ADAMS J MICHAEL JR
Form 4
March 21, 2007

# FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
ADAMS J MICHAEL JR

(Last) (First) (Middle)

(Street)

PA

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
AMERISERV FINANCIAL INC /PA/ [ASRV]

3. Date of Earliest Transaction (Month/Day/Year)
03/15/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common | 03/15/2007 | 03/20/2007 | P | | 182.7958 | A | $ 4.65 | 43,096.8185 | D | |
| Common | | | | | | | | 57.4977 | I | By Minor Child |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| ADAMS J MICHAEL JR<br><br>PA | X | | | |

# Signatures

| | |
|---|---|
| Sharon M. Callihan, Attorney-in-Fact | 03/21/2007 |
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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**Costs and expenses:**

Lending Segment

232,210 194,861 121,761 37,349 73,100

Investing and Servicing Segment

249,024 177,660 71,364 177,660

SFR segment allocations

1,882 1,882

Investing and Servicing VIEs

893 645 248 645

**484,009 373,166 121,761 110,843 251,405**

**Other income:**

Lending Segment

24,356 25,911 21,025 (1,555) 4,886

Investing and Servicing Segment

120,985 58,171 62,814 58,171

Investing and Servicing VIEs

161,978 93,571 68,407 93,571

**307,319 177,653 21,025 129,666 156,628**

**Income (loss) from continuing operations before income taxes:**

Lending Segment

281,913 224,528 206,558 57,385 17,970

Investing and Servicing Segment

244,354 129,219 115,135 129,219

SFR segment allocations

(1,882) (1,882)

Investing and Servicing VIEs

1,800 235 1,565 235

**526,185 353,982 206,558 172,203 147,424**

Income tax provision

(24,096) (23,858) (871) (238) (22,987)

Loss from discontinued operations, net of tax

(1,551) (19,794) (2,005) 18,243 (17,789)

| | | | | | |
|---|---|---|---|---|---|
| Net income attributable to non-controlling interests | (5,517) | (5,300) | (2,487) | (217) | (2,813) |
| **Net income attributable to Starwood Property Trust, Inc.** | **$495,021** | **$305,030** | **$201,195** | **$189,991** | **$103,835** |

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***Year Ended December 31, 2014 Compared to Year Ended December 31, 2013***

*Lending Segment*

*Revenues*

For the year ended December 31, 2014, revenues of our Lending Segment increased $96.3 million to $489.8 million, compared to $393.5 million for the year ended December 31, 2013. This increase was primarily due to (i) an $85.6 million increase in interest income from loans, which reflects a $1.4 billion net increase in loan investments of our Lending Segment between December 31, 2013 and 2014, mainly resulting from new loan originations and (ii) a $10.5 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 year ended December 31, 2014, costs and expenses of our Lending Segment increased $37.3 million to $232.2 million, compared to $194.9 million for the year ended December 31, 2013. The increase was primarily due to increases of $34.3 million in interest expense, $13.6 million in management fees and $7.8 million in general and administrative ("G&A") expenses, 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 of Convertible Senior Notes in 2013, $431.3 million of Convertible Senior Notes in 2014 and a $735.9 million increase in outstanding balances under secured financing agreements of our Lending Segment between December 31, 2013 and 2014. These borrowings, along with equity issuances, are used to fund the growth of our investment portfolio. The increase in management fees reflects the impacts of (i) higher manager stock compensation expense resulting from awards granted in the first quarter of 2014 and (ii) higher levels of invested capital which resulted in an increased base management fee in 2014. The increase in G&A expenses reflects higher legal fees principally associated with the administration of our financing facilities and higher compensation expense.

*Other Income*

For the year ended December 31, 2014, other income of our Lending Segment decreased $1.5 million to $24.4 million, from $25.9 million for the year ended December 31, 2013. This decrease was primarily due to a $12.2 million decrease in gain on sales of investments, partially offset by a $4.9 million increase in earnings from unconsolidated entities. A $44.0 million favorable swing in gain (loss) on derivatives, primarily foreign exchange contracts, was substantially offset by a $39.6 million unfavorable swing in foreign currency gain (loss).

*Investing and Servicing Segment and VIEs*

The Company acquired LNR on April 19, 2013. Therefore, a comparison of results of the Investing and Servicing Segment and VIEs for the year ended December 31, 2014 to the year ended December 31, 2013 is not meaningful as the current year period has an additional 108 days of operational activity.

*Revenues*

For the years ended December 31, 2014 and 2013, revenues of our Investing and Servicing Segment were $213.1 million and $156.0 million, respectively, after consolidated VIE eliminations of $159.3 million and $92.7 million, respectively. For the year ended December 31, 2014, these revenues primarily consisted of $135.2 million of servicing fees and $57.6 million of interest income from investment securities and loans, after consolidated VIE eliminations of $91.9 million and $66.2 million,

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respectively. For the year ended December 31, 2013, these revenues primarily consisted of $124.7 million of servicing fees and $26.1 million of interest income from investment securities and loans, after consolidated VIE eliminations of $54.3 million and $37.5 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 $123.7 million (before VIE eliminations) is not only attributable to additional days in the year ended December 31, 2014, but also to improved performance of the CMBS book.

*Costs and Expenses*

For the year ended December 31, 2014 and 2013, costs and expenses of our Investing and Servicing Segment were $249.9 million and $178.3 million, respectively, including nominal VIE eliminations. For the year ended December 31, 2014, these costs and expenses consisted of G&A expenses of $145.1 million, allocated management fees of $47.3 million, direct and allocated interest expense of $26.3 million, depreciation and amortization of $16.6 million (including $13.6 million related to the European servicing rights intangible) and other expenses of $14.6 million. For the year ended December 31, 2013, these costs and expenses consisted of G&A expenses of $133.2 million, allocated management fees of $20.9 million, direct and allocated interest expense of $12.3 million, depreciation and amortization of $9.7 million (including $8.1 million related to the European servicing rights intangible) and other expenses of $2.2 million.

*Other Income*

For the year ended December 31, 2014 and 2013, other income of our Investing and Servicing Segment was $283.0 million and $151.7 million, respectively, including additive net VIE eliminations of $162.0 million and $93.6 million, respectively. For the year ended December 31, 2014, other income primarily consisted of $212.5 million of income of consolidated VIEs and $84.7 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 a $16.8 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 year ended December 31, 2013, other income primarily consisted of $116.4 million of income of consolidated VIEs and $35.1 million of net increases in fair value of investment securities and mortgage loans held-for-sale. Income of consolidated VIEs reflects amounts associated with the Investing and Servicing Segment'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 the Investing and Servicing Segment's loan servicing and loan conduit businesses which are housed in TRSs. Our overall effective tax rate for the year ended December 31, 2014 is lower than for the year ended December 31, 2013 primarily due to the finalization of our tax planning strategies associated with the LNR acquisition.

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***Year Ended December 31, 2013 Compared to Year Ended December 31, 2012***

*Lending Segment*

*Revenues*

For the year ended December 31, 2013, revenues of our Lending Segment increased $86.2 million to $393.5 million, compared to $307.3 million for the year ended December 31, 2012. This increase was primarily due to an $83.5 million increase in interest income from loans, which reflects a $1.5 billion net increase in loan investments of our Lending Segment between December 31, 2012 and 2013, mainly resulting from new loan originations.

*Costs and Expenses*

For the year ended December 31, 2013, costs and expenses of our Lending Segment increased $73.1 million to $194.9 million, compared to $121.8 million for the year ended December 31, 2012. The increase was primarily due to increases of $52.3 million in interest expense, $18.0 million of business combination costs incurred in 2013 associated with the LNR acquisition and $5.1 million in G&A expenses. The increase in interest expense reflects our issuance of $1.1 billion total principal amount of 4.6% and 4.0% convertible senior notes in February and July of 2013 and a new term loan facility that we used to replace LNR's previous senior credit facility in April 2013. The new term loan facility had an initial principal balance of $300 million, which was increased to $673 million in December 2013.

*Other Income*

For the year ended December 31, 2013, other income of our Lending Segment increased $4.9 million to $25.9 million, from $21.0 million for the year ended December 31, 2012. This increase was primarily due to a decrease in impairment losses on investments and the absence of a fair value decline on a mortgage loan held-for-sale.

*Investing and Servicing Segment and VIEs*

Refer to the above discussion of the year ended December 31, 2014 compared to the year ended December 31, 2013 for the composition of the Investing and Servicing Segment's revenues, costs and expenses and other income for the year ended December 31, 2013. Since LNR was acquired in April 2013, there are no comparable results in 2012.

**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.

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.

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However, the Company cautions that Core Earnings does not represent cash generated from operating activities in accordance with GAAP and should not be considered as an alternative to net income (determined in accordance with GAAP), or an indication of our cash flows from operating activities (determined in accordance with GAAP), a measure of our liquidity, or an indication of funds available to fund our cash needs, including our ability to make cash distributions. In addition, our methodology for calculating Core Earnings may differ from the methodologies employed by other REITs to calculate the same or similar supplemental performance measures, and accordingly, our reported Core Earnings may not be comparable to the Core Earnings reported by other REITs.

In assessing the appropriate weighted average diluted share count to apply to Core Earnings for purposes of determining Core earnings per share ("EPS"), management considered the following attributes of our current GAAP diluted share methodology: (i) our participating securities were determined to be anti-dilutive and were thus excluded from the denominator of the EPS calculation; and (ii) the portion of the Convertible Notes that are "in-the-money" (referred to as the "conversion spread value"), representing the value that would be delivered to investors in shares upon an assumed conversion, is included in the denominator. Because compensation expense related to participating securities is added back for Core Earnings purposes pursuant to the definition above, there is no dilution to Core Earnings resulting from the associated expense recognition. As a result, our GAAP EPS methodology was adjusted to include (instead of exclude) participating securities. Further, conversion of the Convertible Notes is an event that is contingent upon numerous factors, none of which are in our control, and is an event that may or may not occur. Consistent with the treatment of other unrealized adjustments to Core Earnings, our GAAP EPS methodology was adjusted to exclude (instead of include) the conversion spread value in determining Core EPS until a conversion actually occurs. For the year ended December 31, 2014, 3.4 million shares, representing the conversion spread value, were excluded from Core EPS. The following table presents the diluted weighted average shares used in our calculation of Core EPS (in thousands):

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Diluted weighted average shares | 217,999 | 167,323 | 114,663 |

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. During 2013, our independent directors also approved an adjustment to the Core Earnings calculation which excluded change-in-control bonus expenses due to certain LNR employees as a result of the acquisition of LNR. The change-in-control bonus payments were effectively funded by LNR's prior ownership through a reduction of the sale price.

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The following table summarizes our quarterly Core Earnings per weighted average diluted share for the years ended December 31, 2014, 2013 and 2012:

| | Core Earnings For the Three-Month Periods Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| 2014 | $ 0.60 | $ 0.51 | $ 0.55 | $ 0.50 |
| 2013 | 0.43 | 0.42 | 0.61 | 0.62 |
| 2012 | 0.58 | 0.45 | 0.50 | 0.48 |

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

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

| | 2014 | | | |
|---|---|---|---|---|
| | Lending Segment | Investing and Servicing Segment | Single Family Residential | Total |
| Revenues | $ 489,767 | $ 372,393 | $ | $ 862,160 |
| Costs and expenses | (232,210) | (249,024) | (1,882) | (483,116) |
| Other income | 24,356 | 120,985 | | 145,341 |
| Income from continuing operations before income taxes | 281,913 | 244,354 | (1,882) | 524,385 |
| Income tax (provision) | (1,476) | (22,620) | | (24,096) |
| Loss from discontinued operations, net of tax | | | (1,551) | (1,551) |
| Income attributable to non-controlling interests | (3,717) | | | (3,717) |
| **Net income (loss) attributable to Starwood Property Trust, Inc.** | **276,720** | **221,734** | **(3,433)** | **495,021** |
| **Add / (Deduct):** | | | | |
| Non-cash equity compensation expense | 27,673 | 949 | | 28,622 |
| Management incentive fee | | 34,374 | | 34,374 |
| Depreciation and amortization | | 2,107 | 1,540 | 3,647 |
| Loan loss allowance | 2,047 | | | 2,047 |
| Interest income adjustment for securities | (1,136) | 10,555 | | 9,419 |
| Other non-cash items | | 1,529 | | 1,529 |
| Reversal of unrealized (gains) / losses on: | | | | |
| Loans held-for-sale | | (70,420) | | (70,420) |
| Securities | (12,238) | (97,723) | | (109,961) |
| Derivatives | (31,678) | 7,019 | | (24,659) |
| Foreign currency | 29,139 | | | 29,139 |
| Earnings from unconsolidated entities | | (6,830) | | (6,830) |
| Recognition of realized (gains) / losses on: | | | | |
| Loans held-for-sale | | 66,814 | | 66,814 |
| Securities | 10,992 | 12,103 | | 23,095 |
| Derivatives | (1,316) | (5,312) | | (6,628) |
| Foreign currency | (1,540) | | | (1,540) |
| **Core Earnings** | **$ 298,663** | **$ 176,899** | **$ (1,893)** | **$ 473,669** |
| **Core Earnings per Weighted Average Diluted Share** | **$ 1.37** | **$ 0.81** | **$ (0.01)** | **$ 2.17** |

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2013, by business segment (amounts in thousands):

| | 2013 | | | |
|---|---|---|---|---|
| | **Lending Segment** | **Investing and Servicing Segment** | **Single Family Residential** | **Total** |
| Revenues | $ 393,478 | $ 248,708 | $ | $ 642,186 |
| Costs and expenses | (194,861) | (177,660) | | (372,521) |
| Other income | 25,911 | 58,171 | | 84,082 |
| Income from continuing operations before income taxes | 224,528 | 129,219 | | 353,747 |
| Income tax benefit (provision) | 1,722 | (25,580) | | (23,858) |
| Loss from discontinued operations, net of tax | | | (19,794) | (19,794) |
| Income attributable to non-controlling interests | (5,065) | | | (5,065) |
| **Net income (loss) attributable to Starwood Property Trust, Inc.** | **221,185** | **103,639** | **(19,794)** | **305,030** |
| **Add / (Deduct):** | | | | |
| Non-cash equity compensation expense | 16,273 | | | 16,273 |
| Management incentive fee | 42 | 11,531 | | 11,573 |
| Change in Control Plan | | 22,382 | | 22,382 |
| Depreciation and amortization | | 763 | 6,106 | 6,869 |
| Loan loss allowance | 1,923 | 447 | | 2,370 |
| Interest income adjustment for securities | (1,227) | 11,253 | | 10,026 |
| (Gains) / losses on: | | | | |
| Loans held-for-sale | | 2,427 | | 2,427 |
| Securities | (303) | (21,639) | | (21,942) |
| Derivatives | 12,290 | (1,966) | | 10,324 |
| Foreign currency | (10,663) | | | (10,663) |
| Earnings from unconsolidated entities | | (2,053) | | (2,053) |
| **Core Earnings (Loss)** | **$ 239,520** | **$ 126,784** | **$ (13,688)** | **$ 352,616** |
| **Core Earnings (Loss) per Weighted Average Diluted Share** | **$ 1.43** | **$ 0.76** | **$ (0.08)** | **$ 2.11** |

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The following table presents our summarized results of operations and reconciliation to Core Earnings for the year ended December 31, 2012, by business segment (amounts in thousands):

| | Lending Segment | 2012<br>Single Family Residential | Total |
|---|---|---|---|
| Revenues | $ 307,294 | $ | $ 307,294 |
| Costs and expenses | (121,761) | | (121,761) |
| Other income | 21,025 | | 21,025 |
| Income from continuing operations before income taxes | 206,558 | | 206,558 |
| Income tax (provision) | (871) | | (871) |
| Loss from discontinued operations, net of tax | | (2,005) | (2,005) |
| Income attributable to non-controlling interests | (2,487) | | (2,487) |
| **Net income (loss) attributable to Starwood Property Trust, Inc.** | **203,200** | **(2,005)** | **201,195** |
| **Add (Deduct):** | | | |
| Non-cash equity compensation expense | 16,163 | | 16,163 |
| Management incentive fee | 7,870 | | 7,870 |
| Depreciation and amortization | | 213 | 213 |
| Loan loss allowance | 2,061 | | 2,061 |
| Interest income adjustment for securities | | | |
| (Gains) losses on: | | | |
| Loans | 5,760 | | 5,760 |
| Securities | 3,970 | | 3,970 |
| Impairment of real estate | | | |
| Derivatives | (2,377) | | (2,377) |
| Foreign currency | (6,549) | | (6,549) |
| **Core Earnings(Loss)** | **$ 230,098** | **$ (1,792)** | **$ 228,306** |
| **Core Earnings per Weighted Average Diluted Share** | **$ 2.01** | **$ (0.02)** | **$ 1.99** |

***Year Ended December 31, 2014 Compared to Year Ended December 31, 2013***

Lending Segment

The Lending Segment's Core Earnings increased by $59.1 million, from $239.5 million during the year ended December 31, 2013 to $298.6 million during the year ended December 31, 2014. After making adjustments for the calculation of Core Earnings, revenues were $488.6 million, costs and expenses were $202.5 million, other income was $17.7 million and income taxes were $1.5 million.

Core revenues, consisting principally of interest income on loans, increased by $96.4 million due to growth of $1.4 billion in our loan portfolio since December 31, 2013.

Core costs and expenses increased by $25.9 million, primarily due to (i) a $34.3 million increase in interest expense associated with the various facilities utilized to fund the growth of our investment portfolio and (ii) a $10.1million increase in G&A 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 $9.5 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.

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Investing and Servicing Segment

The Company acquired LNR on April 19, 2013. Therefore, a comparison of the Investing and Servicing Segment Core Earnings for the year ended December 31, 2014 to the year ended December 31, 2013 is not meaningful as the current year period has an additional 108 days of operational activity.

The Investing and Servicing Segment contributed Core Earnings of $176.9 million during the year ended December 31, 2014. After making adjustments for the calculation of Core Earnings, revenues were $382.9 million, costs and expenses were $210.0 million, other income was $26.6 million and income taxes were $22.6 million.

Core revenues benefited from servicing fees of $227.1 million, CMBS interest income of $120.4 million, interest income on our conduit loans of $14.0 million, and $21.4 million of other revenues, including $11.2 million of management fees and $9.8 million of rental income. Our U.S. servicing operation earned $181.4 million in fees during the period while our European servicer earned $45.7 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.

Included in core costs and expenses were G&A expenses of $143.1 million, allocated interest expense of $21.5 million, amortization expense of $13.6 million, allocated segment management fees of $12.9 million, cost of rental operations of $5.9 million and direct interest expense of $4.8 million. Amortization expense 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.

SFR Segment

As discussed in Note 1 to our Consolidated Financial Statements, the SFR segment was spun off to our stockholders on January 31, 2014.

***Year Ended December 31, 2013 Compared to Year Ended December 31, 2012***

Lending Segment

The Lending Segment's Core Earnings increased by $9.4 million, from $230.1 million during the year ended December 31, 2012 to $239.5 million during the year ended December 31, 2013. After

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making adjustments for the calculation of Core Earnings, revenues were $392.2 million, costs and expenses were $176.6 million, other income was $27.2 million and income taxes were a benefit of $1.7 million.

Core revenues, consisting principally of interest income on loans, increased by $85.0 million due to growth of $1.5 billion in our loan portfolio between December 31, 2012 and 2013.

Core costs and expenses increased by $81.0 million, primarily due to (i) a $52.3 million increase in interest expense associated with the various facilities utilized to fund the growth of our investment portfolio, (ii) $18.0 million of business combination costs in connection with the LNR acquisition and (iii) an $11.3 million increase in G&A expenses and base management fees primarily due to the increased size and transaction volume in our Lending Segment.

Core other income increased by $5.4 million on a net basis principally due to lower realized losses on derivatives which, in 2012, included a significant loss on a foreign currency hedge which was effectively terminated when the related loan receivable was prepaid.

Investing and Servicing Segment

The Investing and Servicing Segment contributed Core Earnings of $126.8 million during the year ended December 31, 2013. After making adjustments for the calculation of Core Earnings, revenues were $260.0 million, costs and expenses were $142.5 million, other income was $34.9 million and income taxes were $25.6 million.

Core revenues benefited from strong servicing fees of $179.0 million, CMBS interest income of $65.3 million, interest income on our conduit loans of $9.6 million, and other revenues of $6.1 million. Our U.S. servicing operation earned $154.7 million in fees during the year while our European servicer earned $24.3 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 G&A expenses of $110.8 million, allocated segment management fees of $9.4 million, direct interest expense of $3.1 million, allocated interest expense of $9.2 million and amortization expense of $8.1 million. G&A was adjusted to exclude the Change in Control Plan expenses of $22.4 million (see related discussion above under "Non-GAAP Financial Measures"). Amortization expense represents the amortization of the European special servicing 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.

