, 2014 balance</b>                  | \$ 154,412    | \$ 231,605 | \$ 282,361 | \$ 138,318                | \$ 114,091,158 | \$ (5,186,125)  | \$ 109,711,729 |
| Total realized and unrealized gains(losses): |               |            |            |                           |                |                 |                |
| Included in earnings:                        |               |            |            |                           |                |                 |                |
| Change in fair value / gain on sale          | 15,517        | 535        | 2,471      | (7,898)                   | (5,261,507)    | 237,693         | (5,013,189)    |
| Net accretion                                |               | 4,035      |            |                           |                |                 | 4,035          |
| Included in OCI                              |               | 7,602      | (9,662)    |                           |                |                 | (2,060)        |
| Purchases / Originations                     | 577,216       |            | 13,777     |                           |                |                 | 590,993        |
| Sales  | (498,789)     | (5,588)    |            |                           |                |                 | (504,377)      |
| Issuances                                    |               |            |            |                           |                | (16,655)        | (16,655)       |
| Cash repayments / receipts                   | (191)         | (21,870)   | 23         |                           |                | 20,189          | (1,849)        |

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|   |    |         |    |         |    |         |             |           |    |             |
|---|----|---------|----|---------|----|---------|-------------|-----------|----|-------------|
| Transfers into Level III  |    |         |    | 1,440   |    |         |             | (770,785) |    | (769,345)   |
| Transfers out of Level III  |    |         |    |         |    |         |             | 1,940,522 |    | 1,940,522   |
| Consolidations of VIEs  |    |         |    |         |    |         | 3,103,150   | (48,745)  |    | 3,054,405   |
| Deconsolidations of VIEs  |    |         |    | 635     |    |         | (2,464,508) | 12,167    |    | (2,451,706) |
| <b>September 30, 2014 balance</b>   | \$ | 248,165 | \$ | 216,319 | \$ | 291,045 | \$          | 130,420   | \$ | 109,468,293 |
|   |    |         |    |         |    |         |             | \$        |    | (3,811,739) |
|   |    |         |    |         |    |         |             |           |    | \$          |
|   |    |         |    |         |    |         |             |           |    | 106,542,503 |
| Amount of total (losses) gains included in earnings attributable to assets still held at September 30, 2014 | \$ | (455)   | \$ | 3,963   | \$ | 2,471   | \$          | (7,898)   | \$ | (5,261,507) |
|   |    |         |    |         |    |         |             |           |    | \$          |
|   |    |         |    |         |    |         |             |           |    | 237,693     |
|   |    |         |    |         |    |         |             |           |    | \$          |
|   |    |         |    |         |    |         |             |           |    | (5,025,734) |

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| Three Months ended September 30, 2013   | Loans<br>Held-for-sale | RMBS       | CMBS       | Domestic<br>Servicing<br>Rights | VIE Assets     | VIE<br>Liabilities | Total          |
|---|------------------------|------------|------------|---------------------------------|----------------|--------------------|----------------|
| <b>July 1, 2013 balance</b>   | \$ 171,176             | \$ 319,655 | \$ 164,399 | \$ 159,891                      | \$ 97,284,473  | \$ (2,334,660)     | \$ 95,764,934  |
| Total realized and unrealized (losses) gains:   |                        |            |            |                                 |                |                    |                |
| Included in earnings:   |                        |            |            |                                 |                |                    |                |
| Change in fair value  | 25,856                 |            | 4,620      | (1,868)                         | (4,283,956)    | 239,094            | (4,016,254)    |
| Impairment  |                        | (52)       |            |                                 |                |                    | (52)           |
| Net accretion   |                        | 5,940      |            |                                 |                |                    | 5,940          |
| Included in OCI   |                        | 4,842      | 474        |                                 |                |                    | 5,316          |
| Purchases / Originations  | 457,468                |            | 23,871     |                                 |                |                    | 481,339        |
| Sales   | (375,204)              |            |            |                                 |                |                    | (375,204)      |
| Issuances   |                        |            |            |                                 |                | (8,760)            | (8,760)        |
| Cash repayments / receipts  | (175)                  | (14,124)   | (163)      |                                 |                | (5,041)            | (19,503)       |
| Transfers into Level III  |                        |            | 5,098      |                                 |                | (88,806)           | (83,708)       |
| Transfers out of Level III  |                        |            |            |                                 |                | 483,608            | 483,608        |
| Consolidations of VIEs  |                        |            |            |                                 | 4,359,149      | (69,075)           | 4,290,074      |
| Deconsolidations of VIEs  |                        |            | (153)      |                                 |                |                    | (153)          |
| <b>September 30, 2013 balance</b>   | \$ 279,121             | \$ 316,261 | \$ 198,146 | \$ 158,023                      | \$ 97,359,666  | \$ (1,783,640)     | \$ 96,527,577  |
| Amount of total (losses) gains included in earnings attributable to assets still held at September 30, 2013 |                        |            |            |                                 |                |                    |                |
|   | \$ 6,011               | \$ 7,057   | \$ 5,428   | \$ (1,868)                      | \$ (4,283,956) | \$ 239,094         | \$ (4,028,234) |

|   |             |            |            |             |                 |                |                 |
|---|-------------|------------|------------|-------------|-----------------|----------------|-----------------|
|   |             |            |            |             |                 |                |                 |
| <b>January 1, 2014 balance</b>  | \$ 206,672  | \$ 296,236 | \$ 208,006 | \$ 150,149  | \$ 103,151,624  | \$ (1,597,984) | \$ 102,414,703  |
| Included in earnings:   |             |            |            |             |                 |                |                 |
| OTTI  |             |            |            |             |                 |                |                 |
|   |             | (214)      |            |             |                 |                | (214)           |
| Included in OCI   |             |            |            |             |                 |                |                 |
|   |             | 2,988      | (7,455)    |             |                 |                | (4,467)         |
| Sales   |             |            |            |             |                 |                |                 |
|   | (1,052,862) | (68,134)   | (29,301)   |             |                 |                | (1,150,297)     |
| Cash repayments / receipts  |             |            |            |             |                 |                |                 |
|   | (487)       | (40,155)   | (806)      |             |                 | 106,538        | 65,090          |
| Transfers out of Level III  |             |            |            |             |                 |                |                 |
|   | (112,720)   |            | (180)      | (1,058)     |                 | 2,653,379      | 2,539,421       |
| Deconsolidations of VIEs  |             |            |            |             |                 |                |                 |
|   |             |            | 857        |             | (8,502,882)     | 44,822         | (8,457,203)     |
| Amount of total (losses) gains included in earnings attributable to assets still held at September 30, 2014 |             |            |            |             |                 |                |                 |
|   | \$ (455)    | \$ 11,742  | \$ 14,907  | \$ (18,671) | \$ (12,275,130) | \$ 337,529     | \$ (11,930,078) |



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| Nine Months ended September 30, 2013  | Loans         |            |      | Domestic<br>Servicing<br>Rights | VIE Assets | VIE<br>Liabilities | Total          |                |                |
|---|---------------|------------|------|---------------------------------|------------|--------------------|----------------|----------------|----------------|
|   | Held-for-sale | RMBS       | CMBS |                                 |            |                    |                |                |                |
| <b>January 1, 2013 balance</b>  | \$            | \$ 333,153 | \$   | \$                              | \$         | \$                 | \$ 333,153     |                |                |
| Acquisition of LNR  |               | 256,502    |      | 62,432                          | 156,993    | 90,989,793         | (1,994,243)    | 89,471,477     |                |
| Total realized and unrealized gains (losses)  | :             |            |      |                                 |            |                    |                |                |                |
| Included in earnings:   |               |            |      |                                 |            |                    |                |                |                |
| Change in fair value  |               | 26,315     |      | 2,129                           | 3,452      | 1,030              | (8,078,597)    | 333,542        | (7,712,129)    |
| Impairment  |               |            |      | (453)                           |            |                    |                |                | (453)          |
| Net accretion   |               |            |      | 17,846                          |            |                    |                |                | 17,846         |
| Included in OCI   |               |            |      | 2,970                           | 2,382      |                    |                |                | 5,352          |
| Purchases / Originations  |               | 848,137    |      | 20,090                          | 23,910     |                    |                |                | 892,137        |
| Sales   |               | (851,539)  |      | (12,712)                        | (10,072)   |                    |                |                | (874,323)      |
| Issuances   |               |            |      |                                 |            |                    |                | (8,760)        | (8,760)        |
| Cash repayments / receipts  |               | (294)      |      | (46,762)                        | (163)      |                    |                | 74,694         | 27,475         |
| Transfers into Level III  |               |            |      |                                 | 117,413    |                    |                | (578,319)      | (460,906)      |
| Transfers out of Level III  |               |            |      |                                 |            |                    |                | 636,291        | 636,291        |
| Consolidations of VIEs  |               |            |      |                                 | (1,208)    |                    | 15,033,274     | (247,706)      | 14,784,360     |
| Deconsolidations of VIEs  |               |            |      |                                 |            |                    | (584,804)      | 861            | (583,943)      |
| <b>September 30, 2013 balance</b>   | \$            | \$ 279,121 | \$   | \$ 316,261                      | \$ 198,146 | \$ 158,023         | \$ 97,359,666  | \$ (1,783,640) | \$ 96,527,577  |
| Amount of total gains (losses) included in earnings attributable to assets still held at September 30, 2013 | \$            | \$ 6,011   | \$   | \$ 21,363                       | \$ 1,854   | \$ 1,030           | \$ (8,078,597) | \$ 333,542     | \$ (7,714,797) |

During the three and nine months ended September 30, 2014, we transferred \$1.4 million and \$54.2 million, respectively of CMBS investments from Level II to Level III due to a decrease in the observable relevant market activity. During the three and nine months ended September 30, 2013, we transferred \$5.1 million and \$117.4 million, respectively, of CMBS investments from Level II to Level III due to a decrease in the observable relevant market activity.

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

|  | September 30, 2014 |              | December 31, 2013 |              |
|--|--------------------|--------------|-------------------|--------------|
|  | Carrying Value     | Fair Value   | Carrying Value    | Fair Value   |
| Financial assets not carried at fair value:                              |                    |              |                   |              |
| Loans held-for-investment and loans transferred as secured borrowings    | \$ 5,341,443       | \$ 5,470,512 | \$ 4,544,132      | \$ 4,609,040 |
| Securities, held-to-maturity   | 371,467            | 371,700      | 368,318           | 368,453      |
| European servicing rights  | 15,370             | 15,909       | 27,024            | 29,327       |
| Non-performing residential loans   |                    |              | 215,371           | 215,371      |
| Financial liabilities not carried at fair value:                         |                    |              |                   |              |
| Secured financing agreements and secured borrowings on transferred loans | \$ 2,850,683       | \$ 2,846,807 | \$ 2,438,798      | \$ 2,436,708 |
| Convertible senior notes   | 1,006,927          | 1,153,644    | 997,851           | 1,160,000    |

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

|  | Carrying Value at<br>September 30, 2014 | Valuation<br>Technique | Unobservable Input                                    | Range as of (1)    |                   |
|--|---|------------------------|---|--------------------|-------------------|
|  |   |                        |   | September 30, 2014 | December 31, 2013 |
| Loans held-for-sale, fair value option | \$ 248,165                              | Discounted cash flow   | Yield (b)   | 4.5% - 5.4%        | 5.2% - 5.9%       |
|  |   |                        | Duration(c)   | 5.0 - 10.0 years   | 5.0 - 10.0 years  |
| RMBS                                   | 216,319                                 | Discounted cash flow   | Constant prepayment rate(a)                           | 1.1% - 19.4%       | (0.6)% - 16.6%    |
|  |   |                        | Constant default rate(b)                              | 1.3% - 10.0%       | 1.4% - 11.3%      |
|  |   |                        | Loss severity(b)                                      | 11% - 79%(e)       | 15% - 92%(e)      |
|  |   |                        | Delinquency rate(c)                                   | 3% - 41%           | 3% - 48%          |
|  |   |                        | Servicer advances(a)                                  | 16% - 96%          | 24% - 95%         |
|  |   |                        | Annual coupon deterioration(b)                        | 0% - 0.7%          | 0% - 0.7%         |
|  |   |                        | Putback amount per projected total collateral loss(d) | 0% - 11%           | 0% - 9%           |
| CMBS                                   | 291,045                                 | Discounted cash flow   | Yield(b)  | 0% - 566.7%        | 0% - 890.0%       |
|  |   |                        | Duration(c)   | 0 - 11.6 years     | 0 - 11.0 years    |
| Domestic servicing rights              | 130,420                                 | Discounted cash flow   | Debt yield(a)   | 8.25%              | 8.75%             |
|  |   |                        | Discount rate(b)                                      | 15%                | 15%               |
|  |   |                        | Control migration(b)                                  | 0% - 80%           | 0% - 80%          |
| VIE assets                             | 109,468,293                             | Discounted cash flow   | Yield(b)  | 0% - 686.6%        | 0% - 952.3%       |
|  |   |                        | Duration(c)   | 0 - 20.1 years     | 0 - 22.7 years    |
| VIE liabilities                        | 3,811,739                               | Discounted cash flow   | Yield(b)  | 0% - 686.6%        | 0% - 952.3%       |
|  |   |                        | Duration(c)   | 0 - 20.1 years     | 0 - 22.7 years    |

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

**Sensitivity of the Fair Value to Changes in the Unobservable Inputs**

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- (a) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.
- (b) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.
- (c) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (lower or higher) fair value measurement depending on the structural features of the security in question.
- (d) Any delay in the putback recovery date leads to a decrease in fair value, for the majority of securities in our RMBS portfolio.

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(e) 83% and 90% of the portfolio falls within a range of 45%-80% as of September 30, 2014 and December 31, 2013, respectively.

**19. Income Taxes**

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

Our TRSs engage in various real estate related operations, including special servicing of commercial real estate, originating and securitizing commercial mortgage loans, and investing in entities which engage in real estate related operations. The majority of our TRSs are held within the LNR segment. As of September 30, 2014, \$987.6 million of the LNR assets, including \$196.1 million in cash, were owned by TRS entities. Our TRSs are not consolidated for federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

Our income tax provision consisted of the following for the three and nine months ended September 30, 2014 and 2013 (in thousands):

|                                | For the Three Months Ended<br>September 30, |           | For the Nine Months Ended<br>September 30, |           |
|--------------------------------|---|-----------|--|-----------|
|                                | 2014  | 2013      | 2014                                       | 2013      |
| Current:                       |   |           |  |           |
| Federal                        | \$ 10,044                                   | \$ 11,465 | \$ 20,668                                  | \$ 21,396 |
| Foreign                        | 905   | 1,011     | 4,136                                      | 1,581     |
| State                          | 2,041                                       | 1,892     | 3,840                                      | 3,753     |
| Total current                  | 12,990                                      | 14,368    | 28,644                                     | 26,730    |
| Deferred:                      |   |           |  |           |
| Federal                        | (7,390)                                     | 59        | (10,438)                                   | 122       |
| Foreign                        | (539)                                       | (716)     | (2,737)                                    | (1,181)   |
| State                          | (1,225)                                     | 10        | (1,736)                                    | 20        |
| Total deferred                 | (9,154)                                     | (647)     | (14,911)                                   | (1,039)   |
| Total income tax provision (1) | \$ 3,836                                    | \$ 13,721 | \$ 13,733                                  | \$ 25,691 |

(1) Includes provision of \$0 reflected in discontinued operations for both the three months ended September 30, 2014 and 2013, and \$0 and \$12 thousand reflected in discontinued operations for the nine months ended September 30, 2014 and 2013, respectively.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are presented net by tax jurisdiction and are reported in other assets and other liabilities, respectively. At September 30, 2014 and December 31, 2013, our U.S. tax jurisdiction was in a net deferred tax asset position, while our European tax jurisdiction was in a net deferred tax liability position. The following table presents each of these tax jurisdictions and the tax effects of temporary differences on their respective net deferred tax assets and liabilities (in thousands):

|  | September 30, 2014 |          | December 31, 2013 |          |
|--|--------------------|----------|-------------------|----------|
| <b>U.S.</b>                                  |                    |          |                   |          |
| <b>Deferred tax asset, net</b>               |                    |          |                   |          |
| Reserves and accruals                        | \$                 | 15,518   | \$                | 11,454   |
| Domestic intangible assets                   |                    | 8,201    |                   | (714)    |
| Investment securities and loans              |                    | (3,258)  |                   | (892)    |
| Investment in unconsolidated entities        |                    | 2,449    |                   | 1,811    |
| Deferred income                              |                    | 424      |                   | 59       |
| Net operating and capital loss carryforwards |                    | 2,343    |                   | 967      |
| Valuation allowance                          |                    | (2,343)  |                   | (799)    |
| Other U.S. temporary differences             |                    | 216      |                   | (242)    |
|  |                    | 23,550   |                   | 11,644   |
| <b>Europe</b>                                |                    |          |                   |          |
| <b>Deferred tax liability, net</b>           |                    |          |                   |          |
| European servicing rights                    |                    | (3,460)  |                   | (6,257)  |
| Net operating and capital loss carryforwards |                    | 10,305   |                   | 10,951   |
| Valuation allowance                          |                    | (10,305) |                   | (10,951) |
| Other European temporary differences         |                    | (360)    |                   | (527)    |
|  |                    | (3,820)  |                   | (6,784)  |
| <b>Net deferred tax assets</b>               | \$                 | 19,730   | \$                | 4,860    |

Unrecognized tax benefits were not material as of and during the three and nine months ended September 30, 2014.