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SFR Segment

As discussed in Note 1 to our Consolidated Financial Statements, the SFR segment was spun off to our stockholders on January 31, 2014.

**Liquidity and Capital Resources**

Liquidity is a measure of our ability to meet our cash requirements, including ongoing commitments to repay borrowings, fund and maintain our assets and operations, make new investments where appropriate, pay dividends to our stockholders, and other general business needs. We closely monitor our liquidity position and believe that we have sufficient current liquidity and access to additional liquidity to meet our financial obligations for at least the next 12 months. Our primary sources of liquidity are as follows:

*Cash and Cash Equivalents*

As of December 31, 2014, we had cash and cash equivalents of $255.2 million.

*Cash Flows for the Year Ended December 31, 2014*

| | **GAAP** | **VIE Adjustments** | **Excluding Investing and Servicing VIEs** |
|---|---|---|---|
| **Net cash provided by operating activities** | **$ 220,709** | **$ (510)** | **$ 220,199** |
| **Cash Flows from Investing Activities:** | | | |
| Spin-off of SWAY | (111,960) | | (111,960) |
| Purchase of investment securities | (189,422) | (143,927) | (333,349) |
| Proceeds from sales and collections of investment securities | 154,461 | 126,467 | 280,928 |
| Origination and purchase of loans held-for-investment | (3,034,696) | | (3,034,696) |
| Proceeds from principal collections and sale of loans | 1,694,811 | | 1,694,811 |
| Acquisition and improvement of single family homes and acquisition of non-performing loans, net of sales proceeds | (58,964) | | (58,964) |
| Net cash flows from other investments and assets | (171,328) | (1,770) | (173,098) |
| Decrease in restricted cash, net | 2,268 | | 2,268 |
| **Net cash used in investing activities** | **(1,714,830)** | **(19,230)** | **(1,734,060)** |
| **Cash Flows from Financing Activities:** | | | |
| Borrowings under financing agreements | 4,320,738 | | 4,320,738 |
| Proceeds from issuance of convertible senior notes | 421,547 | | 421,547 |
| Principal repayments on borrowings | (3,419,957) | | (3,419,957) |
| Payment of deferred financing costs | (16,514) | | (16,514) |
| Proceeds from common stock issuances, net of offering costs | 599,463 | | 599,463 |
| Payment of dividends | (401,661) | | (401,661) |
| Distributions to non-controlling interests | (33,880) | | (33,880) |
| Purchase of treasury stock | (12,993) | | (12,993) |
| Issuance of debt of consolidated VIEs | 89,354 | (89,354) | |
| Repayment of debt of consolidated VIEs | (136,115) | 136,115 | |
| Distributions of cash from consolidated VIEs | 27,531 | (27,531) | |
| **Net cash provided by financing activities** | **1,437,513** | **19,230** | **1,456,743** |
| Net decrease in cash and cash equivalents | (56,608) | (510) | (57,118) |
| Cash and cash equivalents, beginning of year | 317,627 | (276) | 317,351 |
| Effect of exchange rate changes on cash | (5,832) | | (5,832) |
| Cash and cash equivalents, end of year | $ 255,187 | $ (786) | $ 254,401 |

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

Cash and cash equivalents decreased by $57.1 million during the year ended December 31, 2014, reflecting net cash provided by operating activities of $220.2 million and net cash provided by financing activities of $1.5 billion partially offset by net cash used in investing activities of $1.7 billion.

Net cash provided by operating activities of $220.2 million for the year ended December 31, 2014 related primarily to cash interest income of $243.7 million from our loan origination and conduit programs, plus cash interest income on investment securities of $154.7 million. Servicing fees provided cash of $227.5 million and other revenues provided $31.3 million. Offsetting these revenues were cash interest expense of $131.9 million, general and administrative expenses of $130.0 million, a net change in operating assets and liabilities of $78.8 million, management fees of $57.9 million, income tax payments of $34.6 million and acquisition and investment pursuit costs of $3.8 million.

Net cash used in investing activities of $1.7 billion for the year ended December 31, 2014 related primarily to the origination and acquisition of new loans held-for-investment of $3.0 billion, $183.0 million in investments in unconsolidated entities, $112.0 million distributed in connection with the SWAY spin-off and 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 $1.7 billion.

Net cash provided by financing activities of $1.5 billion for the year ended December 31, 2014 related primarily to net borrowings after repayments on our secured debt of $900.8 million, net proceeds from our April 2014 equity offering and other common stock issuances of $599.5 million and proceeds from the issuance of convertible senior notes of $421.5 million, all partially offset by dividend distributions of $401.7 million, distributions to non-controlling entities of $33.9 million and the purchase of treasury stock of $13.0 million.

*Financing Arrangements*

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

1) *Repurchase Agreements:* Repurchase agreements effectively allow us to borrow against loans and securities that we own. Under these agreements, we sell our loans and securities to a counterparty and agree to repurchase the same loans and securities from the counterparty at a price equal to the original sales price plus interest. The counterparty retains the sole discretion over both whether to purchase the loan and security from us and, subject to certain conditions, the market value of such loan or security for purposes of determining whether we are required to pay margin to the counterparty. Generally, if the lender determines (subject to certain conditions) that the market value of the collateral in a repurchase transaction has decreased by more than a defined minimum amount, we would be required to repay any amounts borrowed in excess of the product of (i) the revised market value multiplied by (ii) the applicable advance rate. During the term of a repurchase agreement, we receive the principal and interest on the related loans and securities and pay interest to the counterparty. As of December 31, 2014, we have various repurchase agreements, with details referenced in the table provided below.

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2)

*Bank Credit Facilities:* We use bank credit facilities (including term loans and revolving facilities) to finance our assets. These financings may be collateralized or non-collateralized and may involve one or more lenders. Credit facilities typically have maturities ranging from two to five years and may accrue interest at either fixed or floating rates. The lender retains the sole discretion, subject to certain conditions, over the market value of such note for purposes of determining whether we are required to pay margin to the lender.

3)

*Loan Sales, Syndications and Securitizations:* We seek non-recourse long-term financing from loan sales, syndications and/or securitizations of our investments in mortgage loans. The sales, syndications or securitizations generally involve a senior portion of our loan, but may involve the entire loan. Loan sales and syndications generally involve the sale of a senior note component or participation interest to a third party lender. Securitization generally involves transferring notes to a special purpose vehicle (or the issuing entity), which then issues one or more classes of non-recourse notes pursuant to the terms of an indenture. The notes are secured by the pool of assets. In exchange for the transfer of assets to the issuing entity, we receive cash proceeds from the sale of non-recourse notes. Sales, syndications or securitizations of our portfolio investments might magnify our exposure to losses on those portfolio investments because the retained subordinate interest in any particular overall loan would be subordinate to the loan components sold and we would, therefore, absorb all losses sustained with respect to the overall loan before the owners of the senior notes experience any losses with respect to the loan in question.

The following table is a summary of our financing facilities as of December 31, 2014 (dollar amounts in thousands):

| | Current Maturity | Extended Maturity(a) | Pricing | Pledged Asset Carrying Value | Maximum Facility Size | Outstanding balance | Approved but Undrawn Capacity(b) | Unallocated Financing Amount(c) |
|---|---|---|---|---|---|---|---|---|
| **Lender 1 Repo 1** | (d) | (d) | LIBOR + 1.85% to 5.25% | $ 1,365,493 | $ 1,250,000 | $ 875,111 | $ 82,950 | $ 291,939 |
| **Lender 1 Repo 2** | (e) | N/A | LIBOR + 1.90% | 204,645 | 125,000 | 101,886 | 20,000 | 3,114 |
| **Lender 2 Repo 1** | Oct 2015 | Oct 2018 | LIBOR + 1.75% to 2.75% | 352,522 | 325,000 | 240,188 | | 84,812 |
| **Lender 3 Repo 1** | May 2017 | May 2019 | LIBOR + 2.85% | 178,617 | 124,250 | 124,250 | | |
| **Conduit Repo 1** | Sep 2015 | Sep 2016 | LIBOR + 1.90% | 126,818 | 250,000 | 94,727 | | 155,273 |
| **Conduit Repo 2** | Nov 2015 | Nov 2016 | LIBOR + 2.10% | 160,838 | 150,000 | 113,636 | | 36,364 |
| **Lender 4 Repo 1** | Oct 2015 | Oct 2017 | LIBOR + 2.60% | 416,465 | 327,117 | 327,117 | | |
| **Lender 5 Repo 1** | Dec 2015 | N/A | LIBOR + 1.85% | 84,139 | 58,079 | 58,079 | | |
| **Lender 6 Repo 1** | Aug 2017 | Aug 2018 | LIBOR + 2.75% to 3.00% | 366,206 | 500,000 | 296,967 | | 203,033 |
| **Lender 7 Repo 1** | Dec 2016 | N/A | LIBOR + 2.60% to 2.70% | 50,391 | 39,024 | 39,024 | | |
| **Lender 8 Mortgage** | Nov 2024 | N/A | 4.59% | 18,021 | 14,000 | 14,000 | | |
| **Borrowing Base** | Sep 2015 | Sep 2017 | LIBOR + 3.25%(f) | 1,183,285 | 450,000(g) | 189,871 | | 260,129 |
| **Term Loan** | Apr 2020 | N/A | LIBOR + 2.75%(f) | 2,889,787 | 665,039 | 662,933(h) | | |
| | | | | $ 7,397,227 | $ 4,277,509 | $ 3,137,789 | $ 102,950 | $ 1,034,664 |

(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)

The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 2017.

(f)

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

(g)

Maximum borrowings under this facility were temporarily increased from $250.0 million to $450.0 million. This increase expires in June 2015 assuming the exercise of a 90-day extension option.

(h)

Term loan outstanding balance is net of $2.1 million of unamortized discount.

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*New Credit Facilities and Amendments*

Refer to Note 9 of our Consolidated Financial Statements for a detailed discussion of new credit facilities and amendments to existing credit facilities executed during the year ended December 31, 2014.

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

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

| Quarter Ended | Quarter-End Balance | Weighted-Average Balance During Quarter | Variance | Explanations for Significant Variances |
|---|---|---|---|---|
| March 31, 2014 | $ 2,601,062 | $ 2,536,926 | $ 64,136 | (a) |
| June 30, 2014 | 2,561,267 | 2,366,435 | 194,832 | (b) |
| September 30, 2014 | 2,708,108 | 2,766,428 | (58,320) | (c) |
| December 31, 2014 | 3,137,789 | 2,745,631 | 392,158 | (d) |

(a) Variance primarily due to the following: (i) $281.6 million drawn 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.

(b) 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.

(c) 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.

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

| Quarter Ended | Quarter-End Balance | Weighted-Average Balance During Quarter | Variance | Explanations for Significant Variances |
|---|---|---|---|---|
| March 31, 2013 | $ 1,027,820 | $ 1,124,392 | $ (96,572) | (a) |
| June 30, 2013 | 1,707,366 | 1,492,792 | 214,574 | (b) |
| September 30, 2013 | 1,312,044 | 1,523,634 | (211,590) | (c) |
| December 31, 2013 | 2,257,560 | 1,850,572 | 406,988 | (d) |

(a) Variance primarily due to the following: (i) payoff of an expiring debt facility in February 2013, (ii) paydown of $315 million in financing under the Lender 1 Repo 1 facility using proceeds from the February 2013 convertible debt offering offset by a draw of $173.9 million in March 2013 to fund loan originations, and (iii) paydown of $57 million in financing under the Lender 2 Repo 1 facility using proceeds from the February 2013 convertible debt offering.

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(b)
Variance primarily due to the following: (i) $93.5 million in draws during June 2013 on the Lender 1 Repo 2 facility; and (ii) $285.1 million draw under the Lender 1 Repo 1 facility in June 2013.

(c)
Variance primarily due to the following: (i) paydown of $105.9 million under the Lender 1 Repo 1 facility using proceeds from the September 2013 equity offering; (ii) payoff of $144.9 million and termination of an existing debt facility in September 2013 due to the sale of remaining CMBS pledged to the facility; and (iii) the drawdown of the conduit loan repurchase facilities at the end of the quarter to fund the origination of additional conduit loans.

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

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

The following scheduled and/or projected principal repayments on our investments were based upon the amounts outstanding and contractual terms of the financing facilities in effect as of December 31, 2014 (amounts in thousands):

| | Scheduled Principal Repayments on Loans and Preferred Interests | Scheduled/Projected Principal Repayments on RMBS and CMBS | Projected Required Repayments of Financing | Scheduled Principal Inflows Net of Financing Outflows |
|---|---|---|---|---|
| First Quarter 2015 | $ 420,397 | $ 15,701 | $ (418,240) | $ 17,858 |
| Second Quarter 2015 | 49,477 | 26,051 | (4,205) | 71,323 |
| Third Quarter 2015 | 19,955 | 14,741 | (4,243) | 30,453 |
| Fourth Quarter 2015 | 32,214 | 23,627 | (73,746) | (17,905) |
| Total | $ 522,043 | $ 80,120 | $ (500,434) | $ 101,729 |

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

*Issuances of Equity Securities*

We may raise funds through capital market transactions by issuing capital stock. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have authorized 100,000,000 shares of preferred stock and 500,000,000 shares of common stock. At December 31, 2014, we had 100,000,000 shares of preferred stock available for issuance and 276,461,697 shares of common stock available for issuance.

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 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 year ended December 31, 2014, shares issued under the DRIP Plan were not material.

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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 $500.0 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 year ended December 31, 2014, we issued 1.5 million shares under the ATM Agreement for gross proceeds of $36.2 million.

*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 resulting in net proceeds of $421.5 million.

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

**Off-Balance Sheet Arrangements**

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

**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. On December 16, 2014, our board of directors amended the repurchase program to allow for the repurchase of our outstanding convertible senior notes. 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 year ended December 31, 2014, we repurchased 587,900 shares of common stock for a total cost of $13.0 million and no convertible senior notes under the program.

**Dividends**

We intend to continue to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We intend to continue to pay regular quarterly dividends to our stockholders in an amount approximating our net taxable income, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating and debt service requirements. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. Refer to Note 16 to our Consolidated Financial Statements for a detailed dividend history.

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The tax treatment for our aggregate distributions per share of common stock paid with respect to 2014 is as follows:

| Record Date | Payable Date | Per Share Dividend Paid | Per Share Dividend Attributed to 2014 | Ordinary Taxable Dividends | Taxable Qualified Dividends | Capital Gain Distribution | Unrecaptured 1250 Gain | Nondividend Distributions |
|---|---|---|---|---|---|---|---|---|
| 12/31/2013 | 1/15/2014 | $ 0.4600 | $ 0.0756 | $ 0.0194 | $ 0.0020 | $ 0.0028 | $ | $ 0.0534 |
| 1/24/2014 | 1/31/2014 | 5.7680 | 5.7680 | 1.4813 | 0.1553 | 0.2131 | | 4.0735 |
| 3/31/2014 | 4/15/2014 | 0.4800 | 0.4800 | 0.1233 | 0.0129 | 0.0178 | | 0.3389 |
| 6/30/2014 | 7/15/2014 | 0.4800 | 0.4800 | 0.1233 | 0.0129 | 0.0178 | | 0.3389 |
| 9/30/2014 | 10/15/2014 | 0.4800 | 0.4800 | 0.1233 | 0.0129 | 0.0178 | | 0.3389 |
| | | $ 7.6680 | $ 7.2836 | $ 1.8706 | $ 0.1960 | $ 0.2693 | $ | $ 5.1436 |

As the Company's aggregate distributions exceeded its earnings and profits, the January 2015 distribution declared in the fourth quarter of 2014 and payable to stockholders of record as of December 31, 2014 will be treated as a 2015 distribution for federal tax purposes.

On February 25, 2015, our board of directors declared a dividend of $0.48 per share for the first quarter of 2015, which is payable on April 15, 2015 to common stockholders of record as of March 31, 2015.

**Leverage Policies**

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

The amount of leverage we deploy for particular investments in our target assets depends upon our Manager's assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. and European economy and commercial and residential mortgage markets, our outlook for the level, slope, and volatility of interest rates, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve. Under our current repurchase agreements and bank credit facility, our total leverage may not exceed 75% of total assets (as defined), as adjusted to remove the impact of bona-fide loan sales that are accounted for as financings and the consolidation of VIEs pursuant to GAAP. As of December 31, 2014, our total debt to assets ratio was 52.2%.

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**Contractual Obligations and Commitments**

Contractual obligations as of December 31, 2014 are as follows (amounts in thousands):

| | Total | Less than 1 Year | 1 to 3 years | 3 to 5 years | More than 5 years |
|---|---|---|---|---|---|
| Secured financings(a) | $ 3,139,895 | $ 500,434 | $ 947,351 | $ 1,046,915 | $ 645,195 |
| Convertible senior notes | 1,491,228 | | 431,250 | 1,059,978 | |
| Secured borrowings on transferred loans(b) | 129,569 | 688 | 128,881 | | |
| Loan funding commitments(c) | 1,957,077 | 950,425 | 989,707 | 16,945 | |
| Future lease commitments | 36,900 | 6,467 | 11,792 | 11,220 | 7,421 |
| Total | $ 6,754,669 | $ 1,458,014 | $ 2,508,981 | $ 2,135,058 | $ 652,616 |

(a) Includes available extension options.

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

(c) Excludes $144.0 million of loan funding commitments in which management projects the Company will not be obligated to fund in the future due to repayments made by the borrower either earlier than, or in excess of, expectations. In addition, this amount excludes any funding commitments which may be required pursuant to Company guarantees. In certain instances, particularly with loans involving multiple construction lenders, the Company has guaranteed the future funding obligations of third party lenders in the event that such third parties fail to fund their proportionate share of the obligation in a timely manner. We are currently unaware of any circumstances which would require us to make payments under any of these guarantees and, as a result, have not included any such amounts in the above table.

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

**Critical Accounting Estimates**

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

*Loan Impairment*

We evaluate each loan classified as held-for-investment for impairment at least quarterly. Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral.

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

Significant judgment is required when evaluating loans for impairment; therefore, actual results over time could be materially different. As of December 31, 2014, the Lending Segment had $5.7 billion of loans held-for-investment, none of which was 90 days or more past due. Historically, this segment has not had any realized losses on individual loans. However, we have established a general loan loss allowance based on our risk classification of the loans in our portfolio, as discussed in Note 5 to our Consolidated Financial Statements. The general loan loss allowance was $6.0 million as of December 31, 2014.

As of December 31, 2014, the Investing and Servicing Segment has $32.9 million of loans held-for-investment. Of this amount, approximately $3.3 million are in default, all of which had been originally acquired by LNR as NPLs prior to our April 19, 2013 acquisition of LNR.

*Classification and Impairment Evaluation of Investment Securities*

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

When the estimated fair value of a security for which we have not elected to apply the fair value option is less than its amortized cost, we consider whether there is an other-than-temporary impairment ("OTTI") in the value of the security. An impairment is deemed an OTTI if (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovering our cost basis, or (iii) we do not expect to recover our cost basis even if we do not intend to sell the security or do not believe it is more likely than not that we will be required to sell the security before recovering our cost basis. If the impairment is deemed to be an OTTI, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) our intention to sell the security or (ii) our judgment that it is more likely than not that we will be required to sell the security before recovering our cost basis, an impairment loss is recognized in earnings equal to the difference between our amortized cost basis and fair value. Whereas, if the OTTI has resulted from our conclusion that we will not recover our cost basis even if we do not intend to sell the security or do not believe it is more likely than not that we will be required to sell the security before recovering our cost basis, only the credit loss portion of the impairment is recorded in earnings and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in accumulated other comprehensive income. Determining whether there is an OTTI may require us to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash

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flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. As a result, actual OTTI losses could differ from reported amounts. Such judgments and assumptions are based upon a number of factors, including (i) credit of the issuer or the borrowers, (ii) credit rating of the security, (iii) key terms of the security, (iv) performance of the loan or underlying loans, including debt service coverage and loan-to-value ratios, (v) the value of the collateral for the loan or underlying loans, (vi) the effect of local, industry, and broader economic factors, and (vii) the historical and anticipated trends in defaults and loss severities for similar securities. As of December 31, 2014, we held $307.4 million of available-for-sale RMBS and CMBS which had gross unrealized gains of $60.4 million and $0.2 million of unrealized losses. We also had $442.0 million of held-to-maturity securities which had unrealized losses of $1.4 million as of December 31, 2014. We recognized OTTI charges against earnings with respect to our investment securities of $0.3 million, $1.0 million and $4.4 million during the years ended December 31, 2014, 2013 and 2012, respectively.

*Valuation of Financial Assets and Liabilities Carried at Fair Value*

We measure our VIE assets and liabilities, mortgage-backed securities, derivative assets and liabilities, domestic servicing rights intangible asset and any assets or liabilities where we have elected the fair value option at fair value. When actively quoted observable prices are not available, we either use implied pricing from similar assets and liabilities or valuation models based on net present values of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. See Note 20 to our Consolidated Financial Statements for details regarding the various methods and inputs we use in measuring the fair value of our financial assets and liabilities. As of December 31, 2014, we had $108.9 billion and $107.2 billion of financial assets and liabilities, respectively, that are measured at fair value, including $107.8 billion of VIE assets and $107.2 billion of VIE liabilities we consolidate pursuant to ASC 810.

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

*Derivative Instruments and Hedging Activities*

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

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value of the derivatives are recorded in earnings. The designation of derivative contracts as hedges, the measurement of their effectiveness, and the estimate of the fair value of the contracts all may involve significant judgments by our management, and changes to those judgments could significantly impact our reported results of operations. As of December 31, 2014, we had $26.6 million of derivative assets and $5.5 million of derivative liabilities. We recognized net gains on derivatives of $20.5 million for the year ended December 31, 2014 and net losses on derivatives of $11.2 million and $14.2 million for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2014, we had $0.1 million of net unrecognized losses on derivatives designated as hedges.

*Goodwill Impairment*

Our goodwill at December 31, 2014 of $140.4 million represents the excess of consideration transferred over the fair value of LNR's net assets acquired on April 19, 2013. In testing goodwill for impairment, we follow ASC 350, *Intangibles Goodwill and Other*, which permits a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill. If the qualitative assessment determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill, then no impairment is determined to exist for the reporting unit. However, if the qualitative assessment determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value including goodwill, we compare the fair value of that reporting unit with its carrying value, including goodwill ("Step One"). If the carrying value of a reporting unit exceeds its fair value, goodwill is considered impaired with the impairment loss equal to the amount by which the carrying value of the goodwill exceeds the implied fair value of that goodwill.

Based on our qualitative assessment during the 2014 fourth quarter, we believe that the Investing and Servicing Segment reporting unit to which all of our goodwill was attributed is not currently at risk of failing Step One of the impairment test. This qualitative assessment required judgment to be applied in evaluating the effects of multiple factors, including actual and projected financial performance of the reporting unit, macroeconomic conditions, industry and market conditions, and relevant entity specific events in determining whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill.

**Recent Accounting Developments**

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

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

We seek to manage our risks related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk-adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

*Credit Risk*

Our loans and investments are subject to credit risk. The performance and value of our loans and investments depend upon the owners' ability to operate the properties that serve as our collateral so that they produce cash flows adequate to pay interest and principal due to us. To monitor this risk, our Manager's asset management team reviews our investment portfolios and 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 December 31, 2014 and December 31, 2013 (dollar amounts in thousands):

| | Face Value of Loans Held-for-Sale | Aggregate Notional Value of Credit Index Instruments | Number of Credit Index Instruments |
|---|---|---|---|
| December 31, 2014 | $ 390,342 | $ 45,000 | 12 |
| December 31, 2013 | $ 209,099 | $ 50,000 | 4 |

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

*Capital Market Risk*

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

*Interest Rate Risk*

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

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risk and the related interest rate swaps as of December 31, 2014 and 2013 (dollar amounts in thousands):

| | Face Value of Hedged Instruments | Aggregate Notional Value of Interest Rate Swaps | Number of Interest Rate Swaps |
|---|---|---|---|
| **Instrument hedged as of December 31, 2014** | | | |
| Loans held-for-investment | $ 9,000 | $ 9,000 | 2 |
| Loans held-for-sale | 390,342 | 338,500 | 54 |
| RMBS, available-for-sale | 270,783 | 74,000 | 3 |
| Secured financing agreements | 220,729 | 218,165 | 8 |
| | $ 890,854 | $ 639,665 | 67 |
| **Instrument hedged as of December 31, 2013** | | | |
| Loans held-for-investment | $ 60,810 | $ 60,905 | 4 |
| Loans held-for-sale | 209,099 | 175,400 | 41 |
| 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 |

*Interest Rate Effect on the Lending Segment's Net Interest Margin*

The operating results of the Lending Segment depend in large part on differences between the income earned on our investments and our cost of borrowing and hedging activities. The cost of our borrowings is generally based on prevailing market interest rates. During a period of rising interest rates, our borrowing costs generally may increase (1) while the yields earned on our leveraged fixed-rate mortgage assets remain static and (2) at a faster pace than the yields earned on our leveraged floating rate mortgage assets, which could result in a decline in our net interest margin. The severity of any such decline would depend on our asset/liability composition at the time as well as the magnitude and duration of the interest rate increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of our target assets. If any of these events were to occur, we could experience a decrease in net income or incur a net loss during these periods, which could adversely affect our liquidity and results of operations. Hedging techniques are partly based on assumed levels of prepayments of our investments. If prepayments are slower or faster than assumed, the life of the investment would be longer or shorter, which would reduce the effectiveness of any hedging strategies we may use and may cause losses on such transactions.

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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 | 2.0% Increase | 1.0% Increase | 1.0% Decrease(1) |
|---|---|---|---|---|---|
| Investment income from variable-rate investments | $ 4,636,497 | $ 150,587 | $ 98,290 | $ 46,275 | $ (9,089) |
| Interest expense from variable-rate debt | (3,125,895) | (90,489) | (59,230) | (27,971) | 5,735 |
| Net investment income from variable-rate instruments | $ 1,510,602 | $ 60,098 | $ 39,060 | $ 18,304 | $ (3,354) |

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

*Prepayment Risk*

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

*Extension Risk*

Our Manager computes the projected weighted-average life of our assets based on assumptions regarding the rate at which the borrowers will prepay the mortgages or extend. If prepayment rates decrease in a rising interest rate environment or extension options are exercised, the life of the fixed-rate assets could extend beyond the term of the secured debt agreements. This could have a negative impact on our results of operations. In some situations, we may be forced to sell assets to maintain adequate liquidity, which could cause us to incur losses.

*Fair Value Risk*

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

*Foreign Currency Risk*

We intend to hedge our currency exposures in a prudent manner. However, our currency hedging strategies may not eliminate all of our currency risk due to, among other things, uncertainties in the timing and/or amount of payments received on the related investments, and/or unequal, inaccurate, or unavailability of hedges to perfectly offset changes in future exchange rates. Additionally, we may be

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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 loans and investment securities. 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 loans and investment securities denominated in foreign currencies, along with the aggregate notional amount of the hedges in place (amounts in thousands except for number of contracts, using the December 31, 2014 pound sterling ("GBP") closing rate of 1.5577, Euro ("EUR") closing rate of 1.2098, Swedish Krona ("SEK") closing rate of 0.1281, Norwegian Krone ("NOK") closing rate of 0.1342 and Danish Krone ("DKK") closing rate of 0.1625):

| Carrying Value of Investment | Local Currency | Number of foreign exchange contracts | Aggregate Notional Value of Hedges Applied | Expiration Range of Contracts |
|---|---|---|---|---|
| $ 10,345 | GBP | 14 | $ 11,283 | January 2015 - March 2016 |
| 100,126 | GBP | 3 | 109,759 | March 2015 - March 2016 |
| 23,150 | GBP | 8 | 27,033 | January 2015 - August 2016 |
| 26,948 | EUR | 5 | 31,435 | February 2015 - February 2016 |
| 92,550 | GBP | 10 | 114,167 | January 2015 - April 2017 |
| 46,246 | GBP | 5 | 53,859 | January 2015 - January 2016 |
| 54,246 | EUR | 17 | 56,974 | January 2015 - October 2016 |
| | GBP | 1 | 3,898 | March 2015 |
| 7,422 | EUR, DKK, NOK, SEK | 6 | 13,114 | December 2015 |
| 33,596 | EUR | 7 | 39,600 | February 2016 - October 2016 |
| 15,120 | GBP | 14 | 17,476 | January 2015 - January 2018 |
| 107,832 | GBP | 1 | 131,593 | July 2016 |
| 3,872 | GBP | 1 | 7,255 | January 2017 |
| $ 521,453 | | 92 | $ 617,446 | |

*Real Estate*

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

*Inflation Risk*

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

**Item 8. Financial Statements and Supplementary Data.**

**Index to Financial Statements and Schedules**

Financial Statements



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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Starwood Property Trust, Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Starwood Property Trust, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Miami, Florida
February 25, 2015

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the internal control over financial reporting of Starwood Property Trust, Inc. and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule

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as of and for the year ended December 31, 2014 of the Company and our report dated February 25, 2015 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Certified Public Accountants

Miami, Florida
February 25, 2015

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**Starwood Property Trust, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**(Amounts in thousands, except share data)**

| | As of December 31, 2014 | As of December 31, 2013 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 255,187 | $ 317,627 |
| Restricted cash | 48,704 | 69,052 |
| Loans held-for-investment, net | 5,779,238 | 4,363,718 |
| Loans held-for-sale, at fair value | 391,620 | 206,672 |
| Loans transferred as secured borrowings | 129,427 | 180,414 |
| Investment securities ($556,253 and $566,789 held at fair value) | 998,248 | 935,107 |
| Intangible assets servicing rights ($132,303 and $150,149 held at fair value) | 144,152 | 177,173 |
| Residential real estate, net | | 749,214 |
| Non-performing residential loans | | 215,371 |
| Investment in unconsolidated entities | 193,983 | 122,954 |
| Goodwill | 140,437 | 140,437 |
| Derivative assets | 26,628 | 7,769 |
| Accrued interest receivable | 40,102 | 37,630 |
| Other assets | 135,506 | 95,813 |
| Variable interest entity ("VIE") assets, at fair value | 107,816,065 | 103,151,624 |
| **Total Assets** | **$ 116,099,297** | **$ 110,770,575** |
| **Liabilities and Equity** | | |
| **Liabilities:** | | |
| Accounts payable, accrued expenses and other liabilities | $ 144,516 | $ 225,374 |
| Related-party payable | 40,751 | 17,793 |
| Dividends payable | 108,189 | 90,171 |
| Derivative liabilities | 5,476 | 24,192 |
| Secured financing agreements, net | 3,137,789 | 2,257,560 |
| Convertible senior notes, net | 1,418,022 | 997,851 |
| Secured borrowings on transferred loans | 129,441 | 181,238 |
| VIE liabilities, at fair value | 107,232,201 | 102,649,263 |
| **Total Liabilities** | **112,216,385** | **106,443,442** |
| Commitments and contingencies (Note 22) | | |
| **Equity:** | | |
| **Starwood Property Trust, Inc. Stockholders' Equity:** | | |
| Preferred stock, $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding | | |
| Common stock, $0.01 per share, 500,000,000 shares authorized, 224,752,053 issued and 223,538,303 outstanding as of December 31, 2014 and 196,139,045 issued and 195,513,195 outstanding as of December 31, 2013 | 2,248 | 1,961 |
| Additional paid-in capital | 3,835,725 | 4,300,479 |
| Treasury stock (1,213,750 shares and 625,850 shares) | (23,635) | (10,642) |
| Accumulated other comprehensive income | 55,896 | 75,449 |
| Accumulated deficit | (9,378) | (84,719) |
| Total Starwood Property Trust, Inc. Stockholders' Equity | 3,860,856 | 4,282,528 |

| | | | | |
|---|---|---|---|---|
| Non-controlling interests in consolidated subsidiaries | | 22,056 | | 44,605 |
| **Total Equity** | | 3,882,912 | | 4,327,133 |
| **Total Liabilities and Equity** | **$** | **116,099,297** | **$** | **110,770,575** |

See notes to consolidated financial statements.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**(Amounts in thousands, except per share data)**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| **Revenues:** | | | |
| Interest income from loans | $ 434,662 | $ 344,640 | $ 251,615 |
| Interest income from investment securities | 112,016 | 74,312 | 55,419 |
| Servicing fees | 135,565 | 124,726 | |
| Other revenues | 20,632 | 5,817 | 260 |
| **Total revenues** | **702,875** | **549,495** | **307,294** |
| **Costs and expenses:** | | | |
| Management fees | 117,732 | 76,816 | 57,286 |
| Interest expense | 161,104 | 111,803 | 47,125 |
| General and administrative | 169,661 | 150,019 | 11,663 |
| Business combination costs | | 17,958 | |
| Acquisition and investment pursuit costs | 3,681 | 3,648 | 3,476 |
| Depreciation and amortization | 16,627 | 9,701 | |
| Loan loss allowance, net | 2,047 | 1,923 | 2,061 |
| Other expense | 13,157 | 1,298 | 150 |
| **Total costs and expenses** | **484,009** | **373,166** | **121,761** |
| **Income before other income, income taxes and non-controlling interests** | **218,866** | **176,329** | **185,533** |
| **Other income:** | | | |
| Income of consolidated VIEs, net | 212,506 | 116,377 | |
| Change in fair value of servicing rights | (16,787) | (6,844) | |
| Change in fair value of investment securities, net | 15,077 | (8,884) | 295 |
| Change in fair value of mortgage loans held-for-sale, net | 70,420 | 43,849 | (5,760) |
| Earnings from unconsolidated entities | 19,932 | 8,841 | 5,086 |
| Gain on sale of investments, net | 12,886 | 25,063 | 24,836 |
| Gain (loss) on derivative financial instruments, net | 20,451 | (11,170) | (14,157) |
| Foreign currency (loss) gain, net | (29,942) | 10,383 | 15,120 |
| Total other-than-temporary impairment ("OTTI") | (1,788) | (2,076) | (7,256) |
| Noncredit portion of OTTI recognized in other comprehensive income | 732 | 1,062 | 2,854 |
| Net impairment losses recognized in earnings | (1,056) | (1,014) | (4,402) |
| Other income, net | 3,832 | 1,052 | 7 |
| **Total other income** | **307,319** | **177,653** | **21,025** |
| **Income from continuing operations before income taxes** | **526,185** | **353,982** | **206,558** |
| Income tax provision | (24,096) | (23,858) | (871) |
| **Income from continuing operations** | **502,089** | **330,124** | **205,687** |
| Loss from discontinued operations, net of tax (Note 3) | (1,551) | (19,794) | (2,005) |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net income** | | **500,538** | | **310,330** | | **203,682** |
| Net income attributable to non-controlling interests | | (5,517) | | (5,300) | | (2,487) |
| **Net income attributable to Starwood Property Trust, Inc.** | **$** | **495,021** | **$** | **305,030** | **$** | **201,195** |
| Earnings per share data attributable to Starwood Property Trust, Inc.: | | | | | | |
| Basic: | | | | | | |
| Income from continuing operations | $ | 2.29 | $ | 1.94 | $ | 1.77 |
| Loss from discontinued operations | | (0.01) | | (0.12) | | (0.01) |
| Net income | $ | 2.28 | $ | 1.82 | $ | 1.76 |
| Diluted: | | | | | | |
| Income from continuing operations | $ | 2.25 | $ | 1.94 | $ | 1.77 |
| Loss from discontinued operations | | (0.01) | | (0.12) | | (0.01) |
| Net income | $ | 2.24 | $ | 1.82 | $ | 1.76 |

See notes to consolidated financial statements.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Consolidated Statements of Comprehensive Income**

**(Amounts in thousands)**

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| **Net income** | **$ 500,538** | **$ 310,330** | **$ 203,682** |
| Other comprehensive income (loss) (net change by component): | | | |
| Cash flow hedges | 507 | 1,967 | (1,152) |
| Available-for-sale securities | (6,376) | (15,680) | 84,825 |
| Foreign currency remeasurement | (13,684) | 9,487 | |
| Other comprehensive (loss) income | (19,553) | (4,226) | 83,673 |
| **Comprehensive income** | **480,985** | **306,104** | **287,355** |
| Less: Comprehensive income attributable to non-controlling interests | (5,517) | (5,300) | (2,487) |
| **Comprehensive income attributable to Starwood Property Trust, Inc.** | **$ 475,468** | **$ 300,804** | **$ 284,868** |

See notes to consolidated financial statements.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Consolidated Statements of Equity**

**(Amounts in thousands, except share data)**

| | **Common Stock** | | | **Treasury Stock** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | **Par Value** | **Additional Paid-in Capital** | **Shares** | **Amount** | **Accumulated Deficit** | **Accumulated Other Comprehensive Income (Loss)** | **Total Starwood Property Trust, Inc. Stockholders' Equity** | **Non-Controlling Interests** | **Total Equity** |
| **Balance, January 1, 2012** | **93,811,351** | **$ 938** | **$ 1,828,319** | **625,850** | **$ (10,642)** | **$ (55,129)** | **$ (3,998)** | **$ 1,759,488** | **$ 5,659** | **$ 1,765,147** |
| Proceeds from public offering of common stock | 41,400,000 | 414 | 875,323 | | | | | 875,737 | | 875,737 |
| Equity offering costs | | | (2,034) | | | | | (2,034) | | (2,034) |
| Share-based compensation | 746,929 | 7 | 16,156 | | | | | 16,163 | | 16,163 |
| Manager incentive fee paid in stock | 167,076 | 2 | 3,589 | | | | | 3,591 | | 3,591 |
| Net income | | | | | | 201,195 | | 201,195 | 2,487 | 203,682 |
| Dividends declared, $1.86 per share | | | | | | (218,467) | | (218,467) | | (218,467) |
| Other comprehensive income, net | | | | | | | 83,673 | 83,673 | | 83,673 |
| Contributions from non-controlling interests | | | | | | | | | 94,250 | 94,250 |
| Distributions to non-controlling interests | | | | | | | | | (24,537) | (24,537) |
| **Balance, December 31, 2012** | **136,125,356** | **$ 1,361** | **$ 2,721,353** | **625,850** | **$ (10,642)** | **$ (72,401)** | **$ 79,675** | **$ 2,719,346** | **$ 77,859** | **$ 2,797,205** |
| Proceeds from public offering of common stock | 59,225,000 | 592 | 1,512,925 | | | | | 1,513,517 | | 1,513,517 |
| Equity offering costs | | | (1,390) | | | | | (1,390) | | (1,390) |
| Convertible senior notes | | | 48,502 | | | | | 48,502 | | 48,502 |
| Share-based compensation | 686,232 | 7 | 16,337 | | | | | 16,344 | | 16,344 |
| Manager incentive fee paid in stock | 102,457 | 1 | 2,752 | | | | | 2,753 | | 2,753 |
| Net income | | | | | | 305,030 | | 305,030 | 5,300 | 310,330 |
| Dividends declared, $1.82 per share | | | | | | (317,348) | | (317,348) | | (317,348) |
| Other comprehensive (loss), net | | | | | | | (4,226) | (4,226) | | (4,226) |
| VIE non-controlling interests | | | | | | | | | (753) | (753) |
| Non-controlling interests assumed through LNR acquisition | | | | | | | | | 8,705 | 8,705 |
| Contributions from non-controlling interests | | | | | | | | | 1,599 | 1,599 |
| Distributions to non-controlling interests | | | | | | | | | (48,105) | (48,105) |
| **Balance, December 31, 2013** | **196,139,045** | **$ 1,961** | **$ 4,300,479** | **625,850** | **$ (10,642)** | **$ (84,719)** | **$ 75,449** | **$ 4,282,528** | **$ 44,605** | **$ 4,327,133** |
| Proceeds from public offering of common stock | 25,300,000 | 253 | 564,442 | | | | | 564,695 | | 564,695 |
| | 1,512,925 | 16 | 36,156 | | | | | 36,172 | | 36,172 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Proceeds from ATM Agreement | | | | | | | | | | |
| Proceeds from DRIP Plan | 5,612 | | 131 | | | | | 131 | | 131 |
| Equity offering costs | | | (1,535) | | | | | (1,535) | | (1,535) |
| Common stock repurchased | | | | 587,900 | (12,993) | | | (12,993) | | (12,993) |
| Convertible senior notes | | | 15,568 | | | | | 15,568 | | 15,568 |
| Share-based compensation | 1,324,674 | 13 | 28,609 | | | | | 28,622 | | 28,622 |
| Manager incentive fee paid in stock | 469,797 | 5 | 11,118 | | | | | 11,123 | | 11,123 |
| Net income | | | | | | 495,021 | | 495,021 | 5,517 | 500,538 |
| Dividends declared, $1.92 per share | | | | | | (419,680) | | (419,680) | | (419,680) |
| Spin-off of SWAY | | | (1,119,243) | | | | | (1,119,243) | (1,594) | (1,120,837) |
| Other comprehensive (loss), net | | | | | | | (19,553) | (19,553) | | (19,553) |
| VIE non-controlling interests | | | | | | | | | 141 | 141 |
| Contributions from non-controlling interests | | | | | | | | | 7,267 | 7,267 |
| Distributions to non-controlling interests | | | | | | | | | (33,880) | (33,880) |
| **Balance, December 31, 2014** | **224,752,053** | **$ 2,248** | **$ 3,835,725** | **1,213,750** | **$ (23,635)** | **$ (9,378)** | **$ 55,896** | **$ 3,860,856** | **$ 22,056** | **$ 3,882,912** |