The following table is a reconciliation of our federal income tax determined using our statutory federal tax rate to our reported income tax provision for the three and nine months ended September 30, 2014 and 2013 (dollar amounts in thousands):

|  | For the Three Months Ended September 30, |         |          |         | For the Nine Months Ended September 30, |         |          |         |       |
|--|--|---------|----------|---------|---|---------|----------|---------|-------|
|  | 2014                                     |         | 2013     |         | 2014                                    |         | 2013     |         |       |
| Federal statutory tax rate             | \$                                       | 59,929  | 35.0%    | \$      | 36,038                                  | 35.0%   | \$       | 83,955  | 35.0% |
| REIT and other non-taxable income      | (52,979)                                 | (30.9)% | (23,991) | (23.3)% | (133,483)                               | (31.6)% | (61,284) | (25.5)% |       |
| State income taxes                     | 930                                      | 0.5%    | 1,902    | 1.8%    | 1,953                                   | 0.5%    | 3,774    | 1.6%    |       |
| Federal benefit of state tax deduction | (326)                                    | (0.2)%  | (666)    | (0.6)%  | (683)                                   | (0.2)%  | (1,321)  | (0.6)%  |       |
| Valuation allowance                    | 712                                      | 0.4%    |          | %       | 1,160                                   | 0.3%    |          | %       |       |
| Other                                  | (4,430)                                  | (2.6)%  | 438      | 0.4%    | (3,050)                                 | (0.7)%  | 567      | 0.2%    |       |
| Effective tax rate                     | \$                                       | 3,836   | 2.2%     | \$      | 13,721                                  | 13.3%   | \$       | 25,691  | 10.7% |

**20. Commitments and Contingencies**

As of September 30, 2014, we had future funding commitments on 51 loans totaling \$2.2 billion, primarily related to construction projects, capital improvements, tenant improvements, and leasing commissions. Generally, funding commitments are subject to certain conditions that must be met, such as customary construction draw certifications, minimum debt service coverage ratios or executions of new leases before advances are made to the borrower.

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

Table of Contents**21. Segment Data**

In its operation of the business, management, including our chief operating decision maker, who is our Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis prior to the impact of consolidating VIEs under ASC 810. The segment information within this note is reported on that basis. During the quarter, we changed our methodology for allocating certain shared costs including management fee expense. Prior periods presented have been adjusted to conform to this new methodology. Refer to Note 24 to the consolidated financial statements included in our Form 10-K for further discussion of the composition of our reportable business segments.

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

|   | Real Estate<br>Investment<br>Lending | LNR            | Subtotal       | LNR VIEs        | Total          |
|---|--------------------------------------|----------------|----------------|-----------------|----------------|
| <b>Revenues:</b>  |                                      |                |                |                 |                |
| Interest income from loans  | \$ 106,369                           | \$ 4,300       | \$ 110,669     | \$              | \$ 110,669     |
| Interest income from investment securities                                    | 15,729                               | 30,136         | 45,865         | (17,225)        | 28,640         |
| Servicing fees  | 63                                   | 58,826         | 58,889         | (24,248)        | 34,641         |
| Other revenues  | 130                                  | 7,604          | 7,734          | (316)           | 7,418          |
| <b>Total revenues</b>   | <b>122,291</b>                       | <b>100,866</b> | <b>223,157</b> | <b>(41,789)</b> | <b>181,368</b> |
| <b>Costs and expenses:</b>  |                                      |                |                |                 |                |
| Management fees (1)   | 17,330                               | 7,571          | 24,901         | 42              | 24,943         |
| Interest expense (1)  | 33,138                               | 6,601          | 39,739         |                 | 39,739         |
| General and administrative  | 9,049                                | 38,414         | 47,463         | 177             | 47,640         |
| Acquisition and investment pursuit costs                                      | 583                                  | 176            | 759            |                 | 759            |
| Depreciation and amortization   |                                      | 3,017          | 3,017          |                 | 3,017          |
| Loan loss allowance, net  | 1,575                                |                | 1,575          |                 | 1,575          |
| Other expense   |                                      | 2,701          | 2,701          |                 | 2,701          |
| <b>Total costs and expenses</b>   | <b>61,675</b>                        | <b>58,480</b>  | <b>120,155</b> | <b>219</b>      | <b>120,374</b> |
| <b>Income before other income, income taxes and non-controlling interests</b> | <b>60,616</b>                        | <b>42,386</b>  | <b>103,002</b> | <b>(42,008)</b> | <b>60,994</b>  |
| <b>Other income:</b>  |                                      |                |                |                 |                |
| Income of consolidated VIEs, net  |                                      |                |                | 87,778          | 87,778         |
| Change in fair value of servicing rights                                      |                                      | (18,312)       | (18,312)       | 10,415          | (7,897)        |
| Change in fair value of investment securities, net                            | (140)                                | 52,067         | 51,927         | (50,067)        | 1,860          |
| Change in fair value of mortgage loans held-for-sale, net                     |                                      | 15,517         | 15,517         |                 | 15,517         |
| Earnings from unconsolidated entities   | 1,875                                | 5,905          | 7,780          | (3,975)         | 3,805          |
| Gain on sale of investments, net  | 1,332                                |                | 1,332          |                 | 1,332          |
| Gain on derivative financial instruments, net                                 | 26,540                               | 2,735          | 29,275         |                 | 29,275         |
| Foreign currency (loss), net  | (21,019)                             | (447)          | (21,466)       |                 | (21,466)       |
| OTTI  |                                      |                |                |                 |                |

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|   |                  |                  |                   |               |                   |
|---|------------------|------------------|-------------------|---------------|-------------------|
| Other income, net   |                  | 28               | 28                | 28            | 28                |
| <b>Total other income</b>                                       | <b>8,588</b>     | <b>57,493</b>    | <b>66,081</b>     | <b>44,151</b> | <b>110,232</b>    |
| <b>Income before income taxes</b>                               | <b>69,204</b>    | <b>99,879</b>    | <b>169,083</b>    | <b>2,143</b>  | <b>171,226</b>    |
| Income tax benefit (provision)                                  | 233              | (4,069)          | (3,836)           |               | (3,836)           |
| <b>Net income</b>   | <b>69,437</b>    | <b>95,810</b>    | <b>165,247</b>    | <b>2,143</b>  | <b>167,390</b>    |
| Net income attributable to non-controlling interests            | (203)            |                  | (203)             | (2,143)       | (2,346)           |
| <b>Net income attributable to Starwood Property Trust, Inc.</b> | <b>\$ 69,234</b> | <b>\$ 95,810</b> | <b>\$ 165,044</b> | <b>\$</b>     | <b>\$ 165,044</b> |

(1) Due to the structure of our business, certain costs incurred by one segment may benefit other segments. Costs that are identifiable are allocated to the segments that benefit so that one segment is not solely burdened by this cost. Allocated costs



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are primarily comprised of interest expense related to our consolidated debt (excluding VIEs) and management fees payable to our Manager, both of which represent shared costs. Each allocation is measured differently based on the specific facts and circumstances of the costs being allocated. During the three months ended September 30, 2014, management fees and interest expense of \$7.6 million and \$5.0 million, respectively, were allocated to the LNR segment.

The table below presents our results of operations for the three months ended September 30, 2013 by business segment (amounts in thousands):

|   | Real Estate<br>Investment<br>Lending | LNR           | Single Family<br>Residential | Subtotal       | LNR VIEs        | Total          |
|---|--------------------------------------|---------------|------------------------------|----------------|-----------------|----------------|
| <b>Revenues:</b>  |                                      |               |                              |                |                 |                |
| Interest income from loans  | \$ 90,837                            | \$ 3,208      | \$                           | \$ 94,045      | \$              | \$ 94,045      |
| Interest income from investment securities                                    | 12,301                               | 18,792        |                              | 31,093         | (13,289)        | 17,804         |
| Servicing fees  |                                      | 59,566        |                              | 59,566         | (23,057)        | 36,509         |
| Other revenues  | 116                                  | 2,240         |                              | 2,356          | (322)           | 2,034          |
| <b>Total revenues</b>   | <b>103,254</b>                       | <b>83,806</b> |                              | <b>187,060</b> | <b>(36,668)</b> | <b>150,392</b> |
| <b>Costs and expenses:</b>  |                                      |               |                              |                |                 |                |
| Management fees (1)   | 12,815                               | 8,064         |                              | 20,879         | 46              | 20,925         |
| Interest expense  | 29,427                               | 4,590         |                              | 34,017         |                 | 34,017         |
| General and administrative  | 3,539                                | 43,752        |                              | 47,291         | 183             | 47,474         |
| Business combination costs  | 342                                  |               |                              | 342            |                 | 342            |
| Acquisition and investment pursuit costs                                      | 1,181                                | 212           |                              | 1,393          |                 | 1,393          |
| Depreciation and amortization   |                                      | 3,435         |                              | 3,435          |                 | 3,435          |
| Loan loss allowance, net  | 1,160                                |               |                              | 1,160          |                 | 1,160          |
| Other expense   | 268                                  | 245           |                              | 513            |                 | 513            |
| <b>Total costs and expenses</b>   | <b>48,732</b>                        | <b>60,298</b> |                              | <b>109,030</b> | <b>229</b>      | <b>109,259</b> |
| <b>Income before other income, income taxes and non-controlling interests</b> | <b>54,522</b>                        | <b>23,508</b> |                              | <b>78,030</b>  | <b>(36,897)</b> | <b>41,133</b>  |
| <b>Other income:</b>  |                                      |               |                              |                |                 |                |
| Income of consolidated VIEs, net  |                                      |               |                              |                | 47,963          | 47,963         |
| Change in fair value of servicing rights                                      |                                      | (3,939)       |                              | (3,939)        | 2,072           | (1,867)        |
| Change in fair value of investment securities, net                            | (157)                                | 9,820         |                              | 9,663          | (11,941)        | (2,278)        |
| Change in fair value of mortgage loans held-for-sale, net                     |                                      | 25,857        |                              | 25,857         |                 | 25,857         |
| Earnings from unconsolidated entities   | 896                                  | 2,104         |                              | 3,000          | (778)           | 2,222          |
| Gain on sale of investments, net  | 6,184                                |               |                              | 6,184          |                 | 6,184          |
| Loss on derivative financial instruments                                      | (17,166)                             | (5,285)       |                              | (22,451)       |                 | (22,451)       |
| Foreign currency gain, net  | 9,555                                | 25            |                              | 9,580          |                 | 9,580          |
| OTTI  | (52)                                 |               |                              | (52)           |                 | (52)           |
| Other income, net   |                                      | 374           |                              | 374            |                 | 374            |
| <b>Total other income (loss)</b>  | <b>(740)</b>                         | <b>28,956</b> |                              | <b>28,216</b>  | <b>37,316</b>   | <b>65,532</b>  |
| <b>Income from continuing operations before income taxes</b>                  | <b>53,782</b>                        | <b>52,464</b> |                              | <b>106,246</b> | <b>419</b>      | <b>106,665</b> |
| Income tax provision  | (619)                                | (13,102)      |                              | (13,721)       |                 | (13,721)       |
|   | <b>53,163</b>                        | <b>39,362</b> |                              | <b>92,525</b>  | <b>419</b>      | <b>92,944</b>  |

**Income from continuing operations**

|  |                  |                  |                   |                  |            |                  |
|--|------------------|------------------|-------------------|------------------|------------|------------------|
| Loss from discontinued operations, net of tax                          |                  |                  | (3,698)           | (3,698)          |            | (3,698)          |
| <b>Net income (loss)</b>   | <b>53,163</b>    | <b>39,362</b>    | <b>(3,698)</b>    | <b>88,827</b>    | <b>419</b> | <b>89,246</b>    |
| Net income attributable to non-controlling interests                   | (1,467)          |                  |                   | (1,467)          | (419)      | (1,886)          |
| <b>Net income (loss) attributable to Starwood Property Trust, Inc.</b> | <b>\$ 51,696</b> | <b>\$ 39,362</b> | <b>\$ (3,698)</b> | <b>\$ 87,360</b> | <b>\$</b>  | <b>\$ 87,360</b> |

(1) Additional management incentive fees of \$2.8 million were allocated to the LNR segment in order to conform to our current allocation method.

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

|   | Real Estate<br>Investment<br>Lending | LNR               | Single Family<br>Residential | Subtotal          | LNR VIEs         | Total             |
|---|--------------------------------------|-------------------|------------------------------|-------------------|------------------|-------------------|
| <b>Revenues:</b>  |                                      |                   |                              |                   |                  |                   |
| Interest income from loans  | \$ 311,348                           | \$ 9,686          | \$                           | \$ 321,034        | \$               | \$ 321,034        |
| Interest income from investment securities                                    | 49,196                               | 83,225            |                              | 132,421           | (46,707)         | 85,714            |
| Servicing fees  | 253                                  | 172,845           |                              | 173,098           | (71,565)         | 101,533           |
| Other revenues  | 318                                  | 16,437            |                              | 16,755            | (939)            | 15,816            |
| <b>Total revenues</b>   | <b>361,115</b>                       | <b>282,193</b>    |                              | <b>643,308</b>    | <b>(119,211)</b> | <b>524,097</b>    |
| <b>Costs and expenses:</b>  |                                      |                   |                              |                   |                  |                   |
| Management fees (1)   | 51,959                               | 24,979            | 791                          | 77,729            | 120              | 77,849            |
| Interest expense (1)  | 95,949                               | 18,225            | 1,091                        | 115,265           |                  | 115,265           |
| General and administrative  | 21,900                               | 114,391           |                              | 136,291           | 544              | 136,835           |
| Acquisition and investment pursuit costs                                      | 1,318                                | 606               |                              | 1,924             |                  | 1,924             |
| Depreciation and amortization   |                                      | 12,807            |                              | 12,807            |                  | 12,807            |
| Loan loss allowance, net  | 1,933                                |                   |                              | 1,933             |                  | 1,933             |
| Other expense   | 52                                   | 10,364            |                              | 10,416            |                  | 10,416            |
| <b>Total costs and expenses</b>   | <b>173,111</b>                       | <b>181,372</b>    | <b>1,882</b>                 | <b>356,365</b>    | <b>664</b>       | <b>357,029</b>    |
| <b>Income before other income, income taxes and non-controlling interests</b> | <b>188,004</b>                       | <b>100,821</b>    | <b>(1,882)</b>               | <b>286,943</b>    | <b>(119,875)</b> | <b>167,068</b>    |
| <b>Other income:</b>  |                                      |                   |                              |                   |                  |                   |
| Income of consolidated VIEs, net  |                                      |                   |                              |                   | 190,810          | 190,810           |
| Change in fair value of servicing rights                                      |                                      | (43,291)          |                              | (43,291)          | 24,620           | (18,671)          |
| Change in fair value of investment securities, net                            | 565                                  | 105,313           |                              | 105,878           | (90,698)         | 15,180            |
| Change in fair value of mortgage loans held-for-sale, net                     |                                      | 48,018            |                              | 48,018            |                  | 48,018            |
| Earnings from unconsolidated entities   | 6,847                                | 9,741             |                              | 16,588            | (3,156)          | 13,432            |
| Gain on sale of investments, net  | 12,965                               |                   |                              | 12,965            |                  | 12,965            |
| Gain (loss) on derivative financial instruments, net                          | 16,142                               | (4,523)           |                              | 11,619            |                  | 11,619            |
| Foreign currency loss, net  | (15,376)                             | (836)             |                              | (16,212)          |                  | (16,212)          |
| OTTI  | (214)                                | (796)             |                              | (1,010)           |                  | (1,010)           |
| Other income, net   | 54                                   | 684               |                              | 738               |                  | 738               |
| <b>Total other income</b>   | <b>20,983</b>                        | <b>114,310</b>    |                              | <b>135,293</b>    | <b>121,576</b>   | <b>256,869</b>    |
| <b>Income from continuing operations before income taxes</b>                  | <b>208,987</b>                       | <b>215,131</b>    | <b>(1,882)</b>               | <b>422,236</b>    | <b>1,701</b>     | <b>423,937</b>    |
| Income tax provision  | (293)                                | (13,440)          |                              | (13,733)          |                  | (13,733)          |
| <b>Income from continuing operations</b>                                      | <b>208,694</b>                       | <b>201,691</b>    | <b>(1,882)</b>               | <b>408,503</b>    | <b>1,701</b>     | <b>410,204</b>    |
| Loss from discontinued operations, net of tax                                 |                                      |                   | (1,551)                      | (1,551)           |                  | (1,551)           |
| <b>Net income</b>   | <b>208,694</b>                       | <b>201,691</b>    | <b>(3,433)</b>               | <b>406,952</b>    | <b>1,701</b>     | <b>408,653</b>    |
| Net income attributable to non-controlling interests                          | (3,439)                              |                   |                              | (3,439)           | (1,701)          | (5,140)           |
| <b>Net income attributable to Starwood Property Trust, Inc.</b>               | <b>\$ 205,255</b>                    | <b>\$ 201,691</b> | <b>\$ (3,433)</b>            | <b>\$ 403,513</b> | <b>\$</b>        | <b>\$ 403,513</b> |

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(1) Refer to Note 1 to the table above for the three months ended September 30, 2014. During the nine months ended September 30, 2014, management fees and interest expense of \$24.9 million and \$14.7 million, respectively, were allocated to the LNR segment while \$0.8 million and \$1.1 million, respectively, were allocated to the SFR segment.

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The table below presents our results of operations for the nine months ended September 30, 2013 by business segment (amounts in thousands):

|   | Real Estate<br>Investment<br>Lending | LNR              | Single Family<br>Residential | Subtotal          | LNR VIEs        | Total             |
|---|--------------------------------------|------------------|------------------------------|-------------------|-----------------|-------------------|
| <b>Revenues:</b>  |                                      |                  |                              |                   |                 |                   |
| Interest income from loans  | \$ 231,203                           | \$ 5,468         | \$                           | \$ 236,671        | \$              | \$ 236,671        |
| Interest income from investment securities                                    | 42,179                               | 30,550           |                              | 72,729            | (20,108)        | 52,621            |
| Servicing fees  |                                      | 112,426          |                              | 112,426           | (36,782)        | 75,644            |
| Other revenues  | 291                                  | 4,212            |                              | 4,503             | (595)           | 3,908             |
| <b>Total revenues</b>   | <b>273,673</b>                       | <b>152,656</b>   |                              | <b>426,329</b>    | <b>(57,485)</b> | <b>368,844</b>    |
| <b>Costs and expenses:</b>  |                                      |                  |                              |                   |                 |                   |
| Management fees (1)   | 41,738                               | 10,338           |                              | 52,076            | 64              | 52,140            |
| Interest expense  | 66,794                               | 7,297            |                              | 74,091            |                 | 74,091            |
| General and administrative  | 11,192                               | 84,325           |                              | 95,517            | 330             | 95,847            |
| Business combination costs  | 17,958                               |                  |                              | 17,958            |                 | 17,958            |
| Acquisition and investment pursuit costs                                      | 1,787                                | 603              |                              | 2,390             |                 | 2,390             |
| Depreciation and amortization   |                                      | 5,663            |                              | 5,663             |                 | 5,663             |
| Loan loss allowance, net  | 1,915                                |                  |                              | 1,915             |                 | 1,915             |
| Other expense   | 359                                  | 383              |                              | 742               |                 | 742               |
| <b>Total costs and expenses</b>   | <b>141,743</b>                       | <b>108,609</b>   |                              | <b>250,352</b>    | <b>394</b>      | <b>250,746</b>    |
| <b>Income before other income, income taxes and non-controlling interests</b> | <b>131,930</b>                       | <b>44,047</b>    |                              | <b>175,977</b>    | <b>(57,879)</b> | <b>118,098</b>    |
| <b>Other income:</b>  |                                      |                  |                              |                   |                 |                   |
| Income of consolidated VIEs, net  |                                      |                  |                              |                   | 79,912          | 79,912            |
| Change in fair value of servicing rights                                      |                                      | 2,175            |                              | 2,175             | (1,144)         | 1,031             |
| Change in fair value of investment securities                                 | (83)                                 | 16,208           |                              | 16,125            | (19,390)        | (3,265)           |
| Change in fair value of mortgage loans held-for-sale, net                     |                                      | 26,315           |                              | 26,315            |                 | 26,315            |
| Earnings from unconsolidated entities   | 3,488                                | 4,219            |                              | 7,707             | (974)           | 6,733             |
| Gain on sale of investments, net  | 19,690                               |                  |                              | 19,690            |                 | 19,690            |
| (Loss) gain on derivative financial instruments                               | (2,939)                              | 2,874            |                              | (65)              |                 | (65)              |
| Foreign currency gain (loss), net   | 3,537                                | (42)             |                              | 3,495             |                 | 3,495             |
| OTTI  | (453)                                |                  |                              | (453)             |                 | (453)             |
| Other income, net   |                                      | 413              |                              | 413               |                 | 413               |
| <b>Total other income</b>   | <b>23,240</b>                        | <b>52,162</b>    |                              | <b>75,402</b>     | <b>58,404</b>   | <b>133,806</b>    |
| <b>Income from continuing operations before income taxes</b>                  | <b>155,170</b>                       | <b>96,209</b>    |                              | <b>251,379</b>    | <b>525</b>      | <b>251,904</b>    |
| Income tax provision  | (1,645)                              | (24,034)         |                              | (25,679)          |                 | (25,679)          |
| <b>Income from continuing operations</b>                                      | <b>153,525</b>                       | <b>72,175</b>    |                              | <b>225,700</b>    | <b>525</b>      | <b>226,225</b>    |
| Loss from discontinued operations, net of tax                                 |                                      |                  | (12,044)                     | (12,044)          |                 | (12,044)          |
| <b>Net income (loss)</b>  | <b>153,525</b>                       | <b>72,175</b>    | <b>(12,044)</b>              | <b>213,656</b>    | <b>525</b>      | <b>214,181</b>    |
| Net income attributable to non-controlling interests                          | (3,599)                              |                  |                              | (3,599)           | (525)           | (4,124)           |
| <b>Net income (loss) attributable to Starwood Property Trust, Inc.</b>        | <b>\$ 149,926</b>                    | <b>\$ 72,175</b> | <b>\$ (12,044)</b>           | <b>\$ 210,057</b> | <b>\$</b>       | <b>\$ 210,057</b> |

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(1) Additional management incentive fees of \$2.8 million were allocated to the LNR segment in order to conform to our current allocation method.

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The table below presents our condensed consolidated balance sheet as of September 30, 2014 by business segment (amounts in thousands):

|  | Real Estate<br>Investment<br>Lending | LNR                 | Subtotal            | LNR VIEs              | Total                 |
|--|--------------------------------------|---------------------|---------------------|-----------------------|-----------------------|
| <b>Assets:</b>   |                                      |                     |                     |                       |                       |
| Cash and cash equivalents                                | \$ 140,142                           | \$ 186,531          | \$ 326,673          | \$ 649                | \$ 327,322            |
| Restricted cash  | 33,769                               | 11,956              | 45,725              |                       | 45,725                |
| Loans held-for-investment, net                           | 5,194,824                            | 4,103               | 5,198,927           |                       | 5,198,927             |
| Loans held-for-sale                                      |                                      | 248,165             | 248,165             |                       | 248,165               |
| Loans transferred as secured borrowings                  | 142,516                              |                     | 142,516             |                       | 142,516               |
| Investment securities                                    | 709,343                              | 697,733             | 1,407,076           | (512,774)             | 894,302               |
| Intangible assets servicing rights                       |                                      | 203,503             | 203,503             | (57,713)              | 145,790               |
| Investment in unconsolidated entities                    | 47,934                               | 69,175              | 117,109             | (6,540)               | 110,569               |
| Goodwill   |                                      | 140,437             | 140,437             |                       | 140,437               |
| Derivative assets  | 10,532                               | 2,822               | 13,354              |                       | 13,354                |
| Accrued interest receivable                              | 34,338                               | 727                 | 35,065              |                       | 35,065                |
| Other assets   | 38,054                               | 86,722              | 124,776             | (1,304)               | 123,472               |
| VIE assets, at fair value                                |                                      |                     |                     | 109,468,293           | 109,468,293           |
| <b>Total Assets</b>                                      | <b>\$ 6,351,452</b>                  | <b>\$ 1,651,874</b> | <b>\$ 8,003,326</b> | <b>\$ 108,890,611</b> | <b>\$ 116,893,937</b> |
| <b>Liabilities and Equity</b>                            |                                      |                     |                     |                       |                       |
| <b>Liabilities:</b>                                      |                                      |                     |                     |                       |                       |
| Accounts payable, accrued expenses and other liabilities | \$ 49,659                            | \$ 103,981          | \$ 153,640          | \$ 418                | \$ 154,058            |
| Related-party payable                                    | 20,268                               | 4,598               | 24,866              |                       | 24,866                |
| Dividends payable  | 108,056                              |                     | 108,056             |                       | 108,056               |
| Derivative liabilities                                   | 5,189                                | 273                 | 5,462               |                       | 5,462                 |
| Secured financing agreements, net                        | 2,538,886                            | 169,222             | 2,708,108           |                       | 2,708,108             |
| Convertible senior notes, net                            | 1,006,927                            |                     | 1,006,927           |                       | 1,006,927             |
| Secured borrowings on transferred loans                  | 142,575                              |                     | 142,575             |                       | 142,575               |
| VIE liabilities, at fair value                           |                                      |                     |                     | 108,879,922           | 108,879,922           |
| <b>Total Liabilities</b>                                 | <b>3,871,560</b>                     | <b>278,074</b>      | <b>4,149,634</b>    | <b>108,880,340</b>    | <b>113,029,974</b>    |
| <b>Equity:</b>   |                                      |                     |                     |                       |                       |
| <b>Starwood Property Trust, Inc.</b>                     |                                      |                     |                     |                       |                       |
| <b>Stockholders Equity:</b>                              |                                      |                     |                     |                       |                       |
| Preferred stock  |                                      |                     |                     |                       |                       |
| Common stock   | 2,236                                |                     | 2,236               |                       | 2,236                 |
| Additional paid-in capital                               | 2,401,673                            | 1,391,755           | 3,793,428           |                       | 3,793,428             |
| Treasury stock   | (23,635)                             |                     | (23,635)            |                       | (23,635)              |
| Accumulated other comprehensive income                   | 64,184                               | 5,497               | 69,681              |                       | 69,681                |
| Retained earnings (deficit)                              | 30,754                               | (23,452)            | 7,302               |                       | 7,302                 |
| Total Starwood Property Trust, Inc.                      | 2,475,212                            | 1,373,800           | 3,849,012           |                       | 3,849,012             |
| Stockholders Equity                                      | 2,475,212                            | 1,373,800           | 3,849,012           |                       | 3,849,012             |
| Non-controlling interests in consolidated subsidiaries   | 4,680                                |                     | 4,680               | 10,271                | 14,951                |
| <b>Total Equity</b>                                      | <b>2,479,892</b>                     | <b>1,373,800</b>    | <b>3,853,692</b>    | <b>10,271</b>         | <b>3,863,963</b>      |
| <b>Total Liabilities and Equity</b>                      | <b>\$ 6,351,452</b>                  | <b>\$ 1,651,874</b> | <b>\$ 8,003,326</b> | <b>\$ 108,890,611</b> | <b>\$ 116,893,937</b> |

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The table below presents our condensed consolidated balance sheet as of December 31, 2013 by business segment (amounts in thousands):

|  | Real Estate<br>Investment<br>Lending | LNR                 | Single<br>Family<br>Residential | Subtotal            | LNR VIEs              | Total                 |
|--|--------------------------------------|---------------------|---------------------------------|---------------------|-----------------------|-----------------------|
| <b>Assets:</b>   |                                      |                     |                                 |                     |                       |                       |
| Cash and cash equivalents                                | \$ 232,270                           | \$ 40,274           | \$ 44,807                       | \$ 317,351          | \$ 276                | \$ 317,627            |
| Restricted cash  | 36,593                               | 32,208              | 251                             | 69,052              |                       | 69,052                |
| Loans held-for-investment, net                           | 4,350,937                            | 12,781              |                                 | 4,363,718           |                       | 4,363,718             |
| Loans held-for-sale                                      |                                      | 206,672             |                                 | 206,672             |                       | 206,672               |
| Loans transferred as secured borrowings                  | 180,414                              |                     |                                 | 180,414             |                       | 180,414               |
| Investment securities                                    | 794,147                              | 550,282             |                                 | 1,344,429           | (409,322)             | 935,107               |
| Intangible assets-servicing rights                       |                                      | 257,736             |                                 | 257,736             | (80,563)              | 177,173               |
| Residential real estate, net                             |                                      |                     | 749,214                         | 749,214             |                       | 749,214               |
| Non-performing residential loans                         |                                      |                     | 215,371                         | 215,371             |                       | 215,371               |
| Investment in unconsolidated entities                    | 50,167                               | 76,170              |                                 | 126,337             | (3,383)               | 122,954               |
| Goodwill   |                                      | 140,437             |                                 | 140,437             |                       | 140,437               |
| Derivative assets  | 3,138                                | 4,631               |                                 | 7,769               |                       | 7,769                 |
| Accrued interest receivable                              | 35,501                               | 2,129               |                                 | 37,630              |                       | 37,630                |
| Other assets   | 31,020                               | 57,620              | 8,045                           | 96,685              | (872)                 | 95,813                |
| VIE assets, at fair value                                |                                      |                     |                                 |                     | 103,151,624           | 103,151,624           |
| <b>Total Assets</b>                                      | <b>\$ 5,714,187</b>                  | <b>\$ 1,380,940</b> | <b>\$ 1,017,688</b>             | <b>\$ 8,112,815</b> | <b>\$ 102,657,760</b> | <b>\$ 110,770,575</b> |
| <b>Liabilities and Equity</b>                            |                                      |                     |                                 |                     |                       |                       |
| <b>Liabilities:</b>                                      |                                      |                     |                                 |                     |                       |                       |
| Accounts payable, accrued expenses and other liabilities | \$ 66,127                            | \$ 135,882          | \$ 23,056                       | \$ 225,065          | \$ 309                | \$ 225,374            |
| Related-party payable                                    | 11,245                               | 6,548               |                                 | 17,793              |                       | 17,793                |
| Dividends payable  | 90,171                               |                     |                                 | 90,171              |                       | 90,171                |
| Derivative liabilities                                   | 24,149                               | 43                  |                                 | 24,192              |                       | 24,192                |
| Secured financing agreements, net                        | 2,127,717                            | 129,843             |                                 | 2,257,560           |                       | 2,257,560             |
| Convertible senior notes, net                            | 997,851                              |                     |                                 | 997,851             |                       | 997,851               |
| Secured borrowings on transferred loans                  | 181,238                              |                     |                                 | 181,238             |                       | 181,238               |
| VIE liabilities, at fair value                           |                                      |                     |                                 |                     | 102,649,263           | 102,649,263           |
| <b>Total Liabilities</b>                                 | <b>3,498,498</b>                     | <b>272,316</b>      | <b>23,056</b>                   | <b>3,793,870</b>    | <b>102,649,572</b>    | <b>106,443,442</b>    |
| <b>Equity:</b>   |                                      |                     |                                 |                     |                       |                       |
| <b>Starwood Property Trust, Inc.</b>                     |                                      |                     |                                 |                     |                       |                       |
| <b>Stockholders Equity:</b>                              |                                      |                     |                                 |                     |                       |                       |
| Preferred stock  |                                      |                     |                                 |                     |                       |                       |
| Common stock   | 1,961                                |                     |                                 | 1,961               |                       | 1,961                 |
| Additional paid-in capital                               | 1,987,133                            | 1,308,500           | 1,004,846                       | 4,300,479           |                       | 4,300,479             |
| Treasury stock   | (10,642)                             |                     |                                 | (10,642)            |                       | (10,642)              |
| Accumulated other comprehensive income                   | 68,092                               | 7,357               |                                 | 75,449              |                       | 75,449                |
| Retained earnings (deficit)                              | 132,625                              | (207,233)           | (10,111)                        | (84,719)            |                       | (84,719)              |
| Total Starwood Property Trust, Inc. Stockholders Equity  | 2,179,169                            | 1,108,624           | 994,735                         | 4,282,528           |                       | 4,282,528             |
|  | 36,520                               |                     | (103)                           | 36,417              | 8,188                 | 44,605                |