See notes to consolidated financial statements.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**(Amounts in thousands)**

| | For the Year ended December 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | |
| Net income | $ 500,538 | $ 310,330 | $ 203,682 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Amortization of deferred financing costs | 11,747 | 9,727 | 5,669 |
| Amortization of convertible debt discount and deferred fees | 14,665 | 8,538 | |
| Accretion of net discount on investment securities | (25,023) | (30,235) | (33,964) |
| Accretion of net deferred loan fees and discounts | (21,286) | (44,643) | (44,653) |
| Amortization of premium from secured borrowings on transferred loans | (893) | (1,655) | (1,044) |
| Share-based compensation | 28,622 | 16,344 | 16,163 |
| Share-based component of incentive fees | 11,123 | 2,752 | 3,592 |
| Change in fair value of fair value option investment securities | (15,077) | 8,884 | (295) |
| Change in fair value of consolidated VIEs | (52,559) | (23,687) | |
| Change in fair value of servicing rights | 16,787 | 6,844 | |
| Change in fair value of loans held-for-sale | (70,420) | (43,849) | 5,760 |
| Change in fair value of derivatives | (24,646) | 7,836 | 7,219 |
| Foreign currency loss (gain), net | 29,366 | (10,375) | (15,359) |
| Gain on non-performing loans and sale of investments | (13,829) | (40,315) | (25,272) |
| Impairment of real estate | | 1,095 | |
| Other-than-temporary impairment | 1,056 | 1,015 | 4,402 |
| Loan loss allowance, net | 2,047 | 1,923 | 2,061 |
| Depreciation and amortization | 16,622 | 14,925 | |
| Earnings from unconsolidated entities | (19,932) | (8,841) | |
| Distributions of earnings from unconsolidated entities | 15,245 | 6,808 | |
| Capitalized costs written off | | 1,517 | |
| Originations of loans held-for-sale, net of principal collections | (1,785,050) | (1,232,920) | |
| Proceeds from sale of loans held-for-sale | 1,670,522 | 1,326,602 | 132,012 |
| Changes in operating assets and liabilities: | | | |
| Related-party payable, net | 22,958 | 15,997 | (6,545) |
| Accrued and capitalized interest receivable, less purchased interest | (52,514) | (32,387) | (11,393) |
| Other assets | 1,591 | 18,686 | (394) |
| Accounts payable, accrued expenses and other liabilities | (40,951) | 35,398 | 23,941 |
| **Net cash provided by operating activities** | **220,709** | **326,314** | **265,582** |
| **Cash Flows from Investing Activities:** | | | |
| Spin-off of Starwood Waypoint Residential Trust | (111,960) | | |
| Purchase of LNR, net of cash acquired | | (586,383) | |
| Purchase of investment securities | (189,422) | (479,843) | (626,287) |
| Proceeds from sales of investment securities | 100,166 | 463,428 | 261,291 |
| Proceeds from principal collections on investment securities | 54,295 | 70,417 | 89,134 |
| Origination and purchase of loans held-for-investment | (3,034,696) | (2,663,267) | (1,754,388) |
| Proceeds from principal collections on loans | 1,192,823 | 769,650 | 670,450 |
| Proceeds from loans sold | 501,988 | 435,818 | 344,431 |
| Acquisition and improvement of single family homes | (61,901) | (642,099) | (172,326) |
| Proceeds from sale of single family homes | 1,784 | 13,617 | 4,714 |
| Purchase of other assets | (37,879) | (2,157) | (14,824) |
| Purchase of non-performing loans | | (186,263) | |
| Proceeds from sale of non-performing loans | 1,153 | 25,954 | |

| | | | |
|---|---|---|---|
| Investment in unconsolidated entities | (183,043) | (30,562) | |
| Proceeds from sale of interest in unconsolidated entities | | | 8,341 |
| Distribution of capital from unconsolidated entities | 62,013 | 6,515 | 892 |
| Payments for purchase or termination of derivatives | (19,928) | (17,389) | |
| Proceeds from termination of derivatives | 5,996 | 10,289 | |
| Return of investment basis in purchased derivative asset | 1,513 | 1,948 | 3,336 |
| Decrease (increase) in restricted cash, net | 2,268 | (17,275) | (3,429) |
| **Net cash used in investing activities** | **(1,714,830)** | **(2,827,602)** | **(1,188,665)** |

See notes to consolidated financial statements.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**

**(Amounts in thousands)**

| | For the Year ended December 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| **Cash Flows from Financing Activities:** | | | |
| Borrowings under financing agreements | $ 4,320,738 | $ 4,391,114 | $ 1,777,480 |
| Proceeds from issuance of convertible senior notes | 421,547 | 1,037,926 | |
| Principal repayments on borrowings | (3,419,957) | (3,884,972) | (1,575,185) |
| Payment of deferred financing costs | (16,514) | (26,309) | (8,620) |
| Proceeds from secured borrowings | | 95,000 | 35,738 |
| Proceeds from common stock issuances | 600,998 | 1,513,519 | 875,737 |
| Payment of equity offering costs | (1,535) | (1,390) | (2,034) |
| Payment of dividends | (401,661) | (300,973) | (186,102) |
| Contributions from non-controlling interests | | 1,599 | 94,250 |
| Distributions to non-controlling interests | (33,880) | (48,104) | (24,537) |
| Purchase of treasury stock | (12,993) | | |
| Issuance of debt of consolidated VIEs | 89,354 | 13,993 | |
| Repayment of debt of consolidated VIEs | (136,115) | (180,652) | |
| Distributions of cash from consolidated VIEs | 27,531 | 29,411 | |
| **Net cash provided by financing activities** | **1,437,513** | **2,640,162** | **986,727** |
| Net (decrease) increase in cash and cash equivalents | (56,608) | 138,874 | 63,644 |
| Cash and cash equivalents, beginning of year | 317,627 | 177,671 | 114,027 |
| Effect of exchange rate changes on cash | (5,832) | 1,082 | |
| Cash and cash equivalents, end of year | $ 255,187 | $ 317,627 | $ 177,671 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | $ 131,917 | $ 79,190 | $ 42,272 |
| Income taxes paid | 34,611 | 43,080 | 1,036 |
| Supplemental disclosure of non-cash investing and financing activities: | | | |
| Net assets distributed in spin-off of Starwood Waypoint Residential Trust | $ 1,008,877 | $ | $ |
| Dividends declared, but not yet paid | 108,189 | 90,171 | 73,796 |
| Consolidation of VIEs (VIE asset/liability additions) | 29,363,132 | 25,165,354 | |
| Deconsolidation of VIEs (VIE asset/liability reductions) | 9,392,128 | 1,218,514 | |
| Contributions from non-controlling interest | 7,267 | | |
| Fair value of assets acquired | | 1,152,360 | |
| Fair value of liabilities assumed | | 562,279 | |
| Unsettled trades and loans receivable | | | 2,752 |
| Interest only security received in connection with securitization | | 1,889 | |
| Conversion of non-performing residential loans to residential real estate | | 18,867 | |

See notes to consolidated financial statements.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**As of December 31, 2014**

## 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.

On April 19, 2013, we acquired the equity of LNR Property LLC ("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.

We have two reportable business segments as of December 31, 2014:

- Real estate lending (the "Lending Segment") includes all business activities of the Company, excluding the real estate investing and servicing segment. The Lending Segment generally represents investments in real estate-related loans and securities that are held-for-investment.
- Real estate investing and servicing (the "Investing and Servicing Segment") formerly referred to as the "LNR Segment", this segment includes all business activities of the acquired LNR business excluding the consolidation of securitization variable interest entities ("VIEs").

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

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**1. Business and Organization (Continued)**

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 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.

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

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

The VIE liabilities initially represent investment securities on our balance sheet (pre-consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

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 23 for a presentation of the Investing and Servicing Segment without consolidation of these VIEs.

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

The accompanying consolidated financial statements include our accounts and those of our consolidated subsidiaries and VIEs. Intercompany amounts have been eliminated in consolidation.

Entities not deemed to be VIEs are consolidated if we own a majority of the voting securities or interests or hold the general partnership interest, except in those instances in which the minority voting interest owner or limited partner effectively participates through substantive participative rights. Substantive participative rights include the ability to select, terminate and set compensation of the investee's management, if applicable, and the ability to participate in capital and operating decisions of the investee, including budgets, in the ordinary course of business.

We invest in entities with varying structures, many of which do not have voting securities or interests, such as general partnerships, limited partnerships, and limited liability companies. In many of these structures, control of the entity rests with the general partners or managing members, while other members hold passive interests. The general partner or managing member may hold anywhere from a relatively small percentage of the total financial interests to a majority of the financial interests. For entities not deemed to be VIEs, where we serve as the sole general partner or managing member, we are considered to have the controlling financial interest and therefore the entity is consolidated, regardless of our financial interest percentage, unless there are other limited partners or investing members that effectively participate through substantive participative rights. In those circumstances where we, as majority controlling interest owner, cannot cause the entity to take actions that are significant in the ordinary course of business, because such actions could be vetoed by the minority controlling interest owner, we do not consolidate the entity.

When we consolidate entities other than VIEs, the ownership interests of any minority parties are reflected as non-controlling interests. A non-controlling interest in a consolidated subsidiary is defined as "the portion of the equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent." Non-controlling interests are presented as a separate component of equity in the consolidated balance sheets. In addition, the presentation of net income attributes earnings to controlling and non-controlling interests. When we consolidate VIEs, beneficial interests payable to third parties are reflected as liabilities when the interests are legally issued in the form of debt.

***Variable Interest Entities***

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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

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

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

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.

***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 ASC 205, *Presentation of Financial Statements*, the results of the SFR segment are presented within discontinued operations in our consolidated statements of operations for years ended December 31, 2014, 2013 and 2012.

***Fair Value Option***

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

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

***Fair Value Measurements***

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

As discussed above, we measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. The VIEs in which we invest are "static"; that is, no

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a collateralized debt obligation ("CDO"). This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. Refer to Note 20 for further discussion regarding our fair value measurements.

***Business Combinations***

Under ASC 805, *Business Combinations*, the acquirer in a business combination must recognize, with certain exceptions, the fair values of assets acquired, liabilities assumed, and non-controlling interests when the acquisition constitutes a change in control of the acquired entity. As goodwill is calculated as a residual, all goodwill of the acquired business, not just the acquirer's share, is recognized under this "full goodwill" approach.

We also apply the provisions of ASC 805 in accounting for the acquisition of a controlling interest in a previously unconsolidated entity. Such transactions are treated as a business combination achieved in stages, whereby the acquirer remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognizes the resulting gain or loss in earnings.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash in banks and short-term investments. Short-term investments are comprised of highly liquid instruments with original maturities of three months or less. The Company maintains its cash and cash equivalents in multiple financial institutions and at times these balances exceed federally insurable limits.

***Loans Held-for-Investment***

Loans that are held-for-investment are carried at cost, net of unamortized acquisition premiums or discounts, loan fees, and origination costs as applicable, unless the loans are deemed impaired. We evaluate each loan classified as held-for-investment for impairment at least quarterly. Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If a loan is considered to be impaired, we record an allowance to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral.

Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan, and/or (iii) the property's liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower's competency in

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel, who utilize various data sources, including (i) periodic financial data such as property occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

***Loans Held-For-Sale***

Our loans that we intend to sell or liquidate in the short-term are classified as held-for-sale and are carried at the lower of amortized cost or fair value, unless we have elected to apply the fair value option at origination or purchase. The Investing and Servicing Segment's conduit business originates fixed rate commercial mortgage loans for future sale to multi-seller securitization trusts. We periodically enter into derivative financial instruments to hedge unpredictable changes in fair value of this loan portfolio, including changes resulting from both interest rates and credit quality. Because these derivatives are not designated, changes in their fair value are recorded in earnings. In order to best reflect the results of the hedged loan portfolio in earnings, we have elected the fair value option for these loans. As a result, changes in the fair value of the loans are also recorded in earnings.

***Investment Securities***

We designate investment securities as held-to-maturity, available-for-sale, or trading depending on our investment strategy and ability to hold such securities to maturity. Held-to-maturity securities where we have not elected to apply the fair value option are stated at cost plus any premiums or discounts, which are amortized or accreted through the consolidated statements of operations using the effective interest method. Securities we (i) do not hold for the purpose of selling in the near-term, or (ii) may dispose of prior to maturity, are classified as available-for-sale and are carried at fair value in the accompanying financial statements. Unrealized gains or losses on available-for-sale securities where we have not elected the fair value option are reported as a component of accumulated other comprehensive income (loss) ("AOCI") in stockholders' equity.

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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

related to other factors, such as changes in interest rates, continues to be recognized in AOCI. Following the recognition of an OTTI through earnings, a new cost basis is established for the security. Determining whether there is an OTTI may require us to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates.

***Goodwill and Intangible Assets***

Goodwill is not amortized, but rather tested for impairment annually or more frequently if events or changes in circumstances indicate potential impairment. Goodwill at December 31, 2014 and 2013 represents the excess of the consideration paid in connection with the acquisition of LNR over the fair value of net assets acquired.

In testing goodwill for impairment, we follow ASC 350, *Intangibles Goodwill and Other*, which permits a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill. If the qualitative assessment determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying value including goodwill, then no impairment is determined to exist for the reporting unit. However, if the qualitative assessment determines that it is more likely than not that the fair value of the reporting unit is less than its carrying value including goodwill, we compare the fair value of that reporting unit with its carrying value, including goodwill. If the carrying value of a reporting unit exceeds its fair value, goodwill is considered impaired with the impairment loss equal to the amount by which the carrying value of the goodwill exceeds the implied fair value of that goodwill.

Our identifiable intangible assets include special servicing rights for both our domestic and European servicing operations. The fair value measurement method has been elected for measurement of our domestic servicing asset. Election of this method is necessary to conform to our election of the fair value option for measuring the assets and liabilities of the VIEs consolidated pursuant to ASC 810. The amortization method has been elected for our European servicing asset. This asset is amortized in proportion to and over the period of estimated net servicing income, and is tested for impairment whenever events or changes in circumstances suggest that its carrying value may not be recoverable.

For purposes of testing our European servicing intangible for impairment, we compare the fair value of the servicing intangible with its carrying value. The estimated fair value of the intangible is determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows. If the carrying value of the intangible exceeds its fair value, the intangible is considered impaired and an impairment loss is recognized for the amount by which carrying value exceeds fair value.

***Investment in Unconsolidated Entities***

We own non-controlling equity interests in various privately-held partnerships and limited liability companies. Unless we elect the fair value option under ASC 825, we use the cost method to account for investments in which our interest is so minor that we have virtually no influence over the underlying investees. We use the equity method to account for all other non-controlling interests in partnerships and limited liability companies. Cost method investments are initially recorded at cost and income is

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

generally recorded when distributions are received. Equity method investments are initially recorded at cost and subsequently adjusted for our share of income or loss, as well as contributions made or distributions received.

Investments in unconsolidated entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is measured based on the excess of the carrying amount of an investment over its estimated fair value. Impairment analyses are based on current plans, intended holding periods and available information at the time the analyses are prepared.

***Derivative Instruments and Hedging Activities***

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

***Convertible Senior Notes***

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

***Revenue Recognition***

*Interest Income*

Interest income on performing loans and financial instruments is accrued based on the outstanding principal amount and contractual terms of the instrument. Discounts or premiums associated with the purchase of non-performing loans and investment securities are amortized or accreted into interest

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

income as a yield adjustment on the effective interest method, based on expected cash flows through the expected maturity date of the investment. On at least a quarterly basis, we review and, if appropriate, make adjustments to our cash flow projections. For loans and CMBS in which we expect to collect all contractual amounts due, we do not adjust the projected cash flows to reflect anticipated credit losses.

For the majority of our RMBS, which have been purchased at a discount to par value, we do not expect to collect all amounts contractually due at the time we acquired the securities. Accordingly, we expect that a portion of the purchase discount will not be recognized as interest income, which is referred to as non-accretable yield. This amount of non-accretable yield may change over time based on the actual performance of these securities, their underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a credit deteriorated security is more favorable than forecasted, we will generally accrete more credit discount into interest income than initially or previously expected. These adjustments are made prospectively beginning in the period subsequent to the determination that a favorable change in performance is projected. Conversely, if the performance of a credit deteriorated security is less favorable than forecasted, an other-than-temporary impairment may be taken, and the amount of discount accreted into income will generally be less than previously expected.

For loans where we do not elect the fair value option, origination fees and direct loan origination costs are also recognized in interest income over the loan term as a yield adjustment using the effective interest method. When we elect the fair value option, origination fees and direct loan costs are recorded directly in income and are not deferred.

Upon the sale of loans or securities which are not accounted for pursuant to the fair value option, the excess (or deficiency) of net proceeds over the net carrying value of such loans or securities is recognized as a realized gain/loss.

*Servicing Fees*

We typically seek to be the special servicer on CMBS transactions in which we invest. When we are appointed to serve in this capacity, we earn special servicing fees from the related activities performed, which consist primarily of overseeing the workout of under-performing and non-performing loans underlying the CMBS transactions. These fees are recognized in income in the period in which the services are performed and the revenue recognition criteria have been met.

***Securitizations, Sales and Financing Arrangements***

We periodically sell our financial assets, such as commercial mortgage loans, CMBS, RMBS and other assets. In connection with these transactions, we may retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions are recognized using the guidance in ASC 860, *Transfers and Servicing*, which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control an entity recognizes the financial assets it retains and any liabilities it has incurred, derecognizes the financial assets it has sold, and derecognizes liabilities when

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

extinguished. We determine the gain or loss on sale of the assets by allocating the carrying value of the sold asset between the sold asset and the interests retained based on their relative fair values, as applicable. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the sold asset. If the sold asset is being accounted for pursuant to the fair value option, there is no gain or loss.

***Deferred Financing Costs***

Costs incurred in connection with debt issuance are capitalized and amortized to interest expense over the terms of the respective debt agreements.

***Acquisition and Investment Pursuit Costs***

Net costs incurred in connection with acquiring investments, as well as in pursuing unsuccessful investment acquisitions and loan originations, are charged to current earnings and not deferred.

***Share-based Payments***

The fair value of the restricted stock ("RSAs") or restricted stock units ("RSUs") granted is recorded as expense on a straight-line basis over the vesting period for the award, with an offsetting increase in stockholders' equity. For grants to employees and directors, the fair value is determined based upon the stock price on the grant date. For non-employee grants, the fair value is based on the stock price when the shares vest, which requires the amount to be adjusted in each subsequent reporting period based on the fair value of the award at the end of the reporting period until the award has vested.

***Foreign Currency Translation***

Our assets and liabilities denominated in foreign currencies are translated into U.S. dollars using foreign currency exchange rates at the end of the reporting period. Income and expenses are translated at the average exchange rates for each reporting period. The effects of translating the assets, liabilities and income of our foreign investments held by entities with a U.S. dollar functional currency are included in foreign currency gain (loss) in the consolidated statements of operations or other comprehensive income ("OCI") for securities available-for-sale for which the fair value option has not been elected. The effects of translating the assets, liabilities and income of our foreign investments held by entities with functional currencies other than the U.S. dollar are included in OCI. Realized foreign currency gains and losses and changes in the value of foreign currency denominated monetary assets and liabilities are included in the determination of net income and are reported as foreign currency gain (loss) in our consolidated statements of operations.

***Income Taxes***

The Company has elected to be qualified and taxed as a REIT under the Code. The Company is subject to federal income taxation at corporate rates on its REIT taxable income, however, the Company is allowed a deduction for the amount of dividends paid to its stockholders, thereby subjecting the distributed net income of the Company to taxation at the stockholder level only. The Company intends to continue to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company evaluates the realizability of its deferred tax assets and recognizes a valuation allowance if, based on the available evidence, both positive and negative, it is more likely than not that some portion or all of its deferred tax assets will not be realized. When evaluating the realizability of its deferred tax assets, the Company considers, among other matters, estimates of expected future taxable income, nature of current and cumulative losses, existing and projected book/tax differences, tax planning strategies available, and the general and industry specific economic outlook. This realizability analysis is inherently subjective, as it requires the Company to forecast its business and general economic environment in future periods.