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Non-controlling interests in consolidated subsidiaries

|                                     |    |                  |    |                  |    |                  |    |                  |    |                    |    |                    |
|-------------------------------------|----|------------------|----|------------------|----|------------------|----|------------------|----|--------------------|----|--------------------|
| <b>Total Equity</b>                 |    | <b>2,215,689</b> |    | <b>1,108,624</b> |    | <b>994,632</b>   |    | <b>4,318,945</b> |    | <b>8,188</b>       |    | <b>4,327,133</b>   |
| <b>Total Liabilities and Equity</b> | \$ | <b>5,714,187</b> | \$ | <b>1,380,940</b> | \$ | <b>1,017,688</b> | \$ | <b>8,112,815</b> | \$ | <b>102,657,760</b> | \$ | <b>110,770,575</b> |

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**22. Subsequent Events**

Our significant events subsequent to September 30, 2014 were as follows:

Convertible Senior Notes

On October 8, 2014, we issued \$431.3 million in aggregate principal amount of our 3.75% Convertible Senior Notes due 2017 (the 2017 Notes ) for total net proceeds of approximately \$420.8 million. The 2017 Notes are unsecured and have an initial conversion rate of 41.7397 per \$1,000 principal amount, equivalent to a conversion price of approximately \$23.96 per share of common stock. Prior to April 15, 2017, the Notes will be convertible only upon certain circumstances and during certain periods, and thereafter will be convertible at any time prior to the close of business on the second scheduled trading day prior to maturity.

Secured Financing Agreements

In October 2014, we amended the Conduit Repo 2 facility to extend the maturity date to November 2016 assuming the exercise of a one-year extension.

In October 2014, we amended the Lender 1 Repo 1 facility to (i) upsize available borrowings from \$1.0 billion to \$1.25 billion; (ii) increase the maximum advance rate on certain asset classes; and (iii) amend certain financial covenants.

In October 2014, we amended the Lender 5 Repo1 facility to extend the maturity date to December 2015 and reduce pricing.

Investment in Unconsolidated Entity

In October 2014, we committed \$150 million for a 33% equity interest in SCG Core-Plus Retail Fund, L.P. (the Fund ), of which \$132 million was funded on October 14, 2014. The Fund is a newly formed partnership established for the purpose of acquiring and operating four leading regional shopping malls located in Florida, Michigan, North Carolina and Virginia. All leasing services and asset management functions for the newly acquired properties will be conducted by an affiliate of our Manager which specializes in redeveloping, managing and repositioning retail real estate assets. In addition, another affiliate of our Manager will serve as general partner of the Fund. In consideration for its services, the general partner will earn incentive distributions that are payable once we, along with the other limited partners, receive 100% of our capital and a preferred return of 8%.

Dividend Declaration

On November 5, 2014, our board of directors declared a dividend of \$0.48 per share for the fourth quarter of 2014, which is payable on January 15, 2015 to common stockholders of record as of December 31, 2014.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the information included elsewhere in this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the Form 10-K). This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements. See Special Note Regarding Forward-Looking Statements at the beginning of this Quarterly Report on Form 10-Q.

**Overview**

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

- commercial real estate mortgage loans, including 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 two reportable business segments as of September 30, 2014:

- Real estate investment lending (the Lending Segment) includes all business activities of the Company, excluding the LNR Property LLC (LNR) business, which generally represents investments in real estate related loans and securities that are held-for-investment.
- LNR includes all business activities of the acquired LNR business excluding the consolidation of securitization VIEs.

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

**Developments During the Third Quarter of 2014**

- Originated a \$480.0 million first mortgage and mezzanine financing for the construction of a 54-story Class A+ office and luxury condominium tower in San Francisco, California, of which the Company funded \$104.1 million during the third quarter. Following the origination, the Company sold \$172.8 million of the first mortgage and \$115.2 million of the mezzanine loan.
- Originated a \$264.3 million first mortgage land improvement loan on 196 acres of oceanfront land in Orange County, California, of which the Company funded \$62.0 million during the third quarter.
- Originated and fully funded a \$150.0 million first mortgage financing for the redevelopment of a luxury resort in Maui, Hawaii.
- Announced the co-origination of £86.75 million in a £101.75 million first mortgage loan for the development of a 46-story residential tower and 18-story housing development containing a total of 366 private residential and affordable housing units located in London.
- Acquired a \$123.4 million portfolio of diverse office, retail and multi-family loans throughout the United States.
- Originated a \$103.3 million first mortgage and mezzanine loan for the refinancing and expansion of a 149-key, full service boutique hotel in Boston, Massachusetts, of which the Company funded \$65.0 million during the third quarter.
- Originated an \$81.5 million first mortgage and mezzanine financing secured by a 36-building office and industrial portfolio in Lenexa, Kansas, of which the Company funded \$57.4 million during the third quarter.
- Co-originated \$58.0 million in a \$99.0 million mortgage loan for the refinancing and refurbishment of a 239-key, full service hotel located in Amsterdam, Netherlands with SEREF and other private funds, both affiliates of our Manager. The Company funded \$23.2 million during the third quarter.
- Funded \$71.7 million of previously originated loan commitments during the third quarter.

- Sold \$209.9 million of previously originated loan commitments during the third quarter.

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- Named special servicer on three new issue CMBS deals with total unpaid principal balances of \$3.4 billion.
- Purchased \$43.4 million of CMBS, including \$36.8 million in new issue B-pieces.
- Originated new conduit loans of \$577.2 million.
- Received proceeds of \$498.8 million from sales of conduit loans.
- Amended our Lender 2 Repo 1 facility to upsize available borrowings from \$225 million to \$325 million and reduce pricing.
- Executed a \$250 million repurchase facility with a new lender. The facility has a three year term with a one year extension available at the option of the lender. The facility carries an annual interest rate of LIBOR + 2.75% and eligible collateral includes identified commercial mortgage loans and other asset types at the discretion of the lender.
- Amended the Conduit Repo 1 facility to extend the maturity date to September 2016, assuming the exercise of a one-year extension option, and reduce pricing.
- Established a share repurchase program which allows for the repurchase of up to \$250 million of our outstanding common stock over a period of one year. During the third quarter, we repurchased 587,900 shares of common stock at a total cost of \$13.0 million under the program.

**Developments During the Second Quarter of 2014**

- Originated a \$152.0 million first mortgage and mezzanine financing for the acquisition of a Class A office campus in Pleasanton, California, of which the Company funded \$106.5 million during the second quarter.
- Originated a \$120.0 million first mortgage and mezzanine refinancing of existing first mortgage, senior mezzanine and junior mezzanine loans on a six property office portfolio located in Rosslyn, Virginia. The Company was the original lender on the \$49.8 million junior mezzanine loan. The Company fully funded the refinancing during the second quarter.

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- Originated a \$69.6 million first mortgage and mezzanine financing for the acquisition of a Class A office building in Parsippany, New Jersey, of which the Company funded \$58.9 million during the second quarter.
- Originated a \$62.2 million first mortgage financing for the acquisition of a 953 key, full service hotel in San Diego, California, of which the Company funded \$59.6 million during the second quarter.
- Originated a \$59.7 million first mortgage and mezzanine financing for the acquisition of a seven property office portfolio in Minneapolis, Minnesota, of which the Company funded \$54.3 million during the second quarter.
- Originated a \$58.0 million first mortgage financing for the acquisition of a Class A office building in San Francisco, California. The Company fully funded the loan during the second quarter.
- Funded \$72.3 million of previously originated loan commitments during the second quarter.
- Named special servicer on six new issue CMBS deals with total unpaid principal balances of \$6.6 billion.
- Purchased \$107.1 million of CMBS, including \$97.0 million in new issue B-pieces.
- Originated new conduit loans of \$320.6 million.
- Received proceeds of \$364.3 million from sales of conduit loans.
- Amended our Lender 3 Repo 1 facility to (i) increase additional borrowings by \$42.7 million; (ii) extend the maturity date for loan collateral to May 2019, assuming the exercise of two one-year extension options; (iii) reduce pricing for all purchased assets; and (iv) increase advance rates for certain purchased assets.
- Issued 22.0 million shares of common stock for gross proceeds of \$491.0 million. In connection with this offering, the underwriters had a 30-day option to purchase an additional 3.3 million shares of common stock, which they exercised in full, resulting in additional gross proceeds of \$73.7 million.



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- Entered into an amended and restated At-The-Market Equity Offering Sales Agreement (the ATM Agreement ) with Merrill Lynch, Pierce, Fenner & Smith Incorporated to sell shares of the Company s common stock of up to \$500 million from time

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to time, through an at the market equity offering program. During the second quarter, we issued 759 thousand shares under the ATM Agreement for gross proceeds of \$18.3 million.

- Established the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the DRIP Plan ) which provides stockholders with a means of purchasing additional shares of our common stock by reinvesting the cash dividends paid on our common stock and by making additional optional cash purchases. During the second quarter, shares issued under the DRIP Plan were not material.

**Developments During the First Quarter of 2014**

- Completed the spin-off of our SFR segment to our stockholders on January 31, 2014, as described in Note 1 to our condensed consolidated financial statements included herein.
- Originated a \$450.0 million first mortgage and mezzanine construction financing for the development of a 57-story tower containing luxury condominium residences and ground floor retail space in Manhattan, New York, of which the Company funded \$26.1 million during the first quarter.
- Originated a \$234.9 million first mortgage and mezzanine construction financing for the development of a mixed-use luxury residential and retail development in the Flushing area of Queens, New York, of which the Company funded \$19.9 million during the first quarter.
- Co-originated \$407.5 million out of a total of \$815.0 million of first mortgage and mezzanine financing, which was used to refinance and recapitalize loans the Company had co-originated in October 2012 for the acquisition and redevelopment of a 10-story retail building in the Times Square area of Manhattan, New York, including the addition of a hotel. The Company's balance under the prior loans was \$210.9 million. The Company funded \$182.0 million of the financing during the first quarter.
- Originated and fully funded \$197.2 million of first mortgage and mezzanine financing secured by an 89-asset bank branch portfolio in California.
- Originated a \$179.5 million first mortgage and mezzanine loan to finance the acquisition of a premier data center in Philadelphia, Pennsylvania, of which the Company funded \$99.9 million during the first quarter.
- Originated a \$113.5 million first mortgage and mezzanine loan to finance the acquisition of a 31-story class A office tower located in Burbank, California, of which the Company funded \$74.0 million during the first quarter.

- Named special servicer on three new issue CMBS deals with total unpaid principal balances of \$3.2 billion.
- Purchased \$44.7 million of CMBS, including \$38.9 million in new issue B-pieces.
- Originated new conduit loans of \$261.8 million.
- Received proceeds of \$302.5 million from sales of conduit loans.
- Amended one of our repurchase facilities to upsize available borrowings to \$1.0 billion from \$550 million, extend the maturity date, allow for additional extension options, reduce pricing and debt-yield thresholds for purchased assets and amend certain financial covenants to contemplate the spin-off of the SFR segment.

#### **Subsequent Events**

Refer to Note 22 of our condensed consolidated financial statements included herein for a discussion of subsequent events.

#### **Results of Operations**

The discussion below is based on accounting principles generally accepted in the United States of America ( GAAP ) and therefore reflects the elimination of certain key financial statement line items related to the consolidation of variable interest entities ( VIEs ), particularly within revenues and other income, as discussed in Note 2 to the condensed consolidated financial statements

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included herein. For a discussion of our results of operations excluding the impact of Accounting Standards Codification ( ASC ) Topic 810 as it relates to the consolidation of VIEs, refer to the Non-GAAP Financial Measures section herein.

The following table compares our summarized results of operations for the three and nine months ended September 30, 2014 and 2013 by business segment (amounts in thousands):

|   | For the three months ended<br>September 30, |                  |                  | For the Nine months ended<br>September 30, |                   |                   |
|---|---|------------------|------------------|--|-------------------|-------------------|
|   | 2014  | 2013             | \$ Change        | 2014                                       | 2013              | \$ Change         |
| <b>Revenues:</b>  |   |                  |                  |  |                   |                   |
| Lending segment   | \$ 122,291                                  | \$ 103,254       | \$ 19,037        | \$ 361,115                                 | \$ 273,673        | \$ 87,442         |
| LNR segment   | 100,866                                     | 83,806           | 17,060           | 282,193                                    | 152,656           | 129,537           |
| LNR VIEs  | (41,789)                                    | (36,668)         | (5,121)          | (119,211)                                  | (57,485)          | (61,726)          |
|   | <b>181,368</b>                              | <b>150,392</b>   | <b>30,976</b>    | <b>524,097</b>                             | <b>368,844</b>    | <b>155,253</b>    |
| <b>Costs and expenses (1):</b>                                  |   |                  |                  |  |                   |                   |
| Lending segment   | 61,675                                      | 48,732           | 12,943           | 173,111                                    | 141,743           | 31,368            |
| LNR segment   | 58,480                                      | 60,298           | (1,818)          | 181,372                                    | 108,609           | 72,763            |
| SFR segment allocations   |   |                  |                  | 1,882                                      |                   | 1,882             |
| LNR VIEs  | 219   | 229              | (10)             | 664  | 394               | 270               |
|   | <b>120,374</b>                              | <b>109,259</b>   | <b>11,115</b>    | <b>357,029</b>                             | <b>250,746</b>    | <b>106,283</b>    |
| <b>Other income:</b>  |   |                  |                  |  |                   |                   |
| Lending segment   | 8,588                                       | (740)            | 9,328            | 20,983                                     | 23,240            | (2,257)           |
| LNR segment   | 57,493                                      | 28,956           | 28,537           | 114,310                                    | 52,162            | 62,148            |
| LNR VIEs  | 44,151                                      | 37,316           | 6,835            | 121,576                                    | 58,404            | 63,172            |
|   | <b>110,232</b>                              | <b>65,532</b>    | <b>44,700</b>    | <b>256,869</b>                             | <b>133,806</b>    | <b>123,063</b>    |
| <b>Income from continuing operations before income taxes:</b>   |   |                  |                  |  |                   |                   |
| Lending segment   | 69,204                                      | 53,782           | 15,422           | 208,987                                    | 155,170           | 53,817            |
| LNR segment   | 99,879                                      | 52,464           | 47,415           | 215,131                                    | 96,209            | 118,922           |
| SFR segment allocations   |   |                  |                  | (1,882)                                    |                   | (1,882)           |
| LNR VIEs  | 2,143                                       | 419              | 1,724            | 1,701                                      | 525               | 1,176             |
|   | <b>171,226</b>                              | <b>106,665</b>   | <b>64,561</b>    | <b>423,937</b>                             | <b>251,904</b>    | <b>172,033</b>    |
| Income tax provision  | (3,836)                                     | (13,721)         | 9,885            | (13,733)                                   | (25,679)          | 11,946            |
| Loss from discontinued operations, net of tax                   |   | (3,698)          | 3,698            | (1,551)                                    | (12,044)          | 10,493            |
| Net income attributable to non-controlling interests            | (2,346)                                     | (1,886)          | (460)            | (5,140)                                    | (4,124)           | (1,016)           |
| <b>Net income attributable to Starwood Property Trust, Inc.</b> | <b>\$ 165,044</b>                           | <b>\$ 87,360</b> | <b>\$ 77,684</b> | <b>\$ 403,513</b>                          | <b>\$ 210,057</b> | <b>\$ 193,456</b> |

(1) Allocations of certain prior period costs and expenses among segments have been reclassified to conform to our current allocation method.

*Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013*

Lending Segment

*Revenues*

For the three months ended September 30, 2014, revenues of our Lending Segment increased \$19.0 million to \$122.3 million, compared to \$103.3 million for the three months ended September 30, 2013. This increase was primarily due to (i) a \$15.5 million increase in interest income from loans, which reflects a \$1.4 billion net increase in loan investments of our Lending Segment between September 30, 2013 and 2014, mainly resulting from new loan originations, and (ii) a \$3.4 million increase in interest income from investment securities principally related to a preferred equity investment we originated in the fourth quarter of 2013.

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*Costs and Expenses*

For the three months ended September 30, 2014, costs and expenses of our Lending Segment increased \$12.9 million to \$61.7 million, compared to \$48.7 million for the three months ended September 30, 2013. The increase was primarily due to increases of \$5.5 million in general and administrative ( G&A ) expenses, \$4.5 million in management fees, and \$3.7 million in interest expense. The increase in G&A expenses reflects higher legal fees principally associated with the administration of our additional financing facilities and higher compensation expense. The increase in management fees reflects the impacts of (i) higher levels of invested capital which resulted in an increased base management fee in the third quarter of 2014 and (ii) higher manager stock compensation expense resulting from awards granted in the first quarter of 2014. The increase in interest expense reflects a \$1.5 billion increase in outstanding balances under secured financing agreements of our Lending Segment between September 30, 2013 and 2014. These borrowings, along with equity issuances, are used to fund the growth of our investment portfolio.

*Other Income*

For the three months ended September 30, 2014, other income of our Lending Segment increased \$9.3 million to \$8.6 million, from a \$0.7 million loss for the three months ended September 30, 2013. The increase was primarily due to a \$43.7 million favorable swing in gain (loss) on derivatives partially offset by a \$30.6 million unfavorable swing in foreign currency gain (loss) and a \$4.8 million decrease in gain on sales of investments, the timing and amount of which vary by period. The favorable swing in gain (loss) on derivatives was primarily due to \$28.1 million of unrealized gains on foreign currency hedges in the third quarter of 2014 driven by the strengthening of the U.S. dollar against European currencies compared to a \$17.5 million loss in the third quarter of 2013 driven by the weakening of the U.S. dollar against European currencies. These 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 favorable swing in these foreign currency hedges is greater than the offsetting unfavorable swing in foreign currency gain (loss) mainly because the portion of unrealized foreign currency gain (loss) associated with our available-for-sale CMBS investments is reported in accumulated other comprehensive income rather than earnings, in accordance with GAAP, whereas the full change in fair value of the related currency hedges is reported in earnings since they are not designated hedges.

LNR Segment and VIEs

*Revenues*

For the three months ended September 30, 2014, revenues of our LNR Segment increased \$11.9 million to \$59.0 million after consolidated VIE eliminations of \$41.8 million, compared to \$47.1 million after consolidated VIE eliminations of \$36.7 million for the three months ended September 30, 2013. 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 increase in revenues in the third quarter of 2014 was primarily due to increases of \$7.4 million in interest income from CMBS investments, \$1.1 million in interest income from loans and \$3.4 million in other revenues, particularly rental revenue, compared to the third quarter of 2013.

*Costs and Expenses*

For the three months ended September 30, 2014, costs and expenses of our LNR Segment decreased \$1.8 million to \$58.7 million, compared to \$60.5 million for the three months ended September 30, 2013. The VIE eliminations were nominal for both periods. The decrease in costs and expenses was primarily due to a decrease of \$5.3 million in G&A expenses, primarily due to the absence of retention bonus expenses associated with the acquisition of LNR in 2013. The decrease was partially offset by increases of (i) \$2.0 million in direct and allocated interest expense and (ii) \$1.8 million in costs of rental operations included in other expense.

*Other Income*

For the three months ended September 30, 2014, other income of our LNR Segment increased \$35.3 million to \$101.6 million including additive net VIE eliminations of \$44.2 million, from \$66.3 million including additive net VIE eliminations of \$37.3 million for the three months ended September 30, 2013. Income of consolidated VIEs reflects amounts associated with LNR'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. The increase in other income in the third quarter of 2014 compared to the third quarter of 2013 was primarily due to increases of \$39.8 million in income of consolidated VIEs, \$8.0 million from derivatives which are used to hedge interest rate risk and credit risk on LNR's conduit loans held-for-sale and \$4.1 million in the change in fair value of investment securities. These increases were partially offset by decreases of \$10.3 million in the change in fair value of mortgage loans held-for-sale, which reflects both realized and unrealized net gains, and \$6.0 million in the change in fair value of domestic 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.

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*Income Tax Provision*

Most of our consolidated income tax provision relates to the taxable nature of LNR's loan servicing and loan conduit businesses which are housed in TRSs. Our tax provision for the three months ended September 30, 2014, as well as the overall effective tax rate, is lower than for the three months ended September 30, 2013 primarily due to the finalization of our tax planning strategies associated with the LNR acquisition.

*Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013*

Lending Segment

*Revenues*

For the nine months ended September 30, 2014, revenues of our Lending Segment increased \$87.4 million to \$361.1 million, compared to \$273.7 million for the nine months ended September 30, 2013. This increase was primarily due to (i) an \$80.1 million increase in interest income from loans, which reflects a \$1.4 billion net increase in loan investments of our Lending Segment between September 30, 2013 and 2014, mainly resulting from new loan originations and (ii) a \$7.0 million increase in interest income from investment securities principally related to a preferred equity investment we originated in the fourth quarter of 2013.

*Costs and Expenses*

For the nine months ended September 30, 2014, costs and expenses of our Lending Segment increased \$31.4 million to \$173.1 million, compared to \$141.7 million for the nine months ended September 30, 2013. The increase was primarily due to increases of \$29.1 million in interest expense, \$10.7 million in G&A expenses and \$10.2 million in management fees, all partially offset by the absence of \$18.0 million of business combination costs incurred in the 2013 period associated with the LNR acquisition. The increase in interest expense reflects our issuance of \$1.1 billion total principal amount of 4.55% and 4.00% Convertible Senior Notes in February and July of 2013, respectively, and a \$1.5 billion increase in outstanding balances under secured financing agreements of our Lending Segment between September 30, 2013 and 2014. These borrowings, along with equity issuances, are used to fund the growth of our investment portfolio. The increase in G&A expenses reflects higher legal fees principally associated with the administration of our financing facilities and higher compensation expense. The increase in management fees reflects the impacts of (i) higher levels of invested capital which resulted in an increased base management fee in the 2014 period and (ii) higher manager stock compensation expense resulting from awards granted in the first quarter of 2014.

*Other Income*



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For the nine months ended September 30, 2014, other income of our Lending Segment decreased \$2.2 million to \$21.0 million, from \$23.2 million for the nine months ended September 30, 2013. This decrease was primarily due to a \$6.7 million decrease in gain on sales of investments, partially offset by a \$3.4 million increase in earnings from unconsolidated entities. A \$19.1 million favorable swing in gain (loss) on derivatives, primarily foreign exchange contracts, was mostly offset by an \$18.9 million unfavorable swing in foreign currency gain (loss).

### LNR Segment and VIEs

The Company acquired LNR on April 19, 2013. Therefore, a comparison of results of the LNR Segment and VIEs for the nine months ended September 30, 2014 to the nine months ended September 30, 2013 is not meaningful as the current year period has an additional 108 days of operational activity.

### Revenues

For the nine months ended September 30, 2014 and 2013, revenues of our LNR Segment were \$163.0 million and \$95.2 million, respectively, after consolidated VIE eliminations of \$119.2 million and \$57.5 million, respectively. For the nine months ended September 30, 2014, these revenues primarily consisted of \$101.3 million of servicing fees and \$46.2 million of interest income from investment securities and loans, after consolidated VIE eliminations of \$71.6 million and \$46.7 million, respectively. For the nine months ended September 30, 2013, these revenues primarily consisted of \$75.6 million of servicing fees and \$15.9 million of interest income from investment securities and loans, after consolidated VIE eliminations of \$36.8 million and \$20.1 million, respectively. 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 increase in revenues of \$129.5 million (before VIE eliminations) is not only attributable to additional days in the nine months ended September 30, 2014, but also to improved performance of the CMBS book.

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*Costs and Expenses*

For the nine months ended September 30, 2014 and 2013, costs and expenses of our LNR Segment were \$182.0 million and \$109.0 million, respectively, including nominal VIE eliminations. For the nine months ended September 30, 2014, these costs and expenses primarily consisted of G&A expenses of \$114.9 million, allocated management fees of \$25.1 million, direct and allocated interest expense of \$18.2 million, depreciation and amortization of \$12.8 million (including \$10.7 million related to the European servicing rights intangible) and other expenses of \$11.0 million. For the nine months ended September 30, 2013, these costs and expenses primarily consisted of G&A expenses of \$84.6 million, allocated management fees of \$10.4 million, direct and allocated interest expense of \$7.3 million, depreciation and amortization of \$5.7 million (including \$4.8 million related to the European servicing rights intangible) and other expenses of \$1.0 million.

*Other Income*

For the nine months ended September 30, 2014 and 2013, other income of our LNR Segment was \$235.9 million and \$110.6 million, respectively, including additive net VIE eliminations of \$121.6 million and \$58.4 million, respectively. For the nine months ended September 30, 2014, other income primarily consisted of \$190.8 million of income of consolidated VIEs, \$62.6 million of net increases in fair value of investment securities and mortgage loans held-for-sale, which are accounted for using the fair value option, all partially offset by an \$18.7 million decrease in fair value of our domestic 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. For the nine months ended September 30, 2013, other income primarily consisted of \$79.9 million of income of consolidated VIEs, \$23.1 million of net increases in fair value of investment securities and mortgage loans held-for-sale and \$2.9 million of net gain on derivatives. Income of consolidated VIEs reflects amounts associated with LNR's variable interests in the 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.

*Income Tax Provision*

Most of our consolidated income tax provision relates to the taxable nature of LNR's loan servicing and loan conduit businesses which are housed in TRSs. Our tax provision for the nine months ended September 30, 2014, as well as the overall effective tax rate, is lower than for the nine months ended September 30, 2013 primarily due to the finalization of our tax planning strategies associated with the LNR acquisition.

**Non-GAAP Financial Measures**

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

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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: (i) in accordance with GAAP, the two-class method was deemed

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most dilutive; and (ii) under the two-class method, our participating securities were determined to be anti-dilutive and were thus excluded from the denominator. Because compensation expense related to participating securities is added back for Core Earnings purposes pursuant to the definition above, there is no dilution to Core Earnings resulting from the associated expense recognition. As a result, we determined that the two-class method, adjusted to include (instead of exclude) participating securities, was the most conservative and appropriate weighted average share count to apply to the calculation. The following table presents the diluted weighted average shares used in our calculation of Core EPS (in thousands):

|                                 | For the Three Months Ended |         | For the Nine Months Ended |         |
|---------------------------------|----------------------------|---------|---------------------------|---------|
|                                 | September 30,              |         | September 30,             |         |
|                                 | 2014                       | 2013    | 2014                      | 2013    |
| Diluted weighted average shares | 226,120                    | 172,395 | 216,155                   | 157,650 |

The definition of Core Earnings allows management to make adjustments, subject to the approval of a majority of the independent directors, in non-standard situations where such adjustments are considered appropriate in order for Core Earnings to be calculated in a manner consistent with its definition and objective. We encountered this type of situation during 2014 when a hedged loan was expected to be repaid, but was instead extended. The series of foreign exchange forward contracts which hedged this loan were in a loss position on the expected repayment date. In order to accommodate the revised repayment date, the hedges were extended. In doing so, the counterparty required that the existing hedges be effectively liquidated. As a result, for GAAP and Core Earnings purposes, the loss on the hedge is realized, while the corresponding gain on the loan continues as unrealized until the repayment occurs. In an effort to treat this transaction consistently with similar past transactions, and to match the income statement effects of a hedge with the related hedged item, we modified the definition of Core Earnings to allow for hedged loans and their corresponding hedges to be treated as realized in the same accounting period.