We recognize tax positions in the financial statements only when it is more likely than not that the position will be sustained upon examination of the relevant taxing authority, based on the technical merits of the tax position. A tax position is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for the differences between positions taken in a tax return and amounts recognized in the financial statements and no portion of the benefit is recognized in our consolidated statements of operations. We report interest and penalties related to income tax matters as a component of income tax expense.

***Earnings Per Share***

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

The Company's unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities. For the years ended December 31, 2014, 2013 and 2012, the two-class method resulted in the most dilutive EPS calculation.

***Concentration of Credit Risk***

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash investments, CMBS, RMBS, loan investments and interest receivable. We may place cash investments in excess of insured amounts with high quality financial institutions. We perform an ongoing analysis of credit risk concentrations in our investment portfolio by evaluating exposure to various counterparties markets, underlying property types, contract terms, tenant mix and other credit metrics.

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

***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***

As a result of the spin-off, the results from our SFR segment have been reclassified as discontinued operations in our consolidated statements of operations for the years ended December 31, 2013 and 2012.

***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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**2. Summary of Significant Accounting Policies (Continued)**

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.

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

**3. Acquisitions and Divestitures**

*SFR Spin-off*

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 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 Year Ended December 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Total revenues | $ 3,876 | $ 16,200 | $ 443 |
| Total costs and expenses | 6,369 | 49,681(1) | 2,796 |
| **Loss before other income and income taxes** | **(2,493)** | **(33,481)** | **(2,353)** |
| Total other income | 942 | 13,882 | 500 |
| **Loss before income taxes** | **(1,551)** | **(19,599)** | **(1,853)** |
| Income tax provision | | (195) | (152) |
| **Net loss** | **$ (1,551)** | **$ (19,794)** | **$ (2,005)** |

(1) Costs and expenses for the year ended December 31, 2013 include allocated interest expense of $6.5 million. Refer to Note 23 for discussion of our cost allocation method.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**3. Acquisitions and Divestitures (Continued)**

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 |
|---|---|
| **Assets:** | |
| Cash and cash equivalents | $ 111,960 |
| Restricted cash | 189 |
| Residential real estate, net | 812,017 |
| Non-performing residential loans | 211,019 |
| Other assets | 9,998 |
| **Total Assets** | **$ 1,145,183** |
| **Liabilities and Equity** | |
| **Liabilities:** | |
| Accounts payable, accrued expenses and other liabilities | $ 24,346 |
| **Equity:** | |
| Additional paid-in capital | 1,130,905 |
| Accumulated deficit | (11,662) |
| Total Stockholders' Equity | 1,119,243 |
| Non-controlling interests in consolidated subsidiaries | 1,594 |
| **Total Equity** | **1,120,837** |
| **Total Liabilities and Equity** | **$ 1,145,183** |

*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. The resulting purchase price allocation was finalized as of December 31, 2013 and, accordingly, there were no measurement period adjustments recorded during the year ended December 31, 2014.

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**3. Acquisitions and Divestitures (Continued)**

The following table summarizes the final amounts of identified assets acquired and liabilities assumed at the acquisition date, before consolidation of securitization VIEs, which had no impact on the purchase price (in thousands):

| | | |
|---|---|---|
| **Assets acquired:** | | |
| Cash and cash equivalents | $ | 143,771 |
| Restricted cash | | 24,413 |
| Loans held-for-investment | | 8,015 |
| Loans held-for-sale | | 256,502 |
| Investment securities | | 314,471 |
| Intangible assets servicing rights | | 276,989 |
| Investment in unconsolidated entities | | 63,297 |
| Derivative assets | | 3,103 |
| Interest receivable | | 1,315 |
| Other assets | | 60,484 |
| **Total assets acquired** | | 1,152,360 |
| **Liabilities assumed:** | | |
| Accounts payable, accrued expenses and other liabilities | | 123,548 |
| Secured financing agreements | | 438,377 |
| Derivative liabilities | | 354 |
| **Total liabilities assumed** | | 562,279 |
| **Net assets acquired** | $ | 590,081 |

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets acquired and liabilities assumed. This determination of goodwill is as follows (amounts in thousands):

| | | |
|---|---|---|
| Purchase price | $ | 730,518 |
| Fair value of net assets acquired | | 590,081 |
| Goodwill | $ | 140,437 |

The unaudited pro forma revenues and net income of the combined entity for the years ended December 31, 2013 and 2012, assuming the business combination was consummated on January 1, 2012, are as follows (amounts in thousands):

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| **(Unaudited)** | | **2013** | | **2012** |
| Revenues | $ | 631,801 | $ | 554,041 |
| Net income | | 408,134 | | 418,204 |

Pro forma revenues and expenses were adjusted to exclude interest expense on LNR's senior credit facility, which was repaid at the acquisition date, and certain other non-recurring acquisition related

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

### 3. Acquisitions and Divestitures (Continued)

costs. We included an estimated income tax provision and management fee expense for periods prior to the acquisition date and estimated interest expense for the term loan facility. The unaudited amounts of these adjustments are as follows (in thousands):

| | For the year ended December 31, | |
|---|---|---|
| **(Unaudited)** | **2013** | **2012** |
| Net interest expense addition (deduction) | $ 752 | $ (5,570) |
| Non-recurring acquisition costs addition (deduction) | (132,514) | 23,097 |
| Income tax provision addition | 13,155 | 40,235 |
| Management fee expense addition | 18,657 | 57,071 |

### 4. Restricted Cash

A summary of our restricted cash as of December 31, 2014 and 2013 is as follows (amounts in thousands):

| | For the year ended December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Funds held in escrow for employees | $ | $ 18,236 |
| Cash collateral for derivative financial instruments | 34,397 | 12,564 |
| Cash collateral for performance obligations | 4,431 | 9,495 |
| Funds held in escrow on behalf of borrowers and other | 9,876 | 28,757 |
| | $ 48,704 | $ 69,052 |

### 5. 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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**5. Loans (Continued)**

following tables summarize our investments in mortgages and loans by subordination class as of December 31, 2014 and 2013 (amounts in thousands):

| | Carrying Value | Face Amount | Weighted Average Coupon | Weighted Average Life ("WAL") (years)(2) |
|---|---|---|---|---|
| **December 31, 2014** | | | | |
| First mortgages | $ 3,834,700 | $ 3,898,021 | 5.4% | 3.6 |
| Subordinated mortgages(1) | 345,091 | 374,859 | 8.1% | 3.9 |
| Mezzanine loans | 1,605,478 | 1,601,453 | 10.3% | 3.0 |
| Total loans held-for-investment | 5,785,269 | 5,874,333 | | |
| Loans held-for-sale, fair value option elected | 391,620 | 390,342 | 4.5% | 8.3 |
| Loans transferred as secured borrowings | 129,427 | 129,570 | 5.4% | 2.5 |
| Total gross loans | 6,306,316 | 6,394,245 | | |
| Loan loss allowance (loans held-for-investment) | (6,031) | | | |
| Total net loans | $ 6,300,285 | $ 6,394,245 | | |
| **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 | | |

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

(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.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**5. Loans (Continued)**

As of December 31, 2014, approximately $4.5 billion, or 77.3%, of our loans held-for-investment were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 6.0%. The following table summarizes our investments in floating rate loans (amounts in thousands):

| | December 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| Index | Base Rate | Carrying Value | Base Rate | Carrying Value |
| 1 Month LIBOR USD | 0.1713% | $ 138,576 | 0.1677% | $ 150,076 |
| 3 Month LIBOR GBP | 0.5640% | 440,222 | 0.5253% | 392,950 |
| LIBOR floor | 0.15 - 3.00%(1) | 3,889,412 | 0.19% - 3.00%(1) | 2,688,308 |
| Total | | $ 4,468,210 | | $ 3,231,334 |

(1) The weighted-average LIBOR floor was 0.35% and 0.49% as of December 31, 2014 and 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.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**5. Loans (Continued)**

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

| Rating | Characteristics |
| --- | --- |
| 1 | |
| | Sponsor capability and financial condition Sponsor is highly rated or investment grade or, if private, the equivalent thereof with significant management experience. |
| | Loan collateral and performance relative to underwriting The collateral has surpassed underwritten expectations. |
| | Quality and stability of collateral cash flows Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix. |
| | Loan structure Loan-to-collateral value ratio ("LTV") does not exceed 65%. The loan has structural features that enhance the credit profile. |
| 2 | |
| | Sponsor capability and financial condition Strong sponsorship with experienced management team and a responsibly leveraged portfolio. |
| | Loan collateral and performance relative to underwriting Collateral performance equals or exceeds underwritten expectations and covenants and performance criteria are being met or exceeded. |
| | Quality and stability of collateral cash flows Occupancy is stabilized with a diverse tenant mix. |
| | Loan structure LTV does not exceed 70% and unique property risks are mitigated by structural features. |
| 3 | |
| | Sponsor capability and financial condition Sponsor has historically met its credit obligations, routinely pays off loans at maturity, and has a capable management team. |
| | Loan collateral and performance relative to underwriting Property performance is consistent with underwritten expectations. |
| | Quality and stability of collateral cash flows Occupancy is stabilized, near stabilized, or is on track with underwriting. |
| | Loan structure LTV does not exceed 80%. |
| 4 | |

Sponsor capability and financial condition Sponsor credit history includes missed payments, past due payment, and maturity extensions. Management team is capable but thin.

Loan collateral and performance relative to underwriting Property performance lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. A sale of the property may be necessary in order for the borrower to pay off the loan at maturity.

Quality and stability of collateral cash flows Occupancy is not stabilized and the property has a large amount of rollover.

Loan structure LTV is 80% to 90%.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**5. Loans (Continued)**

| Rating | Characteristics |
|---|---|
| 5 | |
| | Sponsor capability and financial condition Credit history includes defaults, deeds-in-lieu, foreclosures, and/or bankruptcies. |
| | Loan collateral and performance relative to underwriting Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Sale proceeds would not be sufficient to pay off the loan at maturity. |
| | Quality and stability of collateral cash flows The property has material vacancy and significant rollover of remaining tenants. |
| | Loan structure LTV exceeds 90%. |

As of December 31, 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):

**Balance Sheet Classification**

| | Loans Held-For-Investment | | | | | Loans | | |
|---|---|---|---|---|---|---|---|---|
| Risk Rating Category | First Mortgages | Subordinated Mortgages | Mezzanine Loans | Cost Recovery Loans | Loans Held-For-Sale | Loans Transferred as Secured Borrowings | Total | % of Total Loans |
| 1 | $ 822 | $ | $ | $ | $ | $ | $ 822 | % |
| 2 | 115,407 | 116,168 | 291,997 | | | | 523,572 | 8.3% |
| 3 | 3,559,716 | 196,476 | 1,206,624 | | | 129,427 | 5,092,243 | 80.7% |
| 4 | 109,489 | 32,447 | 106,857 | | | | 248,793 | 4.0% |
| 5 | 45,974 | | | | | | 45,974 | 0.7% |
| N/A | | | | 3,292 | 391,620 | | 394,912 | 6.3% |
| | $ 3,831,408 | $ 345,091 | $ 1,605,478 | $ 3,292 | $ 391,620 | $ 129,427 | $ 6,306,316 | 100.0% |

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):

**Balance Sheet Classification**

| | Loans Held-For-Investment | | | | | Loans | | |
|---|---|---|---|---|---|---|---|---|
| Risk Rating Category | First Mortgages | Subordinated Mortgages | Mezzanine Loans | Cost Recovery Loans | Loans Held-For-Sale | Loans Transferred as Secured Borrowings | Total | % of Total Loans |
| 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% |

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**5. Loans (Continued)**

After completing our impairment evaluation process, we concluded that no impairment charges were required on any individual loans held-for-investment as of December 31, 2014 or 2013. As of December 31, 2014, $3.3 million of our loans-held-for investment were 90 days past due or greater, all of which are within the Investing and Servicing Segment and were acquired as non-performing loans by LNR prior to the April 19, 2013 acquisition. Additionally, none of our held-for-sale loans where we have elected the fair value option were 90 days or more past due or on nonaccrual status.

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 year ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Allowance for loan losses at January 1 | $ 3,984 | $ 2,061 | $ |
| Provision for loan losses | 2,047 | 1,923 | 2,061 |
| Charge-offs | | | |
| Recoveries | | | |
| Allowance for loan losses at December 31 | $ 6,031 | $ 3,984 | $ 2,061 |
| Recorded investment in loans related to the allowance for loan loss | $ 294,767 | $ 265,640 | $ 110,555 |

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

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Balance at January 1 | $ 4,750,804 | $ 3,000,335 | $ 2,447,508 |
| Acquisitions/originations/additional funding | 4,820,464 | 4,161,368 | 1,753,363 |
| Capitalized interest(1) | 49,611 | 19,599 | 3,594 |
| Basis of loans sold(2) | (2,171,300) | (1,762,778) | (468,079) |
| Loan maturities/principal repayments | (1,244,445) | (770,313) | (670,450) |
| Discount accretion/premium amortization | 21,287 | 44,643 | 44,653 |
| Changes in fair value | 70,420 | 43,849 | (5,760) |
| Unrealized foreign currency remeasurement (loss) gain | (47,392) | 17,541 | 12,667 |
| Capitalized cost written off | | (1,517) | |
| Change in loan loss allowance, net | (2,047) | (1,923) | (2,061) |
| Transfer to/from other asset classifications | 52,883 | | (115,100) |
| Balance at December 31 | $ 6,300,285 | $ 4,750,804 | $ 3,000,335 |

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

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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

## 6. Investment Securities

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

| | Carrying Value as of December 31, 2014 | Carrying Value as of December 31, 2013 |
|---|---|---|
| RMBS, available-for-sale | $ 207,053 | $ 296,236 |
| Single-borrower CMBS, available-for-sale | 100,349 | 114,346 |
| CMBS, fair value option(1) | 753,553 | 550,282 |
| Held-to-maturity ("HTM") securities | 441,995 | 368,318 |
| Equity security, fair value option | 15,120 | 15,247 |
| Subtotal Investment securities | 1,518,070 | 1,344,429 |
| VIE eliminations(1) | (519,822) | (409,322) |
| Total investment securities | $ 998,248 | $ 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):

| | Available-for-sale RMBS | Available-for-sale CMBS | CMBS, fair value option | HTM Securities | Equity Security | Total |
|---|---|---|---|---|---|---|
| **Year ended December 31, 2014** | | | | | | |
| Purchases | $ | $ | $ 120,122 | $ 69,300 | $ | $ 189,422 |
| Sales | 68,134 | | 32,032 | | | 100,166 |
| Principal collections | 53,126 | 1,121 | 3 | 45 | | 54,295 |
| **Year ended December 31, 2013** | | | | | | |
| Purchases | $ 20,090 | $ 1,889 | $ 90,518 | $ 367,346 | $ | $ 479,843 |
| Sales | 30,964 | 413,323 | 12,372 | | 6,769 | 463,428 |
| Principal collections | 59,957 | 10,460 | | | | 70,417 |
| **Year ended December 31, 2012** | | | | | | |
| Purchases | $ 254,035 | $ 372,252 | $ | $ | $ | $ 626,287 |
| Sales | 87,957 | 173,334 | | | | 261,291 |
| Principal collections | 69,298 | 19,836 | | | | 89,134 |

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

With the exception of three 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 December 31, 2014 and 2013. These RMBS and CMBS are reported at fair value in the balance sheet with changes in fair value recorded in AOCI.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**6. Investment Securities (Continued)**

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 December 31, 2014 and 2013 (amounts in thousands):

| | | | | | Unrealized Gains or (Losses) Recognized in AOCI | | | |
|---|---|---|---|---|---|---|---|---|
| | Purchase Amortized Cost | Credit OTTI | Recorded Amortized Cost | Non-Credit OTTI | Gross Unrealized Gains | Gross Unrealized Losses | Net Fair Value Adjustment | Fair Value |
| **December 31, 2014** | | | | | | | | |
| RMBS | $ 163,733 | $ (10,197) | $ 153,536 | $ (197) | $ 53,714 | $ | $ 53,517 | $ 207,053 |
| Single-borrower CMBS | 93,685 | | 93,685 | | 6,664 | | 6,664 | 100,349 |
| Total | $ 257,418 | $ (10,197) | $ 247,221 | $ (197) | $ 60,378 | $ | $ 60,181 | $ 307,402 |
| **December 31, 2013** | | | | | | | | |
| RMBS | $ 253,912 | $ (11,134) | $ 242,778 | $ (55) | $ 55,154 | $ (1,641) | $ 53,458 | $ 296,236 |
| Single-borrower 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 Coupon(1) | Weighted Average Rating (Standard & Poor's) | WAL (Years)(3) |
|---|---|---|---|
| **December 31, 2014** | | | |
| RMBS | 1.1% | B | 5.8 |
| Single-borrower CMBS | 11.6% | BB+(2) | 3.2 |
| **December 31, 2013** | | | |
| RMBS | 1.0% | B | 6.8 |
| Single-borrower CMBS | 11.5% | BB+(2) | 5.9 |

(1) Calculated using the December 31, 2014 and 2013 one-month LIBOR rate of 0.171% and 0.168%, respectively, for floating rate securities.

(2) As of December 31, 2014 and 2013 approximately 99.8% and 98.8%, respectively, of the CMBS securities were rated BB+.

(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 December 31, 2014, $0.2 million, or 0.2%, 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 December 31, 2014, $140.1 million, or 67.7%, 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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**6. Investment Securities (Continued)**

expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

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

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | RMBS | CMBS | RMBS | CMBS |
| Principal balance | $ 270,783 | $ 93,685 | $ 414,020 | $ 100,687 |
| Accretable yield | (85,495) | | (101,046) | |
| Non-accretable difference | (31,752) | | (70,196) | |
| Total discount | (117,247) | | (171,242) | |
| Amortized cost | $ 153,536 | $ 93,685 | $ 242,778 | $ 100,687 |

The principal balance of credit deteriorated RMBS was $222.9 million and $320.4 million as of December 31, 2014 and 2013, respectively. Accretable yield related to these securities totaled $66.6 million and $78.3 million as of December 31, 2014 and 2013, respectively.

The following table discloses the changes to accretable yield and non-accretable difference for our RMBS and single-borrower CMBS during the years ended December 31, 2014 and 2013, excluding CMBS where we have elected the fair value option (amounts in thousands):

| | Accretable Yield | | Non-Accretable Difference | |
|---|---|---|---|---|
| | RMBS | CMBS | RMBS | CMBS |
| Balance as of January 1, 2013 | $ 108,486 | $ 21,511 | $ 97,605 | $ |
| Accretion of discount | (23,868) | (5,442) | | |
| Principal write-downs | | | (2,771) | |
| Purchases | 5,738 | | 1,758 | |
| Sales | (10,868) | (16,069) | (5,852) | |
| OTTI | 1,014 | | | |
| Transfer to/from non-accretable difference | 20,544 | | (20,544) | |
| Balance as of December 31, 2013 | 101,046 | | 70,196 | |
| Accretion of discount | (20,582) | | | |
| Principal write-downs | | | (1,644) | |
| Purchases | | | | |
| Sales | (13,091) | | (18,937) | |
| OTTI | 259 | | | |
| Transfer to/from non-accretable difference | 17,863 | | (17,863) | |
| Balance as of December 31, 2014 | $ 85,495 | $ | $ 31,752 | $ |

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Explanation of Responses:

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**6. Investment Securities (Continued)**

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets excluding the Investing and Servicing VIEs. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was $1.9 million, $2.4 million and $1.9 million for the years ended December 31, 2014, 2013 and 2012, respectively, which has been recorded as management fees in the accompanying consolidated statements of operations.

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

| | Estimated Fair Value | | Unrealized Losses | |
|---|---|---|---|---|
| | Securities with a loss less than 12 months | Securities with a loss greater than 12 months | Securities with a loss less than 12 months | Securities with a loss greater than 12 months |
| **As of December 31, 2014** | | | | |
| RMBS | $ | $ 682 | $ | $ (197) |
| Single-borrower CMBS | | | | |
| Total | $ | $ 682 | $ | $ (197) |
| **As of December 31, 2013** | | | | |
| RMBS | $ 26,344 | $ 1,809 | $ (1,444) | $ (252) |
| Single-borrower CMBS | | | | |
| Total | $ 26,344 | $ 1,809 | $ (1,444) | $ (252) |

As of December 31, 2014, there was one security with an unrealized loss reflected in the table above. After evaluating this security and recording an adjustment for credit-related other-than-temporary impairment, the remaining unrealized loss reflected above was considered to represent a noncredit-related other-than-temporary impairment that would be recovered from the security's estimated future cash flows. We considered a number of factors in reaching this conclusion, including that we did not intend to sell this security, it was not considered more likely than not that we would be forced to sell this security prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of the other-than-temporary impairments we record on securities, are calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. Significant judgment is used in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

***CMBS, Fair Value Option***

As discussed in the "Fair Value Option" section of Note 2 herein, we elect the fair value option for the Investing and Servicing Segment's CMBS in an effort to eliminate accounting mismatches

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**6. Investment Securities (Continued)**

resulting from the current or potential consolidation of securitization VIEs. As of December 31, 2014, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, was $753.6 million and $4.3 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 ($519.8 million at December 31, 2014) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS. During the year ended December 31, 2014, we purchased $264.0 million of CMBS for which we elected the fair value option. Due to our consolidation of securitization VIEs, $143.9 million of this amount is eliminated and reflected primarily as repayment of debt of consolidated VIEs in our consolidated statement of cash flows.