*Three Months Ended September 30, 2014 Compared to the Three Months Ended September 30, 2013*

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

|   | Real Estate<br>Investment<br>Lending | LNR           | Total          |
|---|--------------------------------------|---------------|----------------|
| Revenues  | \$ 122,291                           | \$ 100,866    | \$ 223,157     |
| Costs and expenses  | (61,675)                             | (58,480)      | (120,155)      |
| Other income  | 8,588                                | 57,493        | 66,081         |
| Income from continuing operations before income taxes           | 69,204                               | 99,879        | 169,083        |
| Income tax benefit (provision)                                  | 233                                  | (4,069)       | (3,836)        |
| Income attributable to non-controlling interests                | (203)                                |               | (203)          |
| <b>Net income attributable to Starwood Property Trust, Inc.</b> | <b>69,234</b>                        | <b>95,810</b> | <b>165,044</b> |
| <b>Add / (Deduct):</b>  |                                      |               |                |
| Non-cash equity compensation expense                            | 6,498                                | 272           | 6,770          |
| Management incentive fee  |                                      | 4,288         | 4,288          |
| Depreciation and amortization                                   |                                      | 532           | 532            |
| Loan loss allowance, net  | 1,575                                |               | 1,575          |
| Interest income adjustment for securities                       | 542                                  | 3,085         | 3,627          |
| Other non-cash items  |                                      | 338           | 338            |
| Reversal of unrealized (gains) / losses on:                     |                                      |               |                |
| Loans held-for-sale   |                                      | (15,517)      | (15,517)       |

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|   |                  |                  |                   |
|---|------------------|------------------|-------------------|
| Securities  | (396)            | (52,067)         | (52,463)          |
| Derivatives   | (27,088)         | (4,001)          | (31,089)          |
| Foreign currency  | 21,020           |                  | 21,020            |
| Earnings from unconsolidated entities                   |                  | (4,671)          | (4,671)           |
| Recognition of realized gains / (losses) on:            |                  |                  |                   |
| Loans held-for-sale                                     |                  | 16,660           | 16,660            |
| Securities  | 413              | 8,175            | 8,588             |
| Derivatives   | 12               | 947              | 959               |
| Foreign currency  | (858)            |                  | (858)             |
| Earnings from unconsolidated entities                   |                  |                  |                   |
| <b>Core Earnings</b>                                    | <b>\$ 70,952</b> | <b>\$ 53,851</b> | <b>\$ 124,803</b> |
| <b>Core Earnings per Weighted Average Diluted Share</b> | <b>\$ 0.31</b>   | <b>\$ 0.24</b>   | <b>\$ 0.55</b>    |

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the three months ended September 30, 2013, by business segment (amounts in thousands):

|  | Real Estate<br>Investment<br>Lending | LNR              | Single Family<br>Residential | Total             |
|--|--------------------------------------|------------------|------------------------------|-------------------|
| Revenues   | \$ 103,254                           | \$ 83,806        | \$                           | \$ 187,060        |
| Costs and expenses   | (48,732)                             | (60,298)         |                              | (109,030)         |
| Other (loss) income  | (740)                                | 28,956           |                              | 28,216            |
| Income from continuing operations before<br>income taxes                   | 53,782                               | 52,464           |                              | 106,246           |
| Income tax provision   | (619)                                | (13,102)         |                              | (13,721)          |
| Loss from discontinued operations, net of<br>tax                           |                                      |                  | (3,698)                      | (3,698)           |
| Income attributable to non-controlling<br>interests                        | (1,467)                              |                  |                              | (1,467)           |
| <b>Net income (loss) attributable to<br/>Starwood Property Trust, Inc.</b> | <b>51,696</b>                        | <b>39,362</b>    | <b>(3,698)</b>               | <b>87,360</b>     |
| <b>Add / (Deduct):</b>   |                                      |                  |                              |                   |
| Non-cash equity compensation expense                                       | 4,041                                |                  |                              | 4,041             |
| Management incentive fee   |                                      | 4,775            |                              | 4,775             |
| Change in Control Plan   |                                      | 7,291            |                              | 7,291             |
| Depreciation and amortization  |                                      | 234              | 1,552                        | 1,786             |
| Loan loss allowance  | 1,160                                |                  |                              | 1,160             |
| Interest income adjustment for securities                                  | (344)                                | 874              |                              | 530               |
| (Gains) / losses on:   |                                      |                  |                              |                   |
| Loans held for sale  |                                      | (14,355)         |                              | (14,355)          |
| Securities   | (715)                                | (6,162)          |                              | (6,877)           |
| Impairment of real estate  |                                      |                  | 78                           | 78                |
| Gain on foreclosure of non-performing<br>loans                             |                                      |                  | (3,320)                      | (3,320)           |
| Derivatives  | 17,180                               | 11,086           |                              | 28,266            |
| Foreign currency   | (9,433)                              |                  |                              | (9,433)           |
| Earnings from unconsolidated entities                                      |                                      | (886)            |                              | (886)             |
| U.S. special servicing intangible  |                                      | 3,939            |                              | 3,939             |
| <b>Core Earnings (Loss)</b>  | <b>\$ 63,585</b>                     | <b>\$ 46,158</b> | <b>\$ (5,388)</b>            | <b>\$ 104,355</b> |
| <b>Core Earnings (Loss) per Weighted<br/>Average Diluted Share</b>         | <b>\$ 0.37</b>                       | <b>\$ 0.27</b>   | <b>\$ (0.03)</b>             | <b>\$ 0.61</b>    |

Lending Segment

The Lending Segment's Core Earnings increased by \$7.4 million, from \$63.6 million during the third quarter of 2013 to \$71.0 million in the third quarter of 2014. After making adjustments for the calculation of Core Earnings, revenues were \$122.8 million, costs and expenses were \$53.6 million, other income was \$1.7 million and income tax benefit was \$0.2 million.

Core revenues, consisting principally of interest income on loans, increased by \$19.9 million due to growth of \$1.4 billion in our loan portfolio since September 30, 2013.

Core costs and expenses increased by \$10.1 million in the third quarter of 2014, primarily due to (i) a \$5.5 million increase in general and administrative expenses primarily due to higher legal fees principally associated with the administration of our increased financing facilities and higher compensation expense and (ii) a \$3.7 million increase in interest expense associated with the various facilities utilized to fund the growth of our investment portfolio.

Core other income decreased by \$4.6 million, principally due to lower gains on sales of investments. 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,

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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.

LNR Segment

The LNR Segment's Core Earnings increased by \$7.7 million, from \$46.2 million during the third quarter of 2013 to \$53.9 million in the third quarter of 2014. After making adjustments for the calculation of Core Earnings, revenues were \$104.0 million, costs and expenses were \$53.1 million, other income was \$7.0 million and income taxes were \$4.0 million.

Core revenues increased by \$19.3 million in the third quarter of 2014, primarily due to increases of \$14.6 million in interest income on our CMBS investments and conduit loans, and \$5.4 million in other revenues, including \$3.4 million in rental income. Servicing fees declined slightly, by \$0.7 million. 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 \$5.0 million in the third quarter of 2014, primarily due to increases of \$2.0 million in interest expense and \$1.8 million in cost of rental operations.

Core other income decreased by \$15.6 million in the third quarter of 2014, primarily due to an \$18.3 million decrease in fair value of the domestic servicing rights intangible and a \$6.1 million decrease in gains on derivatives that were either effectively terminated or novated, all partially offset by a \$5.2 million increase in profit realized upon securitization of loans by our conduit business and \$4.1 million of higher gains on sales of CMBS. The decrease in fair value of the domestic servicing rights intangible 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.

Income taxes, which principally relate to the operating results of our servicing and conduit businesses which are held in TRSs, decreased \$9.0 million primarily due to the finalization of our tax planning strategies associated with the LNR acquisition.

Single Family Residential Segment

As discussed in Note 3 to our condensed consolidated financial statements included herein, the SFR segment was spun off to our stockholders on January 31, 2014.





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*Nine Months Ended September 30, 2014 Compared to the Nine Months Ended September 30, 2013*

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

|  | <b>Real Estate<br/>Investment<br/>Lending</b> | <b>LNR</b>        | <b>Single Family<br/>Residential</b> | <b>Total</b>      |
|--|---|-------------------|--------------------------------------|-------------------|
| Revenues   | \$ 361,115                                    | \$ 282,193        | \$                                   | \$ 643,308        |
| Costs and expenses   | (173,111)                                     | (181,372)         | (1,882)                              | (356,365)         |
| Other income   | 20,983  | 114,310           |                                      | 135,293           |
| Income (loss) from continuing operations before income taxes           | 208,987                                       | 215,131           | (1,882)                              | 422,236           |
| Income tax provision   | (293)   | (13,440)          |                                      | (13,733)          |
| Loss from discontinued operations, net of tax                          |   |                   | (1,551)                              | (1,551)           |
| Income attributable to non-controlling interests                       | (3,439)                                       |                   |                                      | (3,439)           |
| <b>Net income (loss) attributable to Starwood Property Trust, Inc.</b> | <b>205,255</b>                                | <b>201,691</b>    | <b>(3,433)</b>                       | <b>403,513</b>    |
| <b>Add / (Deduct):</b>   |   |                   |                                      |                   |
| Non-cash equity compensation expense                                   | 20,787  | 714               |                                      | 21,501            |
| Management incentive fee   |   | 15,511            |                                      | 15,511            |
| Change in Control Plan   |   | 1,279             |                                      | 1,279             |
| Depreciation and amortization  |   | 1,602             | 1,540                                | 3,142             |
| Loan loss allowance, net   | 1,933   |                   |                                      | 1,933             |
| Interest income adjustment for securities                              | (808)   | 8,940             |                                      | 8,132             |
| Other non-cash items   |   | 587               |                                      | 587               |
| Reversal of unrealized (gains) / losses on:                            |   |                   |                                      |                   |
| Loans held-for-sale  |   | (48,018)          |                                      | (48,018)          |
| Securities   | (12,027)                                      | (105,313)         |                                      | (117,340)         |
| Derivatives  | (16,408)                                      | 2,082             |                                      | (14,326)          |
| Foreign currency   | 15,376  |                   |                                      | 15,376            |
| Earnings from unconsolidated entities                                  |   | (5,263)           |                                      | (5,263)           |
| Recognition of realized gains / (losses) on:                           |   |                   |                                      |                   |
| Loans held-for-sale  |   | 46,045            |                                      | 46,045            |
| Securities   | 10,992  | 22,306            |                                      | 33,298            |
| Derivatives  | (851)   | (1,810)           |                                      | (2,661)           |
| Foreign currency   | (1,139)                                       |                   |                                      | (1,139)           |
| Earnings from unconsolidated entities                                  |   |                   |                                      |                   |
| <b>Core Earnings</b>   | <b>\$ 223,110</b>                             | <b>\$ 140,353</b> | <b>\$ (1,893)</b>                    | <b>\$ 361,570</b> |
| <b>Core Earnings per Weighted Average Diluted Share</b>                | <b>\$ 1.03</b>                                | <b>\$ 0.65</b>    | <b>\$ (0.01)</b>                     | <b>\$ 1.67</b>    |

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the nine months ended September 30, 2013, by business segment (amounts in thousands):

|  | Real Estate<br>Investment<br>Lending | LNR              | Single Family<br>Residential | Total             |
|--|--------------------------------------|------------------|------------------------------|-------------------|
| Revenues   | \$ 273,673                           | \$ 152,656       | \$                           | \$ 426,329        |
| Costs and expenses   | (141,743)                            | (108,609)        |                              | (250,352)         |
| Other income   | 23,240                               | 52,162           |                              | 75,402            |
| Income from continuing operations before<br>income taxes                   | 155,170                              | 96,209           |                              | 251,379           |
| Income tax provision   | (1,645)                              | (24,034)         |                              | (25,679)          |
| Loss from discontinued operations, net of<br>tax                           |                                      |                  | (12,044)                     | (12,044)          |
| Income attributable to non-controlling<br>interests                        | (3,599)                              |                  |                              | (3,599)           |
| <b>Net income (loss) attributable to Starwood<br/>Property Trust, Inc.</b> | <b>149,926</b>                       | <b>72,175</b>    | <b>(12,044)</b>              | <b>210,057</b>    |
| <b>Add / (Deduct):</b>   |                                      |                  |                              |                   |
| Non-cash equity compensation expense                                       | 12,870                               |                  |                              | 12,870            |
| Management incentive fee   | 47                                   | 4,775            |                              | 4,822             |
| Change in Control Plan   |                                      | 15,803           |                              | 15,803            |
| Depreciation and amortization  |                                      | 346              | 2,981                        | 3,327             |
| Loan loss allowance  | 1,915                                |                  |                              | 1,915             |
| Interest income adjustment for securities                                  | (832)                                | 4,680            |                              | 3,848             |
| (Gains) / losses on:   |                                      |                  |                              |                   |
| Loans held for sale  |                                      | (6,011)          |                              | (6,011)           |
| Securities   | (463)                                | (11,410)         |                              | (11,873)          |
| Impairment of real estate  |                                      |                  | 536                          | 536               |
| Gain on foreclosure of non-performing loans                                |                                      |                  | (3,320)                      | (3,320)           |
| Derivatives  | 1,744                                | 5,049            |                              | 6,793             |
| Foreign currency   | (3,722)                              |                  |                              | (3,722)           |
| Earnings from unconsolidated entities                                      |                                      | (1,432)          |                              | (1,432)           |
| U.S. special servicing intangible  |                                      | (2,175)          |                              | (2,175)           |
| <b>Core Earnings (Loss)</b>  | <b>\$ 161,485</b>                    | <b>\$ 81,800</b> | <b>\$ (11,847)</b>           | <b>\$ 231,438</b> |
| <b>Core Earnings (Loss) per Weighted<br/>Average Diluted Share</b>         | <b>\$ 1.03</b>                       | <b>\$ 0.52</b>   | <b>\$ (0.08)</b>             | <b>\$ 1.47</b>    |

Lending Segment

The Lending Segment's Core Earnings increased by \$61.6 million, from \$161.5 million during the nine months ended September 30, 2013 to \$223.1 million during the nine months ended September 30, 2014. After making adjustments for the calculation of Core Earnings, revenues were \$360.3 million, costs and expenses were \$150.4 million, other income was \$16.9 million and income taxes were \$0.3 million.

Core revenues, consisting principally of interest income on loans, increased by \$87.5 million due to growth of \$1.4 billion in our loan portfolio since September 30, 2013.

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Core costs and expenses increased by \$23.5 million, primarily due to (i) a \$29.2 million increase in interest expense associated with the various facilities utilized to fund the growth of our investment portfolio and (ii) a \$10.2 million increase in general and administrative expenses primarily due to higher legal fees principally associated with the administration of our financing facilities and higher compensation expense, all partially offset by the absence of \$18.0 million of costs associated with the LNR acquisition in 2013.

Core other income decreased by \$3.9 million on a net basis principally due to lower gains on sales of investments. 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.

### LNR Segment

The Company acquired LNR on April 19, 2013. Therefore, a comparison of the LNR Segment Core Earnings for the nine months ended September 30, 2014 to the nine months ended September 30, 2013 is not meaningful as the current year period has an additional 108 days of operational activity.

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The LNR Segment contributed Core Earnings of \$140.3 million during the nine months ended September 30, 2014. After making adjustments for the calculation of Core Earnings, revenues were \$291.1 million, costs and expenses were \$161.7 million, other income was \$24.3 million and income taxes were \$13.4 million.

Core revenues benefited from servicing fees of \$172.8 million, CMBS interest income of \$92.2 million, interest income on our conduit loans of \$9.1 million, and \$17.0 million of other revenues, including \$9.6 million of management fees and \$6.5 million of rental income. Our U.S. servicing operation earned \$138.9 million in fees during the period while our European servicer earned \$33.9 million. 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.

Included in core costs and expenses were general and administrative expenses of \$112.9 million, allocated interest expense of \$14.7 million, amortization expense of \$10.7 million, allocated segment management fees of \$9.4 million, cost of rental operations of \$3.9 million and direct interest expense of \$3.5 million. Amortization expense principally represents the amortization of the European special servicing rights intangible, which reflects the deterioration of this asset as fees are earned.

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.

Income taxes principally relate to the operating results of our servicing and conduit businesses, which are held in TRSs.

Single Family Residential Segment

As discussed in Note 3 to our condensed consolidated financial statements included herein, the SFR segment was spun off to our stockholders on January 31, 2014.

Table of Contents**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 any dividends to our stockholders, and other general business needs. We closely monitor our liquidity position and believe that we have sufficient current liquidity and access to additional liquidity to meet our financial obligations for at least the next 12 months. Our strategy for managing liquidity and capital resources has not changed since December 31, 2013, other than as set forth below. Please refer to our Form 10-K for a description of these strategies.

*Cash and Cash Equivalents*

As of September 30, 2014, we had cash and cash equivalents of \$327.3 million.