As of December 31, 2014, 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 December 31, 2014 and 2013 (amounts in thousands):

| | Weighted Average Coupon | Weighted Average Rating (Standard & Poor's)(1) | WAL (Years)(2) |
|---|---|---|---|
| **December 31, 2014** | | | |
| CMBS, fair value option | 3.9% | CCC | 7.7 |
| **December 31, 2013** | | | |
| CMBS, fair value option | 5.4% | CC | 4.4 |

(1) As of December 31, 2014 and 2013, excludes $41.7 million and $55.5 million, respectively, in fair value option CMBS that are not rated.

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

***HTM Securities***

The table below summarizes unrealized gains and losses of our investments in HTM securities as of December 31, 2014 and 2013 (amounts in thousands):

| | Net Carrying Amount (Amortized Cost) | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|---|---|---|---|
| **December 31, 2014** | | | | |
| Preferred interests | $ 307,465 | $ | $ (1,366) | $ 306,099 |
| CMBS | 134,530 | | | 134,530 |
| Total | $ 441,995 | $ | $ (1,366) | $ 440,629 |
| **December 31, 2013** | | | | |
| Preferred interests | $ 284,087 | $ 135 | $ | $ 284,222 |
| CMBS | 84,231 | | | 84,231 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total | $ | 368,318 | $ | 135 | $ | | $ | 368,453 |

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Explanation of Responses:

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**6. Investment Securities (Continued)**

During 2014, we purchased a preferred equity interest of $19.0 million in a limited liability company that owns commercial real estate. This preferred equity interest matures in February 2023. Due to mandatory redemption features, we have classified the investment as a debt security in accordance with GAAP, and we expect to hold the investment to maturity. This preferred equity investment is to receive a monthly return on investment at a fixed rate of 10.5%, with an increase of 3.5% in February 2015.

During 2014, we also purchased two CMBS securities with face values of $25.5 million and $25.0 million, respectively, for $25.4 million and $25.0 million, respectively, both of which we expect to hold to maturity. The stated maturities of these securities are November 2016 and December 2016, respectively, and the coupon rate is LIBOR plus 5.5% and LIBOR plus 5.0%, respectively.

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. Due to mandatory redemption features, we have classified these investments as debt securities in accordance with GAAP, and we expect to hold the investments to maturity. The $246.1 million preferred equity investment is to receive a monthly return on investment at a rate of 1-Month LIBOR plus an initial spread of 7.25% for the first two years, with annual increases to the spread of 1% for years three through year five, then annual increases of 5% for each year thereafter if not redeemed. The $37.2 million preferred equity investment is to receive a monthly return on investment at a rate of 1-Month LIBOR plus a spread of 10.0%.

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 and the coupon rate is LIBOR plus 4.50%.

***Equity Security, Fair Value Option***

During 2012, we acquired 9,140,000 ordinary shares from a related-party (approximately a 4% interest) in Starwood European Real Estate Finance Limited ("SEREF"), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange. We have elected to report the investment using the fair value option because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market, and also due to potential lags in reporting resulting from differences in the respective regulatory requirements. The fair value of the investment remeasured in USD was $15.1 million and $15.2 million as of December 31, 2014 and 2013.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

## 7. Investment in Unconsolidated Entities

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

| | Participation / Ownership %(1) | Carrying value as of December 31, 2014 | Carrying value as of December 31, 2013 | Carrying value over (under) equity in net assets as of December 31, 2014(2) |
|---|---|---|---|---|
| **Equity method:** | | | | |
| Retail fund | 33% | $ 129,475 | $ | $ |
| Investor entity which owns equity in two real estate services providers | 50% | 21,534 | 19,371 | |
| Small balance bridge loan financing venture | 50% | 9,479 | 26,121 | |
| European investment fund | 50% | 2,454 | 23,779 | (2,584) |
| Mezzanine loan venture | N/A(3) | | 23,676 | |
| Bridge loan venture | various | 8,417 | 14,163 | 84 |
| Various | 25% - 50% | 5,000 | 4,371 | |
| | | 176,359 | 111,481 | $ (2,500) |
| **Cost method:** | | | | |
| Investment funds which own equity in a loan servicer and other real estate assets | 4% - 6% | 9,225 | 8,014 | |
| Various | 2% - 10% | 8,399 | 3,459 | |
| | | 17,624 | 11,473 | |
| | | $ 193,983 | $ 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*.

(3) During 2011, we obtained an 80% ownership interest in a venture (the "Holding Venture"), which in turn held a 49% ownership interest in an entity which held a participation in a mezzanine loan (the "Mezzanine Loan Venture"). In October 2014, the Holding Venture acquired a controlling interest (100%) in the Mezzanine Loan Venture for $36.0 million, resulting in the Mezzanine Loan Venture becoming a wholly-owned subsidiary of the Holding Venture. Because we consolidate the Holding Venture, the assets of the Mezzanine Loan Venture, consisting solely of the mezzanine loan participation, were consolidated into our financial statements. The 20% interest of our venture partner continues to be reflected as a noncontrolling interest in our consolidated financial statements.

In October 2014, we committed $150.0 million for a 33% equity interest in a newly formed partnership established by an affiliate of our Manager for the purpose of acquiring and operating four

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**7. Investment in Unconsolidated Entities (Continued)**

regional shopping malls (the "Retail Fund"), of which we funded $132.0 million during the year ended December 31, 2014. Due to contractually defined liquidation priorities that differ from our ownership percentage, we will apply the hypothetical liquidation at book value method in determining our share of earnings from the Retail Fund. During the year ended December 31, 2014, we recognized $2.2 million of income from the Retail Fund. Refer to Note 15 for further discussion.

**8. Goodwill and Intangible Assets**

*Goodwill*

Goodwill at December 31, 2014 and 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. The tax deductible component of our goodwill as of April 19, 2013 is $149.9 million and is deductible over 15 years. As discussed in Note 2, goodwill is tested for impairment at least annually. Based on our qualitative assessment during the fourth quarter of 2014, we determined that it is not more likely than not that the fair value of the Investing and Servicing Segment reporting unit to which the goodwill is attributed is less than its carrying value including goodwill. Therefore, we concluded goodwill was not impaired.

*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 December 31, 2014 and 2013, the balance of the domestic servicing intangible was net of $46.1 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 December 31, 2014 and 2013, the domestic servicing intangible had a balance of $178.4 million and $230.7 million, respectively, which represents our economic interest in this asset.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**8. Goodwill and Intangible Assets (Continued)**

The table below presents information about our GAAP servicing intangibles for the years ended December 31, 2014 and 2013 (in thousands).

| | 2014 | 2013 |
|---|---|---|
| **Domestic servicing rights, at fair value** | | |
| Fair value at January 1 | $ 150,149 | $ |
| Acquisition of LNR | | 156,993 |
| Changes in fair value due to changes in inputs and assumptions | (16,788) | (6,844) |
| Other | (1,058) | |
| Fair value at December 31 | 132,303 | 150,149 |
| **European servicing rights** | | |
| Net carrying amount at January 1 (fair value of $29.3 million and zero) | 27,024 | |
| Acquisition of LNR | | 32,649 |
| Foreign exchange (loss) gain | (731) | 2,431 |
| OTTI | (796) | |
| Amortization | (13,648) | (8,056) |
| Net carrying value at December 31 (fair value of $12.7 million and $29.3 million) | 11,849 | 27,024 |
| **Total servicing rights at December 31** | $ 144,152 | $ 177,173 |
| Accumulated amortization at December 31, net of foreign exchange effect | $ (21,543) | $ (8,468) |

The future amortization expense for the European servicing intangible is expected to be as follows (in thousands):

| | |
|---|---|
| 2015 | $ 9,070 |
| 2016 | 2,130 |
| 2017 | 646 |
| 2018 | 3 |
| Total | $ 11,849 |

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

## 9. Secured Financing Agreements

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

| | Current Maturity | Extended Maturity(a) | Pricing | Pledged Asset Carrying Value | Maximum Facility Size | Carrying Value at December 31, 2014 | Carrying Value at December 31, 2013 |
|---|---|---|---|---|---|---|---|
| **Lender 1 Repo 1** | (b) | (b) | LIBOR + 1.85% to 5.25% | $ 1,365,493 | $ 1,250,000 | $ 875,111 | $ 449,323 |
| **Lender 1 Repo 2** | (c) | N/A | LIBOR + 1.90% | 204,645 | 125,000 | 101,886 | 127,943 |
| **Lender 1 Repo 3** | (d) | N/A | N/A | | | | 154,133 |
| **Lender 2 Repo 1** | Oct 2015 | Oct 2018 | LIBOR + 1.75% to 2.75% | 352,522 | 325,000 | 240,188 | 100,886 |
| **Lender 3 Repo 1** | May 2017 | May 2019 | LIBOR + 2.85% | 178,617 | 124,250 | 124,250 | 50,871 |
| **Conduit Repo 1** | Sep 2015 | Sep 2016 | LIBOR + 1.90% | 126,818 | 250,000 | 94,727 | 129,843 |
| **Conduit Repo 2** | Nov 2015 | Nov 2016 | LIBOR + 2.10% | 160,838 | 150,000 | 113,636 | |
| **Lender 4 Repo 1** | Oct 2015 | Oct 2017 | LIBOR + 2.60% | 416,465 | 327,117 | 327,117 | 347,697 |
| **Lender 5 Repo 1** | Dec 2015 | N/A | LIBOR + 1.85% | 84,139 | 58,079 | 58,079 | 58,467 |
| **Lender 6 Repo 1** | Aug 2017 | Aug 2018 | LIBOR + 2.75% to 3.00% | 366,206 | 500,000 | 296,967 | |
| **Lender 7 Repo 1** | Dec 2016 | N/A | LIBOR + 2.60% to 2.70% | 50,391 | 39,024 | 39,024 | |
| **Lender 8 Mortgage** | Nov 2024 | N/A | 4.59% | 18,021 | 14,000 | 14,000 | |
| **Borrowing Base** | Sep 2015 | Sep 2017 | LIBOR + 3.25%(e) | 1,183,285 | 450,000(f) | 189,871 | 169,104 |
| **Term Loan** | Apr 2020 | N/A | LIBOR + 2.75%(e) | 2,889,787 | 665,039 | 662,933(g) | 669,293(g) |
| | | | | $ 7,397,227 | $ 4,277,509 | $ 3,137,789 | $ 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.

(c) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 2017.

(d) In connection with the October 2014 amendment of the Lender 1 Repo 1 facility, we terminated the Lender 1 Repo 3 facility.

(e) 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.

(f) Maximum borrowings under this facility were temporarily increased from $250.0 million to $450.0 million. This increase expires in June 2015 assuming the exercise of a 90-day extension option.

(g) Term loan outstanding balance is net of $2.1 million and $2.5 million of unamortized discount as of December 31, 2014 and 2013, respectively.

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

In 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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**9. Secured Financing Agreements (Continued)**

purchased assets, depending upon the type of asset being financed. In October 2014, we again amended this 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 connection with the October 2014 amendment of the Lender 1 Repo 1 facility, we terminated the Lender 1 Repo 3 facility.

In May 2014, we amended our Lender 3 Repo 1 facility to (i) increase available 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 December 2014, we amended this facility to extend the maximum maturity to March 2017 and reduce available borrowings from $145 million to $125 million.

In August 2014, we executed a $250.0 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 ranging from LIBOR + 2.75% to LIBOR + 3.00% depending on the collateral. Eligible collateral includes identified commercial mortgage loans and other asset types at the discretion of the lender. In December 2014, we amended this facility to upsize available borrowings from $250.0 million to $500.0 million.

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 the maturity date to December 2015 and reduce pricing.

In December 2014, we amended the Borrowing Base facility to temporarily upsize available borrowings from $250 million to $450 million for 180 days assuming the exercise of a 90-day extension.

In December 2014, we executed a $39.0 million repurchase facility ("Lender 7 Repo 1") with a new lender to finance the acquisition of two investment securities. The facility has a two year term and carries an annual interest rate of LIBOR + 2.60% to 2.70% depending on the collateral.

In December 2014, we executed a $14.0 million mortgage facility ("Lender 8 Mortgage") to fund the acquisition of an equity investment in commercial real estate. The facility has a ten year term and carries an annual fixed interest rate of 4.59%.

Our secured financing agreements contain certain financial tests and covenants. Should we breach certain of these covenants it may restrict our ability to pay dividends in the future. As of December 31, 2014, we were in compliance with all such covenants.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**9. Secured Financing Agreements (Continued)**

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

| | | |
|---|---|---|
| 2015 | $ | 500,434 |
| 2016 | | 104,687 |
| 2017 | | 842,664 |
| 2018 | | 373,863 |
| 2019 | | 673,052 |
| Thereafter(1) | | 645,195 |
| Total | $ | 3,139,895 |

(1) Principal paydown of the Term Loan through 2020 excludes $2.1 million of discount amortization.

Secured financing maturities for 2015 primarily relate to $58.1 million on the Lender 5 Repo 1 facility, $94.7 million on the Conduit Repo 1 facility, $113.6 million on the Conduit Repo 2 facility and $189.9 on the Borrowing Base facility. 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.

As of December 31, 2014 and 2013, we had approximately $26.5 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 consolidated balance sheets. For the years ended December 31, 2014, 2013 and 2012 approximately $11.3 million, $9.9 million and $5.7 million, respectively, of amortization was included in interest expense on our consolidated statements of operations.

**10. Convertible Senior Notes**

On October 8, 2014, we issued $431.3 million of 3.75% Convertible Senior Notes due 2017 (the "2017 Notes"). The 2017 Notes were sold to the underwriters at a discount of 2.25%, resulting in net proceeds to us of $421.5 million. At issuance, in accordance with ASC 470, we allocated $406.0 million and $15.5 million of the carrying value of the 2017 Notes to its debt and equity components, respectively.

On February 15, 2013, we issued $600.0 million of 4.55% Convertible Senior Notes due 2018 (the "2018 Notes"). The 2018 Notes were sold to the underwriters at a discount of 2.05%, resulting in net proceeds to us of $587.7 million. On July 3, 2013, we issued $460.0 million of 4.00% Convertible Senior Notes due 2019 (the "2019 Notes"). The 2019 Notes were sold to the underwriters at a discount of 2.125%, resulting in net proceeds to us of $450.2 million. The following summarizes the unsecured

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**10. Convertible Senior Notes (Continued)**

Convertible Senior Notes (collectively, the "Convertible Notes") outstanding as of December 31, 2014 (amounts in thousands, except rates):

| | Principal Amount | Coupon Rate | Effective Rate(1) | Conversion Rate(2) | Maturity Date | Remaining Period of Amortization |
|---|---|---|---|---|---|---|
| 2017 Notes | $ 431,250 | 3.75% | 5.87% | 41.7397 | 10/15/17 | 2.8 years |
| 2018 Notes | $ 599,981 | 4.55% | 6.10% | 45.1313 | 3/1/2018 | 3.2 years |
| 2019 Notes | $ 459,997 | 4.00% | 5.37% | 47.9958 | 1/15/2019 | 4.0 years |

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Total principal | $ 1,491,228 | $ 1,060,000 |
| Net unamortized discount | (73,206) | (62,149) |
| Carrying amount of debt components | $ 1,418,022 | $ 997,851 |
| Carrying amount of conversion option equity components recorded in additional paid-in capital | $ 64,070 | $ 48,502 |

(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 2018 Notes and 2019 Notes exceeded their principal amounts by $29.2 million and $53.0 million, respectively, at December 31, 2014 since the closing market price of $23.24 per share exceeded the implicit conversion prices of $22.16 and $20.84 per share, respectively. The if-converted value of the 2017 Notes was less than their principal amount by $13.0 million at December 31, 2014 since the closing market price of the Company's common stock of $23.24 per share was less than the implicit conversion price of $23.96 per share. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, the conversion of these principal amounts, totaling 63.7 million shares for the year ended December 31, 2014, was not included in the computation of diluted EPS. However, the conversion spread value for the 2018 Notes and 2019 Notes, representing 3.4 million shares for the year ended December 31, 2014, was included in the computation of diluted EPS as these notes were "in-the-money". No dilution related to the 2017 Notes was included in the computation of diluted EPS for the year ended December 31, 2014 as these notes were not "in-the-money". Refer to Note 17 for further discussion.

In September 2014, our board of directors authorized and announced the repurchase of up to $250 million of our outstanding common stock over a period of one year. In December 2014, our board of directors amended the repurchase program to include the repurchase of our outstanding Convertible Notes. Refer to Note 16 for further discussion of the repurchase program.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**10. Convertible Senior Notes (Continued)**

As of December 31, 2014 and 2013, we had approximately $2.3 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 consolidated balance sheet.

*Conditions for Conversion*

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

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

*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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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

## 11. Loan Securitization/Sale Activities

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

Within the Investing and Servicing Segment, we originate commercial mortgage loans with the intent to sell these mortgage loans to VIEs for the purposes of securitization. These VIEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the VIE. In certain instances, we retain a subordinated interest in the VIE and serve as special servicer for the VIE. During the year ended December 31, 2014, we sold $1.6 billion par value of loans held-for-sale from our conduit platform for their fair values of $1.7 billion. The sale proceeds were used in part to repay $1.2 billion of the outstanding balance of the repurchase agreements associated with these loans. During the year ended December 31, 2013, we sold $1.3 billion par value of loans held-for-sale from our conduit platform for their fair values of $1.3 billion. The sale proceeds were used in part to repay $947.4 million of the outstanding balance of the repurchase agreements associated with these loans.

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

| | Loan Transfers Accounted for as Sales | | Loan Transfers Accounted for as Secured Borrowings | |
|---|---|---|---|---|
| | **Face Amount** | **Proceeds** | **Face Amount** | **Proceeds** |
| **For the year ended December 31,** | | | | |
| 2014 | $ 510,539 | $ 501,988 | $ | $ |
| 2013 | 435,933 | 435,818 | 95,000 | 95,000 |
| 2012 | 468,289 | 476,443 | 35,738 | 35,738 |

In August 2013, we sold a $100.0 million A-note into a securitization trust. In addition to $97.5 million of gross cash proceeds we received an interest-only security in the securitization trust which represents a form of continuing involvement. Our carrying value of the interest-only security was $0.2 million and $1.3 million at December 31, 2014 and 2013, respectively. We accounted for the transaction as a sale as we concluded our continuing involvement was not significant.

## 12. Derivatives and Hedging Activity

***Risk Management Objective of Using Derivatives***

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, foreign exchange, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**12. Derivatives and Hedging Activity (Continued)**

financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates, credit spreads, and foreign exchange rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of the known or expected cash receipts and known or expected cash payments principally related to our investments, anticipated level of loan sales, and borrowings.

***Designated Hedges***

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

In connection with our repurchase agreements, we have entered into 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 December 31, 2014, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled $128.4 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 years ended December 31, 2014, 2013 and 2012 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 $0.6 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 77 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 the consolidated statements of operations. The Investing and Servicing Segment conduit platform uses interest rate and credit index instruments to manage exposures related to commercial mortgage loans held-for-sale.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**12. Derivatives and Hedging Activity (Continued)**

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 December 31, 2014, we had 57 foreign exchange forward derivatives to sell pounds sterling ("GBP") with a total notional amount of £305.8 million, 30 foreign exchange forward derivatives to sell Euros ("EUR") with a total notional amount of €113.2 million, two foreign exchange forward derivatives to sell Swedish Krona ("SEK") with a total notional of SEK 23.0 million, one foreign exchange forward derivative to buy SEK with a total notional of SEK 4.1 million, one foreign exchange forward derivative to sell Norwegian Krone ("NOK") with a notional of NOK 1.3 million and one 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 December 31, 2014, there were 56 interest rate swaps where the Company is paying fixed rates, with maturities ranging from 2 to 10 years and a total notional amount of $493.8 million, four interest rate swaps where the Company is receiving fixed rates with maturities ranging from 1 to 10 years and a total notional amount of $17.5 million and 12 credit index instruments with a total notional amount of $45.0 million.