*Cash Flows for the Nine Months Ended September 30, 2014*

|   | GAAP              | VIE<br>Adjustments | Excluding LNR<br>VIEs |
|---|-------------------|--------------------|-----------------------|
| <b>Net cash provided by operating activities</b>  | <b>\$ 236,544</b> | <b>\$ (373)</b>    | <b>\$ 236,171</b>     |
| <b>Cash Flows from Investing Activities:</b>  |                   |                    |                       |
| Spin-off of SWAY  | (111,960)         |                    | (111,960)             |
| Purchase of investment securities   | (67,230)          | (127,954)          | (195,184)             |
| Proceeds from sales and collections of investment securities  | 141,165           | 121,013            | 262,178               |
| Origination and purchase of loans held-for-investment   | (2,123,947)       |                    | (2,123,947)           |
| Proceeds from principal collections and sale of loans   | 1,307,822         |                    | 1,307,822             |
| Acquisition and improvement of single family homes and acquisition of non-performing loans, net of sales proceeds | (61,901)          |                    | (61,901)              |
| Net cash flows from other investments and assets  | (8,069)           | (1,770)            | (9,839)               |
| Decrease in restricted cash, net  | 8,890             |                    | 8,890                 |
| <b>Net cash used in investing activities</b>  | <b>(915,230)</b>  | <b>(8,711)</b>     | <b>(923,941)</b>      |
| <b>Cash Flows from Financing Activities:</b>  |                   |                    |                       |
| Borrowings under financing agreements   | 2,917,281         |                    | 2,917,281             |
| Principal repayments on borrowings  | (2,459,837)       |                    | (2,459,837)           |
| Payment of deferred financing costs   | (11,536)          |                    | (11,536)              |
| Proceeds from common stock issuances, net of offering costs   | 581,476           |                    | 581,476               |
| Payment of dividends  | (293,607)         |                    | (293,607)             |
| Distributions to non-controlling interests  | (33,582)          |                    | (33,582)              |
| Issuance of debt of consolidated VIEs   | 88,412            | (88,412)           |                       |
| Repayment of debt of consolidated VIEs  | (129,724)         | 129,724            |                       |
| Distributions of cash from consolidated VIEs  | 32,601            | (32,601)           |                       |
| <b>Net cash provided by financing activities</b>  | <b>691,484</b>    | <b>8,711</b>       | <b>700,195</b>        |
| Net increase in cash and cash equivalents   | 12,798            | (373)              | 12,425                |
| Cash and cash equivalents, beginning of period  | 317,627           | (276)              | 317,351               |
| Effect of exchange rate changes on cash   | (3,103)           |                    | (3,103)               |
| Cash and cash equivalents, end of period  | <b>\$ 327,322</b> | <b>\$ (649)</b>    | <b>\$ 326,673</b>     |

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

Cash and cash equivalents increased by \$12.4 million during the nine months ended September 30, 2014, reflecting net cash provided by operating activities of \$236.2 million and net cash provided by financing activities of \$700.2 million partially offset by net cash used in investing activities of \$923.9 million.

Net cash provided by operating activities of \$236.2 million for the nine months ended September 30, 2014 related primarily to cash interest income of \$275.9 million from our loan origination and conduit programs, plus cash interest income on investment securities of \$119.5 million. Servicing fees provided cash of \$169.7 million and other revenues provided \$20.6 million. Offsetting these revenues were cash interest expense of \$110.2 million, general and administrative expenses of \$99.6 million, a net change in operating assets and liabilities of \$75.9 million, management fees of \$42.7 million and income tax payments of \$19.0 million.

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Net cash used in investing activities of \$923.9 million for the nine months ended September 30, 2014 related primarily to the origination and acquisition of new loans held-for-investment of \$2.1 billion, \$112.0 million distributed in connection with the SWAY spin-off, the acquisition and improvement of real estate and non-performing residential loans of \$61.9 million, all partially offset by proceeds received from principal repayments and sales of loans of \$1.3 billion.

Net cash provided by financing activities of \$700.2 million for the nine months ended September 30, 2014 related primarily to net proceeds from our April 2014 equity offering and other common stock issuances of \$581.5 million and net borrowings after repayments on our secured debt of \$445.9 million, partially offset by dividend distributions of \$293.6 million and distributions to non-controlling entities of \$33.6 million.

### *Our Investment Portfolio*

### *Lending Segment*

The following table sets forth the amount of each category of investments we owned across various property types within our Lending Segment as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|   | Face<br>Amount | Carrying<br>Value | Asset Specific<br>Financing | Net<br>Investment | Vintage     |
|---|----------------|-------------------|-----------------------------|-------------------|-------------|
| <b>September 30, 2014</b>               |                |                   |                             |                   |             |
| First mortgages                         | \$ 3,437,681   | \$ 3,380,882      | \$ 1,501,346                | \$ 1,879,536      | 1989-2014   |
| Subordinated mortgages                  | 418,221        | 386,865           | 2,000                       | 384,865           | 1998-2014   |
| Mezzanine loans                         | 1,429,777      | 1,432,994         | 57,678                      | 1,375,316         | 2006-2014   |
| Loans transferred as secured borrowings | 142,681        | 142,516           | 142,575                     | (59)              | N/A         |
| Loan loss allowance                     |                | (5,917)           |                             | (5,917)           | N/A         |
| RMBS AFS(1)                             | 283,891        | 216,319           | 130,367                     | 85,952            | 2003 - 2007 |
| CMBS AFS(1)                             | 97,817         | 106,086           |                             | 106,086           | 2012 - 2013 |
| HTM securities(2)                       | 371,700        | 371,467           | 58,467                      | 313,000           | 2013        |
| Equity security                         | 14,819         | 15,471            |                             | 15,471            | N/A         |
| Investments in unconsolidated entities  | N/A            | 47,934            |                             | 47,934            | N/A         |
|   | \$ 6,196,587   | \$ 6,094,617      | \$ 1,892,433                | \$ 4,202,184      |             |
| <b>December 31, 2013</b>                |                |                   |                             |                   |             |
| First mortgages                         | \$ 2,749,072   | \$ 2,701,731      | \$ 1,099,628                | \$ 1,602,103      | 1989 - 2013 |
| Subordinated mortgages                  | 442,475        | 407,462           | 4,000                       | 403,462           | 1999-2013   |
| Mezzanine loans                         | 1,246,841      | 1,245,728         |                             | 1,245,728         | 2010-2013   |
| Loans transferred as secured borrowings | 180,484        | 180,414           | 181,238                     | (824)             | N/A         |
| Loan loss allowance                     |                | (3,984)           |                             | (3,984)           | N/A         |
| RMBS AFS(1)                             | 414,020        | 296,236           | 127,943                     | 168,293           | 2003 - 2007 |
| CMBS AFS(1)                             | 100,648        | 114,346           |                             | 114,346           | 2012 - 2013 |
| HTM securities(2)                       | 371,700        | 368,318           | 58,467                      | 309,851           | 2013        |
| Equity security                         | 15,133         | 15,247            |                             | 15,247            | N/A         |
| Investments in unconsolidated entities  | N/A            | 50,167            |                             | 50,167            | N/A         |



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\$ 5,520,373 \$ 5,375,665 \$ 1,471,276 \$ 3,904,389

- 
- (1) RMBS and CMBS available-for-sale ( AFS ) securities.
- (2) Mandatorily redeemable preferred equity interests in commercial real estate entities and CMBS held-to-maturity ( HTM ).

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As of September 30, 2014 and December 31, 2013, our Lending Segment's investment portfolio, excluding other investments, had the following characteristics based on carrying values:

| <b>Collateral Property Type</b> | <b>September 30, 2014</b> | <b>December 31, 2013</b> |
|---------------------------------|---------------------------|--------------------------|
| Office                          | 37.4%                     | 33.1%                    |
| Hospitality                     | 26.8%                     | 25.6%                    |
| Multi-family                    | 13.1%                     | 1.3%                     |
| Retail                          | 7.2%                      | 11.7%                    |
| Mixed Use                       | 7.1%                      | 16.9%                    |
| Residential                     | 5.0%                      | 9.6%                     |
| Industrial                      | 3.4%                      | 1.8%                     |
|                                 | 100.0%                    | 100.0%                   |

| <b>Geographic Location</b> | <b>September 30, 2014</b> | <b>December 31, 2013</b> |
|----------------------------|---------------------------|--------------------------|
| West                       | 30.4%                     | 25.7%                    |
| North East                 | 22.9%                     | 20.8%                    |
| International              | 13.1%                     | 15.4%                    |
| South East                 | 11.4%                     | 17.7%                    |
| Mid Atlantic               | 9.8%                      | 9.1%                     |
| Midwest                    | 7.8%                      | 5.3%                     |
| South West                 | 4.6%                      | 6.0%                     |
|                            | 100.0%                    | 100.0%                   |

*LNR Segment*

The following table sets forth the amount of each category of investments we owned within our LNR Segment as of September 30, 2014 and December 31, 2013 (amounts in thousands):

|  | <b>Face<br/>Amount</b> | <b>Carrying<br/>Value</b> | <b>Asset<br/>Specific<br/>Financing</b> | <b>Net<br/>Investment</b> |
|--|------------------------|---------------------------|---|---------------------------|
| <b>September 30, 2014</b>              |                        |                           |   |                           |
| CMBS, fair value option                | \$ 3,934,692           | \$ 697,733(1)             |   | \$ 697,733                |
| Servicing rights intangibles           | N/A                    | 203,503(2)                |   | 203,503                   |
| Loans held-for-sale, fair value option | 248,620                | 248,165                   | 169,223                                 | 78,942                    |
| Loans held-for-investment              | 7,545                  | 4,103                     |   | 4,103                     |
| Investments in unconsolidated entities | N/A                    | 69,175                    |   | 69,175                    |
|  | \$ 4,190,857           | \$ 1,222,679              | \$ 169,223                              | \$ 1,053,456              |
| <b>December 31, 2013</b>               |                        |                           |   |                           |
| CMBS, fair value option                | \$ 3,871,803           | \$ 550,282(1)             |   | \$ 550,282                |
| Servicing rights intangibles           | N/A                    | 257,736(2)                |   | 257,736                   |
| Loans held-for-sale, fair value option | 209,099                | 206,672                   | 129,843                                 | 76,829                    |
| Loans held-for-investment              | 17,144                 | 12,781                    |   | 12,781                    |
| Investments in unconsolidated entities | N/A                    | 76,170                    |   | 76,170                    |
|  | \$ 4,098,046           | \$ 1,103,641              | \$ 129,843                              | \$ 973,798                |

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- (1) Includes \$512.8 million and \$409.3 million of CMBS reflected in VIE liabilities in accordance with ASC 810 as of September 30, 2014 and December 31, 2013, respectively.
- (2) Includes \$57.7 million and \$80.6 million of servicing rights intangibles reflected in VIE assets in accordance with ASC 810 as of September 30, 2014 and December 31, 2013, respectively.

### *New Credit Facilities*

In January 2014, we amended our Lender 1 Repo 1 facility to (i) upsize available borrowings to \$1.0 billion from \$550 million; (ii) extend the maturity date for loan collateral to January 2019 and for CMBS collateral to January 2016, each from August 2014, and each assuming initial extension options; (iii) allow for up to four additional one-year extension options with respect to any loan collateral that remains financed at maturity, in an effort to match the term of the maturity dates of these assets; (iv) reduce pricing and debt-yield thresholds for purchased assets; and (v) amend certain financial covenants to contemplate the spin-off of the SFR segment. STWD guarantees certain of the obligations of the consolidated subsidiary, which is the borrower under the repurchase

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agreement, up to a maximum liability of either 25% or 100% of the then-currently outstanding repurchase price of purchased assets, depending upon the type of asset being financed. In October 2014, we again amended the Lender 1 Repo 1 facility to (i) upsize available borrowings from \$1.0 billion to \$1.25 billion; (ii) increase the maximum advance rate on certain asset classes; and (iii) amend certain financial covenants.

In May 2014, we amended our Lender 3 Repo 1 facility to (i) increase additional borrowings by \$42.7 million; (ii) extend the maturity date for loan collateral to May 2019, assuming the exercise of two one-year extension options; (iii) reduce pricing for all purchased assets; and (iv) increase advance rates for certain purchased assets.

In July 2014, we amended the Lender 2 Repo 1 facility to upsize available borrowings from \$225 million to \$325 million and reduce pricing.

In July 2014, we amended the Lender 1 Repo 2 facility to reduce available borrowings from \$175 million to \$145 million. Term and pricing were unchanged.

In August 2014, we executed a \$250 million repurchase facility ( Lender 6 Repo 1 ) with a new lender. The facility has a three year term with a one year extension available at the option of the lender. The facility carries an annual interest rate of LIBOR + 2.75% and eligible collateral includes identified commercial mortgage loans and other asset types at the discretion of the lender.

In September 2014, we amended the Conduit Repo 1 facility to extend the maturity date to September 2016, assuming the exercise of a one-year extension option, and reduce pricing.

In October 2014, we amended the Conduit Repo 2 facility to extend the maturity date to November 2016 assuming the exercise of a one-year extension.

In October 2014, we amended the Lender 5 Repo 1 facility to extend its maturity date to December 2015 and reduce pricing.

*Borrowings under Various Financing Arrangements*

The following table is a summary of our financing facilities as of September 30, 2014 (dollar amounts in thousands):

| <b>Current Maturity</b> | <b>Extended Maturity(a)</b> | <b>Pricing</b> | <b>Pledged Asset Carrying</b> | <b>Maximum Facility Size</b> | <b>Outstanding balance</b> | <b>Approved but Undrawn</b> | <b>Unallocated Financing Amount(c)</b> |
|-------------------------|-----------------------------|----------------|-------------------------------|------------------------------|----------------------------|-----------------------------|--|
|-------------------------|-----------------------------|----------------|-------------------------------|------------------------------|----------------------------|-----------------------------|--|

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|                        |          |              |                           | Value        |                 | Capacity(b)  |           |            |
|------------------------|----------|--------------|---------------------------|--------------|-----------------|--------------|-----------|------------|
| <b>Lender 1 Repo 1</b> | (d)      | (d)          | LIBOR + 1.85% to<br>5.25% | \$ 1,140,557 | \$ 1,000,000(e) | \$ 686,995   | \$ 73,405 | \$ 239,600 |
| <b>Lender 1 Repo 2</b> | (f)      | N/A          | LIBOR + 1.90%             | 214,803      | 145,000         | 130,367      |           | 14,633     |
| <b>Lender 1 Repo 3</b> | Dec 2014 | Dec 2016     | LIBOR + 2.75%             | 161,693      | 120,021         | 120,021      |           |            |
|                        |          |              | LIBOR + 1.75% to          |              |                 |              |           |            |
| <b>Lender 2 Repo 1</b> | Oct 2015 | Oct 2018     | 2.75%                     | 328,615      | 325,000         | 222,802      |           | 102,198    |
| <b>Lender 3 Repo 1</b> | May 2017 | May 2019     | LIBOR + 2.85%             | 180,570      | 126,733         | 126,733      |           |            |
| <b>Conduit Repo 1</b>  | Sep 2015 | Sep 2016     | LIBOR + 1.90%             | 219,928      | 250,000         | 165,098      |           | 84,902     |
|                        | Nov 2014 |              |                           |              |                 |              |           |            |
| <b>Conduit Repo 2</b>  | (g)      | Nov 2014 (g) | LIBOR + 2.10%             | 5,444        | 150,000         | 4,125        |           | 145,875    |
| <b>Lender 4 Repo 1</b> | Oct 2015 | Oct 2017     | LIBOR + 2.60%             | 433,216      | 340,473         | 340,473      |           |            |
|                        | Dec 2014 |              |                           |              |                 |              |           |            |
| <b>Lender 5 Repo 1</b> | (h)      | Dec 2014 (h) | LIBOR + 2.00%             | 84,140       | 58,467          | 58,467       |           |            |
| <b>Lender 6 Repo 1</b> | Aug 2017 | Aug 2018     | LIBOR + 2.75%             | 79,493       | 250,000         | 64,000       |           | 186,000    |
| <b>Borrowing Base</b>  | Sep 2015 | Sep 2017     | LIBOR + 3.25%(i)          | 809,747      | 285,000(j)      | 124,504      |           | 160,496    |
| <b>Term Loan</b>       | Apr 2020 | Apr 2020     | LIBOR + 2.75%(i)          | 2,985,124    | 666,731         | 664,523(k)   |           |            |
|                        |          |              |                           | \$ 6,643,330 | \$ 3,717,425    | \$ 2,708,108 | \$ 73,405 | \$ 933,704 |

(a) Subject to certain conditions as defined in the respective facility agreement.

(b) Approved but undrawn capacity represents the total draw amount that has been approved by the lender related to those assets that have been pledged as collateral, less the drawn amount.

(c) Unallocated financing amount represents the maximum facility size less the total draw capacity that has been approved by the lender.

(d) Maturity date for borrowings collateralized by loans of January 2017 before extension options and January 2019 assuming initial extension options. Maturity date for borrowings collateralized by CMBS of January 2015 before extension options and January 2016 assuming initial extension options.

(e) In October 2014, we amended the Lender 1 Repo 1 facility to upsize available borrowings from \$1.0 billion to \$1.25 billion.

(f) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 13, 2015.

(g) In October 2014, we amended the Conduit Repo 2 facility to extend the maturity date to November 2016 assuming the exercise of a one-year extension.

(h) In October 2014, we amended the Lender 5 Repo1 facility to extend the maturity date to December 2015.

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(i) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The Term Loan is also subject to a 75 basis point floor.

(j) Maximum borrowings under this facility were temporarily increased from \$250.0 million to \$285.0 million. This increase expires on October 17, 2014.

(k) Term loan outstanding balance is net of \$2.2 million of unamortized discount.

Refer to Note 8 of our condensed consolidated financial statements included herein for further disclosure regarding the terms of our financing arrangements.

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

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

| Quarter Ended      | Quarter-End<br>Balance<br>(in 000 s) | Weighted-Average<br>Balance<br>During Quarter<br>(in 000 s) | Variance<br>(in 000 s) | Explanations<br>for Significant<br>Variances |
|--------------------|--------------------------------------|---|------------------------|--|
| December 31, 2013  | 2,257,560                            | 1,850,572   | 406,988                | (a)  |
| March 31, 2014     | 2,601,062                            | 2,536,926   | 64,136                 | (b)  |
| June 30, 2014      | 2,561,267                            | 2,366,435   | 194,832                | (c)  |
| September 30, 2014 | 2,708,108                            | 2,766,428   | (58,320)               | (d)  |

(a) Variance primarily due to the following: (i) \$375.0 million in proceeds from the upsize of the Term Loan in December 2013, and (ii) \$86.1 million draw on the Borrowing Base facility.

(b) Variance primarily due to the following: (i) \$281.6 million in draws on the Lender 1 Repo 1 facility subsequent to its upsizing in January 2014; partially offset by (ii) \$146.0 million repayment on the Borrowing Base facility in March 2014.

(c) Variance primarily due to the following: (i) \$90.0 million drawn on the Lender 1 Repo 1 facility in June 2014; (ii) \$84.4 million drawn on the borrowing base facility in June 2014; and (iii) \$43.5 million drawn on the Lender 2 Repo 1 facility in June 2014.

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(d) Variance primarily due to the following: (i) \$51.2 million repayment on the Lender 1 Repo 1 facility in September 2014; (ii) \$137.7 million repayment on the Conduit Repo 2 facility in August 2014; offset by (iii) \$116.5 million draw on the Borrowing Base facility in September 2014.

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

The following scheduled and/or projected principal repayments on our investments were based upon the amounts outstanding and contractual terms of the financing facilities in effect as of September 30, 2014 (amounts in thousands):

|                     | <b>Scheduled Principal Repayments on Loans and Preferred Interests</b> | <b>Scheduled/Projected Principal Repayments on RMBS and CMBS</b> | <b>Projected Required Repayments of Financing</b> | <b>Scheduled Principal Inflows Net of Financing Outflows</b> |
|---------------------|--|--|---|--|
| Fourth Quarter 2014 | 268,624  | 27,238   | (231,992)   | 63,870   |
| First Quarter 2015  | 23,730   | 12,717   | (133,843)   | (97,396)   |
| Second Quarter 2015 | 54,474   | 21,387   | (6,401)   | 69,460   |
| Third Quarter 2015  | 9,207  | 12,486   | (3,433)   | 18,260   |
| <b>Total</b>        | <b>\$ 356,035</b>  | <b>\$ 73,828</b>   | <b>\$ (375,669)</b>                               | <b>\$ 54,194</b>   |

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

### *Issuances of Equity Securities*

We may raise funds through capital market transactions by issuing capital stock. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have authorized 100,000,000 shares of preferred stock and 500,000,000 shares of common stock. At September 30, 2014, we had 100,000,000 shares of preferred stock available for issuance and 277,611,199 shares of common stock available for issuance.

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On May 15, 2014, we established the DRIP Plan which provides stockholders with a means of purchasing additional shares of our common stock by reinvesting the cash dividends paid on our common stock and by making additional optional cash purchases. Shares of our common stock purchased under the DRIP Plan will either be issued directly by the Company or purchased in the open market by the plan administrator.

On May 27, 2014, we entered into the ATM Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated to sell shares of the Company's common stock of up to \$500 million from time to time, through an at the market equity offering program. Sales of shares under the ATM Agreement will be made by means of ordinary brokers' transactions on the NYSE or otherwise at market prices prevailing at the time of sale or at negotiated prices.

Refer to Note 15 of our condensed consolidated financial statements included herein for discussion of our issuances of equity securities during the nine months ended September 30, 2014.

*Repurchases of Equity Securities*

On September 26, 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. Purchases made pursuant to the program will be made in either the open market or in privately negotiated transactions from time to time as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases are discretionary and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be suspended or discontinued at any time.

*Other Potential Sources of Financing*

On October 8, 2014, we issued \$431.3 million in aggregate principal of our 3.75% Convertible Senior Notes due 2017.

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/or sale of certain investment securities which no longer meet our return requirements. We may also seek to raise further equity capital, issue debt securities or liquidate investment securities which no longer meet our return requirements in order to fund our future investments.

**Off-Balance Sheet Arrangements**

We have relationships with unconsolidated entities and/or financial partnerships, such as entities often referred to as SPEs or VIEs. We are not obligated to provide, nor have we provided, any financial support for any SPEs or VIEs. As such, the risk associated with our involvement is limited to the carrying value of our investment in the entity. Refer to Note 13 to our condensed consolidated financial statements included herein



for further discussion.

## Dividends

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

The Company's board of directors declared the following dividends during the nine months ended September 30, 2014:

| Record Date | Declare Date | Pay Date | Amount  | Frequency |
|-------------|--------------|----------|---------|-----------|
| 9/30/14     | 8/6/14       | 10/15/14 | \$ 0.48 | Quarterly |
| 6/30/14     | 5/6/14       | 7/15/14  | \$ 0.48 | Quarterly |
| 3/31/14     | 2/24/14      | 4/15/14  | \$ 0.48 | Quarterly |

On November 5, 2014, our board of directors declared a dividend of \$0.48 per share for the fourth quarter of 2014, which is payable on January 15, 2015 to common stockholders of record as of December 31, 2014.

Table of Contents**Leverage Policies**

Our strategies with regards to use of leverage have not changed significantly since December 31, 2013. Please refer to our Form 10-K for a description of our strategies regarding use of leverage.

**Contractual Obligations and Commitments**

Contractual obligations as of September 30, 2014 are as follows (amounts in thousands):

|  | <b>Total</b> | <b>Less than<br/>1 year</b> | <b>1 to 3 years</b> | <b>3 to 5 years</b> | <b>More than<br/>5 years</b> |
|--|--------------|-----------------------------|---------------------|---------------------|------------------------------|
| Secured financings(a)                      | \$ 2,710,316 | \$ 375,669                  | \$ 463,140          | \$ 1,238,620        | \$ 632,887                   |
| Convertible senior notes                   | 1,059,978    |                             |                     | 1,059,978           |                              |
| Secured borrowings on transferred loans(b) | 142,681      | 13,622                      | 129,059             |                     |                              |
| Loan funding obligations                   | 2,226,028    | 1,107,857                   | 1,103,705           | 14,466              |                              |
| Future lease commitments                   | 38,645       | 6,682                       | 11,901              | 11,419              | 8,643                        |
| Total                                      | \$ 6,177,648 | \$ 1,503,830                | \$ 1,707,805        | \$ 2,324,483        | \$ 641,530                   |

(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.

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

**Critical Accounting Estimates**

Refer to the section of our Form 10-K entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" for a full discussion of our critical accounting estimates. Our critical accounting estimates have not materially changed since December 31, 2013.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake. Our strategies for managing risk and our exposure to such risks have not changed materially since December 31, 2013. Refer to our Form 10-K Item 7A for further discussion.

### *Market 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 in certain instances 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 loans held-for-sale through the purchase of credit index instruments. The following table presents our credit index instruments as of September 30, 2014 and December 31, 2013 (dollar amounts in thousands):

|                    | <b>Face Value of<br/>Loans Held-for-Sale</b> | <b>Aggregate Notional Value of<br/>Credit Index Instruments</b> | <b>Number of<br/>Credit Index Instruments</b> |
|--------------------|--|---|---|
| September 30, 2014 | \$ 248,620                                   | \$ 35,000   | 7   |
| December 31, 2013  | \$ 209,099                                   | \$ 50,000   | 4   |

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Our RMBS portfolio had a weighted average Standard and Poor's rating of B-, as of both September 30, 2014 and December 31, 2013. Our CMBS fair value option portfolio, including CMBS eliminated in consolidation pursuant to ASC 810 and excluding unrated CMBS, had a weighted average rating of CCC and CC, as of September 30, 2014 and December 31, 2013, respectively.

As of September 30, 2014, we had not elected the fair value option for the following CMBS (1) \$105.5 million of an available-for-sale CMBS rated BB+, (2) \$84.1 million of a held-to-maturity CMBS rated BB-, and (3) a \$0.5 million interest-only debt security rated BBB-.

*Capital Market Risk*

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

*Interest Rate Risk*

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our investments and the related financing obligations. In general, we seek to match the interest rate characteristics of our investments with the interest rate characteristics of any related financing obligations such as repurchase agreements, bank credit facilities, term loans, revolving facilities and securitizations. In instances where the interest rate characteristics of an investment and the related financing obligation are not matched, we mitigate such interest rate risk through the utilization of interest rate swaps of the same duration. The following table presents financial instruments where we have utilized interest rate swaps to hedge interest rate risk and the related interest rate swaps as of September 30, 2014 and December 31, 2013 (dollar amounts in thousands):

|   | Face Value of<br>Hedged Instruments | Aggregate Notional<br>Value of Interest Rate<br>Swaps | Number of Interest Rate<br>Swaps |
|---|-------------------------------------|---|----------------------------------|
| <b>Instrument hedged as of September 30, 2014</b> |                                     |   |                                  |
| Loans held-for-investment                         | \$ 17,348                           | \$ 17,368   | 3                                |
| Loans held-for-sale                               | 248,620                             | 212,500   | 45                               |
| RMBS, available-for-sale                          | 283,891                             | 74,000  | 3                                |
| Secured financing agreements                      | 126,235                             | 132,561   | 7                                |
|   | \$ 676,094                          | \$ 436,429  | 58                               |
| <b>Instrument hedged as of December 31, 2013</b>  |                                     |   |                                  |
| Loans held-for-investment                         | \$ 60,810                           | \$ 60,905   | 4                                |
| Loans held-for-sale                               | 209,099                             | 175,400   | 41                               |

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|                              |            |            |    |
|------------------------------|------------|------------|----|
| RMBS, available-for-sale     | 414,020    | 25,000     | 2  |
| CMBS, fair value option      | 18,939     | 9,700      | 1  |
| Secured financing agreements | 168,766    | 177,100    | 8  |
|                              | \$ 871,634 | \$ 448,105 | 56 |

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

| Income (Expense) Subject to Interest Rate Sensitivity | Variable-rate investments and indebtedness |               |               |               |               |               |                   |
|---|--|---------------|---------------|---------------|---------------|---------------|-------------------|
|   |  | 3.0% Increase | 2.5% Increase | 2.0% Increase | 1.5% Increase | 1.0% Increase | 1.0% Decrease (1) |
| Investment income from variable-rate investments      | \$ 4,283,671                               | \$ 132,880    | \$ 109,520    | \$ 86,169     | \$ 62,878     | \$ 39,852     | \$ (6,640)        |
| Interest expense from variable-rate debt              | (2,579,950)                                | (73,965)      | (61,066)      | (48,166)      | (35,266)      | (22,366)      | 4,386             |
| Net investment income from variable rate instruments  | \$ 1,703,721                               | \$ 58,915     | \$ 48,454     | \$ 38,003     | \$ 27,612     | \$ 17,486     | \$ (2,254)        |

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

*Foreign Currency Risk*

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

Consistent with our strategy of hedging foreign currency exposure on certain investments, we typically enter into a series of forwards to fix the U.S. dollar amount of foreign currency denominated cash flows (interest and principal payments) we expect to receive from our foreign currency denominated loan and CMBS 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 loan investments and a CMBS investment denominated in foreign currencies, along with the aggregate notional amount of the hedges in place (amounts in thousands except for number of contracts, using the September 30, 2014 pound sterling ( GBP ) closing rate of 1.6213, Euro ( EUR ) closing rate of 1.2631, Swedish Krona ( SEK ) closing rate of 0.1386, Norwegian Krone ( NOK ) closing rate of 0.1556, Danish Krone ( DKK ) closing rate of 0.1697):

| Carrying Value of Investment | Local Currency     | Number of foreign exchange contracts | Aggregate Notional Value of Hedges Applied | Expiration Range of Contracts |
|------------------------------|--------------------|--------------------------------------|--|-------------------------------|
| \$ 10,620                    | GBP                | 15                                   | 11,917                                     | October 2014 - March 2016     |
| 105,547                      | GBP                | 3                                    | 114,241                                    | March 2015 - March 2016       |
| 24,072                       | GBP                | 9                                    | 28,660                                     | October 2014 - August 2016    |
| 27,976                       | EUR                | 6                                    | 33,565                                     | November 2014 - February 2016 |
| 96,269                       | GBP                | 11                                   | 121,334                                    | October 2014 - April 2017     |
| 48,502                       | GBP                | 6                                    | 57,551                                     | October 2014 - January 2016   |
| 57,004                       | EUR                | 19                                   | 60,881                                     | October 2014 - October 2016   |
| 1,643                        | GBP                | 1                                    | 4,057                                      | March 2015                    |
| 7,999                        | EUR, DKK, NOK, SEK | 5                                    | 13,279                                     | December 2015                 |
| 28,657                       | EUR                | 4                                    | 34,657                                     | February 2016 - October 2016  |
| 15,471                       | GBP                | 15                                   | 18,449                                     | October 2014 - January 2018   |



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**Item 4. Controls and Procedures.**

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

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

*Changes in Internal Control Over Financial Reporting.* No change in internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

In addition to the following risk factor, refer to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Risks Related to Regulatory Matters**

*Mortgage loan servicing is an increasingly regulated business.*

The mortgage loan servicing activities of our LNR segment are subject to a still evolving set of regulations, including regulations being promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act. In addition, various governmental authorities have recently 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 LNR segment in compliance with existing and future regulations, our business, reputation, financial condition or results of operations could be materially and adversely affected.

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

**Issuer Purchases of Equity Securities**

The following table provides information regarding our purchases of common stock during the three months ended September 30, 2014:

| Period         | Total number of shares purchased | Average repurchase price per share | Number of shares purchased as part of publicly announced program (1) | Value of shares available for purchase under the program (in thousands) |
|----------------|----------------------------------|------------------------------------|--|---|
| September 2014 | 587,900                          | \$ 22.10                           | 587,900  | \$ 237,007  |

(1) On September 26, 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.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**STARWOOD PROPERTY TRUST, INC.**

Date: November 5, 2014

By:

/s/ BARRY S. STERNLICHT  
Barry S. Sternlicht  
*Chief Executive Officer*  
*Principal Executive Officer*

Date: November 5, 2014

By:

/s/ RINA PANIRY  
Rina Paniry  
*Chief Financial Officer, Treasurer and*  
*Principal Financial Officer*

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**Item 6. Exhibits.**

**(a) Index to Exhibits**

**INDEX TO EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 31.1               | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 31.2               | Certification pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 |
| 32.1               | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002    |
| 32.2               | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002    |
| 101.INS            | XBRL Instance Document   |
| 101.SCH            | XBRL Taxonomy Extension Schema Document                                    |
| 101.CAL            | XBRL Taxonomy Extension Calculation Linkbase Document                      |
| 101.DEF            | XBRL Taxonomy Extension Definition Linkbase Document                       |
| 101.LAB            | XBRL Taxonomy Extension Label Linkbase Document                            |
| 101.PRE            | XBRL Taxonomy Extension Presentation Linkbase Document                     |