The table below presents the fair value of our derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2014 and 2013 (amounts in thousands):

| | Fair Value of Derivatives in an Asset Position(1) As of December 31, | | Fair Value of Derivatives in a Liability Position(2) As of December 31, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| **Derivatives designated as hedging instruments:** | | | | |
| Interest rate swaps | $ 138 | $ 125 | $ 235 | $ 729 |
| Total derivatives designated as hedging instruments | 138 | 125 | 235 | 729 |
| **Derivatives not designated as hedging instruments:** | | | | |
| Interest rate swaps | 1,128 | 5,102 | 5,216 | 983 |
| Foreign exchange contracts | 24,388 | 269 | 15 | 22,480 |
| Credit index instruments | 974 | 2,273 | 10 | |
| Total derivatives not designated as hedging instruments | 26,490 | 7,644 | 5,241 | 23,463 |
| **Total derivatives** | $ 26,628 | $ 7,769 | $ 5,476 | $ 24,192 |

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

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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**12. Derivatives and Hedging Activity (Continued)**

The tables below present the effect of our derivative financial instruments on the consolidated statements of operations and of comprehensive income for the years ended December 31, 2014, 2013 and 2012:

| Derivatives Designated as Hedging Instruments for the Year Ended December 31, | (Loss) Gain Recognized in OCI (effective portion) | (Loss) Reclassified from AOCI into Income (effective portion) | (Loss) Gain Recognized in Income (ineffective portion) | Location of Gain (Loss) Recognized in Income |
|---|---|---|---|---|
| 2014 | $ (865) | $ (1,372) | $ | Interest expense |
| 2013 | $ 334 | $ (1,633) | $ | Interest expense |
| 2012 | $ (3,609) | $ (2,458) | $ | Interest expense |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income 2014 | 2013 | 2012 |
|---|---|---|---|---|
| Interest rate swaps | Gain (loss) on derivative financial instruments | $ (15,662) | $ 3,549 | $ 1,023 |
| Foreign exchange contracts | Gain (loss) on derivative financial instruments | 37,207 | (13,160) | (15,180) |
| Credit index instruments | Gain (loss) on derivative financial instruments | (1,094) | (1,559) | |
| | | $ 20,451 | $ (11,170) | $ (14,157) |

***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 December 31, 2014, there were no derivatives with credit-risk-related contingent features in a net liability position.

**13. Offsetting Assets and Liabilities**

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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**13. Offsetting Assets and Liabilities (Continued)**

us are derivative assets and liabilities as well as repurchase agreement liabilities (amounts in thousands):

| | (i) Gross Amounts Recognized | (ii) Gross Amounts Offset in the Statement of Financial Position | (iii) = (i) - (ii) Net Amounts Presented in the Statement of Financial Position | (iv) Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments | (iv) Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Received / Pledged | (v) = (iii) - (iv) Net Amount |
|---|---|---|---|---|---|---|
| **As of December 31, 2014** | | | | | | |
| Derivative assets | $ 26,628 | $ | $ 26,628 | $ 2,016 | $ | $ 24,612 |
| Derivative liabilities | $ 5,476 | $ | $ 5,476 | $ 2,016 | $ 3,460 | $ |
| Repurchase agreements | 2,270,985 | | 2,270,985 | 2,270,985 | | |
| | $ 2,276,461 | $ | $ 2,276,461 | $ 2,273,001 | $ 3,460 | $ |
| **As of December 31, 2013** | | | | | | |
| 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 |

**14. Variable Interest Entities**

*Investment Securities*

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

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

*VIEs in which we are the Primary Beneficiary*

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

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**14. Variable Interest Entities (Continued)**

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 December 31, 2014, one of our CDO structures was in default, which pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO's economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO's economic performance, we do not consolidate the VIE. As of December 31, 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 VIEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of December 31, 2014, our maximum risk of loss related to VIEs in which we were not the primary beneficiary was $233.7 million on a fair value basis.

As of December 31, 2014, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of $50.7 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

**15. Related-Party Transactions**

***Management Agreement***

We are party to a management agreement (the "Management Agreement") with our Manager. Under the Management Agreement, our Manager, subject to the oversight of our board of directors, is required to manage our day-to-day activities, for which our Manager receives a base management fee and is eligible for an incentive fee and stock awards. Our Manager's personnel perform certain due diligence, legal, management and other services that outside professionals or consultants would otherwise perform. As such, in accordance with the terms of our Management Agreement, our Manager is paid or reimbursed for the documented costs of performing such tasks, provided that such

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**15. Related-Party Transactions (Continued)**

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.

*Base Management Fee.* The base management fee is 1.5% of our stockholders' equity per annum and calculated and payable quarterly in arrears in cash. For purposes of calculating the management fee, our stockholders' equity means: (a) the sum of (1) the net proceeds from all issuances of our equity securities since inception (allocated on a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (2) our retained earnings at the end of the most recently completed calendar quarter (without taking into account any non-cash equity compensation expense incurred in current or prior periods), less (b) any amount that we pay to repurchase our common stock since inception. It also excludes (1) any unrealized gains and losses and other non-cash items that have impacted stockholders' equity as reported in our financial statements prepared in accordance with GAAP, and (2) one-time events pursuant to changes in GAAP, and certain non-cash items not otherwise described above, in each case after discussions between our Manager and our independent directors and approval by a majority of our independent directors. As a result, our stockholders' equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders' equity shown in our consolidated financial statements.

For the years ended December 31, 2014, 2013 and 2012, approximately $54.5 million, $51.5 million and $33.3 million, respectively, was incurred for base management fees. As of December 31, 2014 and 2013, there were $13.9 million and $0, respectively, of unpaid base management fees included in the related-party payable in our consolidated balance sheets.

*Incentive Fee.* Our Manager is entitled to be paid the incentive fee described below with respect to each calendar quarter if (1) our Core Earnings (as defined below) for the previous 12-month period exceeds an 8% threshold, and (2) our Core Earnings for the 12 most recently completed calendar quarters is greater than zero.

On December 4, 2014, our board of directors authorized an amendment to our Management Agreement to adjust the calculation of the incentive fee for the spin-off of SWAY (the "Amendment"). The Amendment provides that on and after January 31, 2014, the date of the SWAY spin-off, the computation of the weighted average issue price per share of the common stock shall be decreased to give effect to the book value per share on January 31, 2014 of the assets of SWAY, and the computation of the average number of shares of common stock outstanding shall be decreased by the weighted-average number of shares of SWAY distributed in the spin-off.

After giving effect to the Amendment, the incentive fee is calculated as follows: an amount, not less than zero, equal to the difference between (1) the product of (x) 20% and (y) the difference between (i) our Core Earnings for the previous 12-month period, and (ii) the product of (A) the weighted average of the issue price per share of our common stock of all of our public offerings as decreased for the spin-off of SWAY multiplied by the weighted average number of all shares of common stock outstanding (including any RSUs, any RSAs and other shares of common stock underlying awards granted under our equity incentive plans) in such previous 12-month period as decreased for the spin-off of SWAY, and (B) 8%, and (2) the sum of any incentive fee paid to our Manager with respect to the first three calendar quarters of such previous 12-month period. One half

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**15. Related-Party Transactions (Continued)**

of each quarterly installment of the incentive fee is payable in shares of our common stock so long as the ownership of such additional number of shares by our Manager would not violate the 9.8% stock ownership limit set forth in our articles of incorporation, after giving effect to any waiver from such limit that our board of directors may grant in the future. The remainder of the incentive fee is payable in cash. The number of shares to be issued to our Manager is equal to the dollar amount of the portion of the quarterly installment of the incentive fee payable in shares divided by the average of the closing prices of our common stock on the NYSE for the five trading days prior to the date on which such quarterly installment is paid.

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, depreciation and amortization of real estate, any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in OCI, 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.

The Amendment results in an increase to the incentive fee of $18.0 million for the year ended December 31, 2014, which is recognized within management fee expense in our consolidated statements of operations.

For the years ended December 31, 2014, 2013 and 2012, approximately $34.4 million, $11.6 million and $7.9 million, respectively, was incurred for incentive fees. As of December 31, 2014 and 2013, approximately $18.9 million and $6.8 million, respectively, of unpaid incentive fees were included in related-party payable in our consolidated balance sheets.

*Expense Reimbursement.* We are required to reimburse our Manager for operating expenses incurred by our Manager on our behalf. In addition, pursuant to the terms of the Management Agreement, we are required to reimburse our Manager for the cost of legal, tax, consulting, auditing and other similar services rendered for us by our Manager's personnel provided that such costs are no greater than those that would be payable if the services were provided by an independent third party. The expense reimbursement is not subject to any dollar limitations but is subject to review by our independent directors. For the years ended December 31, 2014, 2013 and 2012, approximately $8.1 million, $8.8 million and $5.8 million was incurred, respectively, for executive compensation and other reimbursable expenses. As of December 31, 2014 and 2013, approximately $3.4 million and $4.4 million, respectively, of unpaid reimbursable executive compensation and other expenses were included in related-party payable in our consolidated balance sheets.

*Termination Fee.* After the initial three-year term, we can terminate the Management Agreement without cause, as defined in the Management Agreement, with an affirmative two-thirds vote by our independent directors and 180 days written notice to our Manager. Upon termination without cause, our Manager is due a termination fee equal to three times the sum of the average annual base management fee and incentive fee earned by our Manager over the preceding eight calendar quarters. No termination fee is payable if our Manager is terminated for cause, as defined in the Management Agreement, which can be done at any time with 30 days written notice from our board of directors.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**15. Related-Party Transactions (Continued)**

***Manager Equity Plan***

In January 2014, we granted 2,489,281 RSUs 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 $26.5 million, $15.7 million and $15.7 million within management fees in our consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012, respectively. Refer to Note 16 herein for further discussion of these grants.

***Investments in Loans and Securities***

In December 2014, we co-originated a £200 million first mortgage for the acquisition of a 17-story office tower located in London with SEREF and other private funds, all affiliates of our Manager. We originated £138.3 million of the loan, SEREF provided £45.0 million and the private funds provided £16.7 million.

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 originated £86.75 million of the loan, and private funds managed by an affiliate of our Manager provided £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.

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

In November 2013, we co-originated a GBP-denominated first mortgage loan with SEREF, which is secured by Centre Point, an iconic tower located in Central London, England. We funded £15 million of the initial £55 million funding and committed to future funding of £165 million. The A-Note bears interest at 8.55% fixed and the B-Note bears interest at three-month LIBOR plus 7.0%, unless the fixed rate option is elected. The loan was amended in December 2014, increasing the total commitment to £265.0 million and our future funding commitment to £195.0 million. The loan matures in December 2017.

In September 2013, we co-originated a EUR-denominated first mortgage loan with Starfin Lux S.a.r.l. ("Starfin"), an affiliate of our Manager. The loan had an initial funding of approximately $102.3 million ($53.8 million for us and $48.5 million for Starfin), and future funding commitments totaling $24.6 million, of which the Company is committed to fund $12.9 million and Starfin is committed to fund $11.7 million. The loan bears interest at three-month EURIBOR plus 7.0% and is secured by a portfolio of approximately 20 retail properties located throughout Finland. The loan matures in October 2016.

In August 2013, we co-originated GBP-denominated first mortgage and mezzanine loans with Starfin. The loans are collateralized by a development of a 109 unit retirement community and a 30 key

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**15. Related-Party Transactions (Continued)**

nursing home in Battersea Park, London, England. We and Starfin committed $11.3 million and $22.5 million, respectively, in aggregate for the two loans. The first mortgage loan bears interest at 5.02% and the mezzanine loan bears interest at 15.12%, and the loans each have three-year terms.

In April 2013, we purchased two B-notes for $146.7 million from entities substantially all of whose equity was owned by an affiliate of our Manager. The B-Notes are secured by two Class-A office buildings located in Austin, Texas. On May 17, 2013, we sold senior participation interests in the B-notes to a third party, generating $95.0 million in aggregate proceeds. We retained the subordinated interests.

In December 2012, we co-originated a junior mezzanine loan with SEREF, which is secured primarily by the ownership interest in entities that own a portfolio of three luxury hotels located in London, England. The total loan amount was £98 million, of which we and SEREF own a 50% pari passu interest. The loan bears interest at one-month LIBOR plus a margin of 11.65%. The loan matures in January 2018.

In December 2012, we acquired 9,140,000 ordinary shares in SEREF, a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange, for approximately $14.7 million. As a result, we own approximately 4% of SEREF. Refer to Note 6 for additional details.

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 April 2011, we purchased a $35 million pari passu participation interest (the "Mammoth Participation Interest") in a $75 million subordinate loan (the "Mammoth Loan") from an independent third party and a syndicate of financial institutions and other entities acting as subordinate lenders to Mammoth Mountain Ski Area, LLC ("Mammoth"). Mammoth is a single purpose, bankruptcy remote entity that is owned and controlled by Starwood Global Opportunity Fund VII-A, L.P., Starwood Global Opportunity Fund VII-B, L.P., Starwood U.S. Opportunity Fund VII-D, L.P. and Starwood U.S. Opportunity Fund VII-D-2, L.P. (collectively, the "Sponsors"). Each of the Sponsors is indirectly wholly-owned by Starwood Capital Group Global I, L.L.C., and an affiliate of our Chief Executive Officer. The Mammoth Loan was approved by our independent directors in accordance with our related party transaction policy. The Mammoth Loan has a term of up to six years and an interest rate of 14.0% through April 2014 and 13.25% thereafter. We acquired the Mammoth Participation Interest in the Mammoth Loan from an independent third party and own such Mammoth Participation Interest subject to a participation agreement between us and the independent third party (the "Mammoth Participation Agreement"). The Mammoth Participation Agreement provides for the payment to us, on a pro rata basis with an independent third party, of customary payments in respect of the Mammoth Participation Interest and affords us customary voting, approval and consent rights so long as no event of default is continuing under the Mammoth Loan.

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**15. Related-Party Transactions (Continued)**

***Investment in Unconsolidated Entities***

In October 2014, we committed $150 million for a 33% equity interest in the Retail Fund, of which $132.0 million was funded as of December 31, 2014. The Retail 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%. During the year ended December 31, 2014, we recognized $2.2 million of income from the Retail Fund.

In April 2013, in connection with our acquisition of LNR, we acquired 50% of a joint venture. An affiliate of ours, Fund IX, owns the remaining 50% of the venture.

***Other Related-Party Arrangements***

In connection with the LNR acquisition, we were required to cash collateralize certain obligations of LNR, including letters of credit and performance obligations. Fund IX funded $6.2 million of this obligation, but the account 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 the related-party payable in our consolidated balance sheet as of December 31, 2014 and 2013, respectively.

**16. Stockholders' Equity**

The Company's authorized capital stock consists of 100,000,000 shares of preferred stock, $0.01 par value per share, and 500,000,000 shares of common stock, $0.01 par value per share.

We issued common stock in public offerings as follows during the years ended December 31, 2014, 2013 and 2012:

| Pricing date | Shares issued (in thousands) | Price per share | Proceeds (in thousands) |
|---|---|---|---|
| 4/11/14 | 25,300 | $ 22.32 | $ 564,695 |
| 9/9/13 | 28,750 | $ 24.04 | $ 691,150 |
| 4/8/13 | 30,475 | $ 26.99 | $ 822,368 |
| 10/3/12 | 18,400 | $ 22.74 | $ 418,416 |
| 4/16/12 | 23,000 | $ 19.88 | $ 457,321 |

In May 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 year ended December 31, 2014, shares issued under the DRIP Plan were not material.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**16. Stockholders' Equity (Continued)**

In May 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 $500.0 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 year ended December 31, 2014, we issued 1.5 million shares under the ATM Agreement for gross proceeds of $36.2 million.

In September 2014, our board of directors authorized and announced the repurchase of up to $250 million of our outstanding common stock over a period of one year. In December 2014, our board of directors amended the repurchase program to include the repurchase of our outstanding Convertible Notes. 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 year ended December 31, 2014, we repurchased 587,900 shares of common stock for a total cost of $13.0 million and no Convertible Notes under the program.

Underwriting and offering costs for the years ended December 31, 2014, 2013 and 2012 were $1.5 million, $1.4 million and $2.0 million, respectively, and are reflected as a reduction of additional paid-in capital in the consolidated statements of equity.

Our board of directors declared the following dividends in 2014, 2013 and 2012:

| Declare Date | Record Date | Ex-Dividend Date | Pay Date | Amount | Frequency |
|---|---|---|---|---|---|
| 11/5/14 | 12/31/14 | 12/29/14 | 1/15/15 | $ 0.48 | Quarterly |
| 8/6/14 | 9/30/14 | 9/26/14 | 10/15/14 | 0.48 | Quarterly |
| 5/6/14 | 6/30/14 | 6/26/14 | 7/15/14 | 0.48 | Quarterly |
| 2/24/14 | 3/31/14 | 3/27/14 | 4/15/14 | 0.48 | Quarterly |
| 11/7/13 | 12/31/13 | 12/27/13 | 1/15/14 | 0.46 | Quarterly |
| 10/31/13 (non-cash SWAY shares) | 1/24/14 | 2/3/14 | 1/31/14 | 5.77 | Special |
| 8/6/13 | 9/30/13 | 9/26/13 | 10/15/13 | 0.46 | Quarterly |
| 5/8/13 | 6/28/13 | 6/26/13 | 7/15/13 | 0.46 | Quarterly |
| 2/27/13 | 3/28/13 | 3/26/13 | 4/15/13 | 0.44 | Quarterly |
| 12/13/12 | 12/31/12 | 12/27/12 | 1/15/13 | 0.10 | Special |
| 11/6/12 | 12/31/12 | 12/17/12 | 1/15/13 | 0.44 | Quarterly |
| 8/3/12 | 9/28/12 | 9/26/12 | 10/15/12 | 0.44 | Quarterly |
| 5/8/12 | 6/29/12 | 6/27/12 | 7/13/13 | 0.44 | Quarterly |
| 2/29/12 | 3/30/12 | 3/28/12 | 4/13/12 | 0.44 | Quarterly |

***Equity Incentive Plans***

The Company currently maintains the Starwood Property Trust, Inc. Manager Equity Plan, which provides for the grant of stock options, stock appreciation rights, RSAs, RSUs and other equity-based

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**16. Stockholders' Equity (Continued)**

awards, including dividend equivalents, to our Manager. The Company also maintains the Starwood Property Trust, Inc. Equity Plan (the "Equity Plan"), which provides for the same types of equity-based awards to individuals who provide services to the Company, including employees of our Manager. The maximum number of shares that may be made subject to awards granted under either the Manager Equity Plan or the Equity Plan, determined on a combined basis, was initially 3,112,500 shares. On March 26, 2013, the Company amended, subject to stockholder approval which was obtained on May 2, 2013, the Manager Equity Plan and the Equity Plan to (i) increase the number of shares available under such plans for awards granted on or after January 1, 2013 by 6,000,000 shares of common stock, (ii) clarify the prohibitions on the repricing of stock options and stock appreciation rights, and (iii) remove the restriction that no more than an aggregate of 50,000 shares may be subject to awards granted to the Company's chief financial officer and/or compliance officer. Additionally, we have reserved 100,000 shares of common stock for issuance under the Starwood Property Trust, Inc. Non-Executive Director Stock Plan ("Non-Executive Director Stock Plan") which provides for the issuance of restricted stock, RSUs and other equity-based awards to non-executive directors. To date, we have only RSAs and RSUs under the three equity incentive plans. The holders of awards of RSAs or RSUs are entitled to receive dividends or "distribution equivalents," which will be payable at such time dividends are paid on our outstanding shares of common stock.

The table below summarizes our share awards granted under the Manager Equity Plan (dollar amounts in thousands):

| Grant date | Type | Amount | Grant date fair value | Vesting period |
|---|---|---|---|---|
| January 2014(1) | RSU | 489,281 | $ 14,776 | 3 years |
| January 2014 | RSU | 2,000,000 | 55,420 | 3 years |
| October 2012 | RSU | 875,000 | 19,854 | 3 years |
| May 2012 | RSA | 30,000 | 602 | 9 months |
| December 2010 | RSU | 1,075,000 | 21,823 | 3 years |
| August 2009 | RSU | 1,037,500 | 20,750 | 3 years |

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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**16. Stockholders' Equity (Continued)**

As of December 31, 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.

The following shares of common stock were issued, without restriction, to our Manager as part of the incentive compensation due under the Management Agreement:

| Timing of Issuance | Shares of Common Stock Issued | Price per share |
|---|---|---|
| November 2014 | 92,865 | $ 22.97 |
| August 2014 | 86,328 | 23.49 |
| May 2014 | 152,316 | 23.99 |
| March 2014 | 138,288 | 23.92 |
| November 2013 | 89,269 | 26.72 |
| March 2013 | 13,188 | 27.83 |
| November 2012 | 46,653 | 22.91 |
| August 2012 | 50,203 | 22.61 |
| May 2012 | 70,220 | 19.76 |

The following table summarizes our share-based compensation expenses during the years ended December 31, 2014, 2013 and 2012 (in thousands):

| | For the year ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Management fees: | | | |
| Manager incentive fee | $ 17,258 | $ 5,764 | $ 3,591 |
| Manager Equity Plan | 26,498 | 15,688 | 15,714 |
| | 43,756 | 21,452 | 19,305 |
| General and administrative: | | | |
| Non-Executive Director Stock Plan | 294 | 217 | 242 |
| Equity Plan | 1,830 | 437 | 206 |
| | 2,124 | 654 | 448 |
| Income tax effect | | | |
| Total share-based compensation expense | $ 45,880 | $ 22,106 | $ 19,753 |

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**16. Stockholders' Equity (Continued)**

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

| | Non-Executive Director Stock Plan | Equity Plan | Manager Equity Plan | Total | Weighted Average Grant Date Fair Value (per share) |
|---|---|---|---|---|---|
| Balance as of January 1, 2014 | 11,228 | 22,502 | 510,415 | 544,145 | $ 22.88 |
| Granted | 17,105 | 162,458 | 2,489,281 | 2,668,844 | 27.91 |
| Vested | (11,228) | (75,252) | (1,145,111) | (1,231,591) | 26.66 |
| Forfeited | | | | | |
| Balance as of December 31, 2014 | 17,105 | 109,708 | 1,854,585 | 1,981,398 | 27.30 |

The weighted average grant date fair value per share of grants during the years ended December 31, 2014, 2013 and 2012 was $27.91, $26.87 and $22.57, respectively.

***Vesting Schedule***

| | Non-Executive Director Stock Plan | Equity Plan | Manager Equity Plan | Total |
|---|---|---|---|---|
| 2015 | 17,105 | 58,641 | 1,057,985 | 1,133,731 |
| 2016 | | 49,863 | 796,600 | 846,463 |
| 2017 | | 1,204 | | 1,204 |
| Total | 17,105 | 109,708 | 1,854,585 | 1,981,398 |

As of December 31, 2014, there was approximately $46.0 million of total unrecognized compensation costs related to unvested share-based compensation arrangements which are expected to be recognized over a weighted average period of 2.0 years. The total fair value of shares vested during the year ended December 31, 2014 was $28.6 million as of the respective vesting dates.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

### 17. Earnings per Share

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| **Basic Earnings** | | | |
| ***Continuing Operations:*** | | | |
| Income from continuing operations attributable to STWD common stockholders | $ 496,572 | $ 324,824 | $ 203,200 |
| Less: Income attributable to unvested shares | (5,579) | (1,579) | (1,605) |
| Basic Income from continuing operations | $ 490,993 | $ 323,245 | $ 201,595 |
| ***Discontinued Operations:*** | | | |
| Loss from discontinued operations | $ (1,551) | $ (19,794) | $ (2,005) |
| Basic Net income attributable to STWD common stockholders after allocation to participating securities | $ 489,442 | $ 303,451 | $ 199,590 |
| **Diluted Earnings** | | | |
| ***Continuing Operations:*** | | | |
| Basic Income from continuing operations attributable to STWD common stockholders | $ 496,572 | $ 324,824 | $ 203,200 |
| Less: Income attributable to unvested shares | (5,579) | (1,579) | (1,605) |
| Add: Undistributed earnings to unvested shares | 918 | | |
| Less: Undistributed earnings reallocated to unvested shares | (902) | | |
| Diluted Income from continuing operations | $ 491,009 | $ 323,245 | $ 201,595 |
| ***Discontinued Operations:*** | | | |
| Basic Loss from discontinued operations | $ (1,551) | $ (19,794) | $ (2,005) |
| Diluted Net income attributable to STWD common stockholders after allocation to participating securities | $ 489,458 | $ 303,451 | $ 199,590 |
| ***Number of Shares:*** | | | |
| Basic Average shares outstanding | 214,945 | 166,356 | 113,721 |
| Effect of dilutive securities Convertible Notes | 3,432 | | |
| Effect of dilutive securities Contingently Issuable Shares | 404 | 139 | 13 |
| Diluted Average shares outstanding | 218,781 | 166,495 | 113,734 |

| | | | | | | |
|---|---|---|---|---|---|---|
| ***Earnings Per Share Attributable to STWD Common Stockholders:*** | | | | | | |
| ***Basic:*** | | | | | | |
| Income from continuing operations | $ | 2.29 | $ | 1.94 | $ | 1.77 |
| Loss from discontinued operations | | (0.01) | | (0.12) | | (0.01) |
| Net income | $ | 2.28 | $ | 1.82 | $ | 1.76 |
| ***Diluted:*** | | | | | | |
| Income from continuing operations | $ | 2.25 | $ | 1.94 | $ | 1.77 |
| Loss from discontinued operations | | (0.01) | | (0.12) | | (0.01) |
| Net income | $ | 2.24 | $ | 1.82 | $ | 1.76 |

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**17. Earnings per Share (Continued)**

As of December 31, 2014, 2013 and 2012, unvested restricted shares of 2.0 million, 0.5 million and 1.2 million, respectively, were excluded from the computation of diluted shares as their effect was already considered under the more dilutive two-class method used above.

Also as of December 31, 2014, there were 67.2 million potential shares of common stock contingently issuable upon the conversion of the Convertible Notes. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, this principal amount, representing 63.7 million shares for the year ended December 31, 2014 was not included in the computation of diluted EPS. However, as discussed in Note 10, the conversion options associated with the 2018 Notes and 2019 Notes are "in-the-money" as the if-converted values of the 2018 Notes and 2019 Notes exceeded their principal amounts by $29.2 million and $53.0 million, respectively, at December 31, 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 3.4 million shares for the year ended December 31, 2014. The conversion option associated with the 2017 Notes is "out-of-the-money" because the if-converted value of the 2017 Notes was less than their principal amount by $13.0 million at December 31, 2014, therefore, there was no dilutive effect to EPS for the 2017 Notes.

**18. Accumulated Other Comprehensive Income**

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

| | Effective Portion of Cumulative Loss on Cash Flow Hedges | Cumulative Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation | Total |
|---|---|---|---|---|
| **Balance at January 1, 2012** | **$ (1,420)** | **$ (2,578)** | **$** | **$ (3,998)** |
| OCI before reclassifications | (3,609) | 83,377 | | 79,768 |
| Amounts reclassified from AOCI | 2,458 | 1,447 | | 3,905 |
| Net period OCI | (1,151) | 84,824 | | 83,673 |
| **Balance at December 31, 2012** | **(2,571)** | **82,246** | | **79,675** |
| OCI before reclassifications | 334 | 10,723 | 9,487 | 20,544 |
| Amounts reclassified from AOCI | 1,633 | (26,403) | | (24,770) |
| Net period OCI | 1,967 | (15,680) | 9,487 | (4,226) |
| **Balance at December 31, 2013** | **(604)** | **66,566** | **9,487** | **75,449** |
| OCI before reclassifications | (865) | 3,683 | (13,684) | (10,866) |
| Amounts reclassified from AOCI | 1,372 | (10,059) | | (8,687) |
| Net period OCI | 507 | (6,376) | (13,684) | (19,553) |
| **Balance at December 31, 2014** | **$ (97)** | **$ 60,190** | **$ (4,197)** | **$ 55,896** |

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**18. Accumulated Other Comprehensive Income (Continued)**

The reclassifications out of AOCI impacted the consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012 as follows:

| Details about AOCI Components | Amounts Reclassified from AOCI During the Year Ended December 31, 2014 | 2013 | 2012 | Affected Line Item in the Statements of Operations |
|---|---|---|---|---|
| (Losses) on cash flow hedges: | | | | |
| Interest rate contracts | $ (1,372) | $ (1,633) | $ (2,458) | Interest expense |
| Unrealized gains on available-for-sale securities: | | | | |
| Net realized gain on sale of investments | 10,148 | 27,417 | 2,955 | Gain on sale of investments, net |
| OTTI | (89) | (1,014) | (4,402) | OTTI |
| Total | 10,059 | 26,403 | (1,447) | |
| Total reclassifications for the year | $ 8,687 | $ 24,770 | $ (3,905) | |

**19. Benefit Plans**

*Savings Plan*

In connection with the acquisition of LNR, we assumed LNR's obligation pursuant to the LNR Property Corporation Savings Plan (the "Savings Plan"), which allows employees to participate and make contributions to the Savings Plan pursuant to Section 401(k) of the Code. We may also make discretionary matching contributions to the Savings Plan for the benefit of employees. Participants in the Savings Plan self-direct both salary deferral and any employer discretionary matching contributions. The Savings Plan offers various investment options for participants to direct their contributions. Matching contributions to the Savings Plan are recorded as general and administrative expense in the consolidated statements of operations. During the years ended December 31, 2014 and 2013, matching contributions to the Savings Plan were $1.2 million and $0.8 million, respectively.

*Long-Term Incentive Arrangements*

In connection with the LNR acquisition, we also assumed long-term incentive compensation arrangements with certain employees. These arrangements provide for fixed cash payments which vest over three to four year periods and are payable at certain dates within these periods. During the years ended December 31, 2014 and 2013, compensation expense associated with these arrangements was $2.8 million and $1.5 million, respectively. The liability related to these arrangements was $3.5 million at both December 31, 2014 and 2013.

*Change in Control Retention Arrangements*

In connection with the LNR acquisition, we assumed certain performance obligations under the LNR Property LLC Change in Control Bonus Plan (the "Change in Control Plan"). The purpose of the Change in Control Plan was to provide an incentive to certain key employees upon a change in control, as defined in the plan document. Pursuant to the plan document, cash bonus awards are payable to participants as follows: (i) 50% upon a change in control, which was paid by the sellers on

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Explanation of Responses:

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**19. Benefit Plans (Continued)**

April 19, 2013, and (ii) the remaining 50% on the nine-month anniversary of a change in control, or sooner if the employee is terminated without cause. The remaining 50% totaled $23.1 million at the acquisition date and was pre-funded by the sellers into a trust account. We recognized $1.3 million and $22.4 million in general and administrative expense with respect to this plan during the years ended December 31, 2014 and 2013, respectively. Final distributions from the Change in Control Plan occurred in January 2014.

**20. 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. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and the assumptions are reasonable.

*Pricing Verification* We use recently executed transactions, other observable market data such as exchange data, broker/dealer quotes, third-party pricing vendors and aggregation services for validating the fair values generated using valuation models. Pricing data provided by approved external sources is evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, analyzing the methodology and assumptions used by the external source to generate a price and/or by evaluating how active the third-party pricing source (or originating sources used by the third-party pricing source) is in the market.

*Unobservable Inputs* Where inputs are not observable, we review the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilized in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**20. Fair Value (Continued)**

Any changes to the valuation methodology will be reviewed by our management to ensure the changes are appropriate. The methods used may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while we anticipate that our valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value could result in a different estimate of fair value at the reporting date.

***Fair Value on a Recurring Basis***

We determine the fair value of our financial assets and liabilities measured at fair value on a recurring basis as follows:

*Loans held-for-sale*

We measure the fair value of our mortgage loans held-for-sale within the Investing and Servicing Segment's conduit platform using a discounted cash flow analysis unless observable market data (i.e. securitized pricing) is available. A discounted cash flow analysis requires management to make estimates regarding future interest rates and credit spreads. The most significant of these inputs relates to credit spreads and is unobservable. Thus, we have determined that the fair values of mortgage loans valued using a discounted cash flow analysis should be classified in Level III of the fair value hierarchy, while mortgage loans valued using securitized pricing should be classified in Level II of the fair value hierarchy. Mortgage loans classified in Level III are transferred to Level II if securitized pricing becomes available.

*RMBS*

RMBS are valued utilizing observable and unobservable market inputs. The observable market inputs include recent transactions, broker quotes and vendor prices ("market data"). However, given the implied price dispersion amongst the market data, the fair value determination for RMBS has also utilized significant unobservable inputs in discounted cash flow models including prepayments, default and severity estimates based on the recent performance of the collateral, the underlying collateral characteristics, industry trends, as well as expectations of macroeconomic events (e.g. housing price curves, interest rate curves, etc.). At each measurement date, we consider both the observable and unobservable valuation inputs in the determination of fair value. However, given the significance of the unobservable inputs these securities have been classified within Level III.

*CMBS*

CMBS are valued utilizing both observable and unobservable market inputs. These factors include projected future cash flows, ratings, subordination levels, vintage, remaining lives, credit issues, recent trades of similar securities and the spreads used in the prior valuation. We obtain current market spread information where available and use this information in evaluating and validating the market price of all CMBS. Depending upon the significance of the fair value inputs used in determining these fair values, these securities are classified in either Level II or Level III of the fair value hierarchy. CMBS may shift between Level II and Level III of the fair value hierarchy if the significant fair value inputs used to price the CMBS become or cease to be observable.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**20. Fair Value (Continued)**

*Equity security*

The equity security is publicly registered and traded in the United States and its market price is listed on the London Stock Exchange. The security has been classified within Level I.

*Domestic servicing rights*

The fair value of this intangible is determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, including forecasted loan defeasance, control migration, delinquency and anticipated maturity defaults which are calculated assuming a debt yield at which default occurs. Since the most significant of these inputs are unobservable, we have determined that the fair values of this intangible in its entirety should be classified in Level III of the fair value hierarchy.

*Derivatives*

The valuation of derivative contracts are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market based inputs, including interest rate curves, spot and market forward points and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level II of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level III inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of December 31, 2014 and 2013, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not as significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level II of the fair value hierarchy.

The valuation of over-the-counter ("OTC") derivatives are determined using discounted cash flows based on Overnight Index Swap ("OIS") rates. Fully collateralized trades are discounted using OIS with no additional economic adjustments to arrive at fair value. Uncollateralized or partially-collateralized trades are also discounted at OIS, but include appropriate economic adjustments for funding costs (i.e., a LIBOR-OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk.

For credit index instruments, fair value is determined based on changes in the relevant indices from the date of initiation of the instrument to the reporting date, as these changes determine the

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**20. Fair Value (Continued)**

amount of any future cash settlement between us and the counterparty. These indices are considered Level II inputs as they are directly observable. We have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our credit index instruments and have determined that any credit valuation adjustment would not be significant to the overall valuation as the counterparty to these contracts is a highly rated global financial institution. As a result, we have determined that credit index instruments are classified in Level II of the fair value hierarchy.

*Liabilities of consolidated VIEs*

We utilize several inputs and factors in determining the fair value of VIE liabilities, including future cash flows, market transaction information, ratings, subordination levels, and current market spread and pricing information where available. Quoted market prices are used when this debt trades as an asset. Depending upon the significance of the fair value inputs used in determining these fair values, these liabilities are classified in either Level II or Level III of the fair value hierarchy. VIE liabilities may shift between Level II and Level III of the fair value hierarchy if the significant fair value inputs used to price the VIE liabilities become or cease to be observable.

*Assets of consolidated VIEs*

The VIEs in which we invest are "static"; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a CDO. This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. The individual assets of a VIE are inherently incapable of precise measurement given their illiquid nature and the limitations on available information related to these assets. Because our methodology for valuing these assets does not value the individual assets of a VIE, but rather uses the value of the VIE liabilities as an indicator of the fair value of VIE assets as a whole, we have determined that our valuations of VIE assets in their entirety should be classified in Level III of the fair value hierarchy.

***Fair Value on a Nonrecurring Basis***

We use fair value measurements on a nonrecurring basis when (i) assessing certain of our cost basis financial assets and certain non-financial assets for impairment; and (ii) when accounting for business combinations or business combinations achieved in stages pursuant to the acquisition method of accounting. We used fair value measurements on a nonrecurring basis when accounting for the following transaction:

*Acquisition of controlling interest*

As discussed in Note 7, the Holding Venture, which we consolidate, previously accounted for its 49% interest in the Mezzanine Loan Venture pursuant to the equity method of accounting. In October 2014, we acquired the 51% equity interest of our venture partner, resulting in the Mezzanine Loan Venture becoming a wholly-owned subsidiary. We recorded this purchase in accordance with the acquisition method of accounting, which required us to fair value our previously held interest. The

**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**20. Fair Value (Continued)**

resulting fair value of $23.0 million was determined by reference to the terms of the underlying mezzanine loan participation.

We determine the fair value of our financial instruments and assets where fair value is disclosed as follows:

*Loans held-for-investment and loans transferred as secured borrowings*

We estimate the fair values of our loans not carried at fair value on a recurring basis by discounting their expected cash flows at a rate we estimate would be demanded by the market participants that are most likely to buy our loans. The expected cash flows used are generally the same as those used to calculate our level yield income in the financial statements. Since these inputs are unobservable, we have determined that the fair value of these loans in their entirety would be classified in Level III of the fair value hierarchy.

*HTM securities*

We estimate the fair value of our mandatorily redeemable preferred equity interests in commercial real estate companies using the same methodology described for our loans held-for-investment. We estimate the fair value of our HTM CMBS using the same methodology described for our CMBS carried at fair value on a recurring basis.

*European servicing rights*

The fair value of this intangible was determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows. Since the most significant of these inputs are unobservable, we have determined that the fair values of these intangibles in their entirety should be classified in Level III of the fair value hierarchy.

*Non-performing residential loans*

We estimated the fair value of our non-performing loans by applying an estimated current market discount to the estimated fair value of the underlying residential property collateral. Since these inputs are unobservable, we have determined that the fair value of these loans in their entirety are classified in Level III of the fair value hierarchy.

*Secured financing agreements and secured borrowings on transferred loans*

The fair value of the secured financing agreements and secured borrowings on transferred loans are determined by discounting the contractual cash flows at the interest rate we estimate such arrangements would bear if executed in the current market. We have determined that our valuation of secured financing agreements and secured borrowings on transferred loans should be classified in Level III of the fair value hierarchy.

*Convertible Notes*

The fair value of the debt component of our Convertible Notes is estimated by discounting the contractual cash flows at the interest rate we estimate such notes would bear if sold in the current market without the embedded conversion option which, in accordance with ASC 470, is reflected as a

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**20. Fair Value (Continued)**

component of equity. We have determined that our valuation of our convertible senior notes should be classified in Level III of the fair value hierarchy.

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

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Total | Level I | Level II | Level III |
| **Financial Assets:** | | | | |
| Loans held-for-sale, fair value option | $ 391,620 | $ | $ | $ 391,620 |
| RMBS | 207,053 | | | 207,053 |
| CMBS | 334,080 | | | 334,080 |
| Equity security | 15,120 | 15,120 | | |
| Domestic servicing rights | 132,303 | | | 132,303 |
| Derivative assets | 26,628 | | 26,628 | |
| VIE assets | 107,816,065 | | | 107,816,065 |
| **Total** | $ 108,922,869 | $ 15,120 | $ 26,628 | $ 108,881,121 |
| **Financial Liabilities:** | | | | |
| Derivative liabilities | $ 5,476 | $ | $ 5,476 | $ |
| VIE liabilities | 107,232,201 | | 102,339,081 | 4,893,120 |
| **Total** | $ 107,237,677 | $ | $ 102,344,557 | $ 4,893,120 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Total | Level I | Level II | Level III |
| **Financial Assets:** | | | | |
| 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 |
| **Total** | $ 104,083,003 | $ 15,247 | $ 55,069 | $ 104,012,687 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial Liabilities:** | | | | | | | | |
| Derivative liabilities | $ | 24,192 | $ | | $ | 24,192 | $ | |
| VIE liabilities | | 102,649,263 | | | | 101,051,279 | | 1,597,984 |
| **Total** | $ | 102,673,455 | $ | | $ | 101,075,471 | $ | 1,597,984 |

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**20. Fair Value (Continued)**

The changes in financial assets and liabilities classified as Level III are as follows for the years ended December 31, 2014 and 2013 (amounts in thousands):

| | Loans Held-for-sale | RMBS | CMBS | Domestic Servicing Rights | VIE Assets | VIE Liabilities | Total |
|---|---|---|---|---|---|---|---|
| **January 1, 2013 balance** | $ | $ 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 (losses) gains: | | | | | | | |
| Included in earnings: | | | | | | | |
| Change in fair value / gain on sale | 43,849 | 7,630 | (8,707) | (6,844) | (11,785,009) | 522,399 | (11,226,682) |
| OTTI | | (1,014) | | | | | (1,014) |
| Net accretion | | 23,868 | | | | | 23,868 |
| Included in OCI | | 3,429 | 11,326 | | | | 14,755 |
| Purchases / Originations | 1,233,584 | 20,090 | 43,527 | | | | 1,297,201 |
| Sales | (1,326,599) | (30,963) | (12,372) | | | | (1,369,934) |
| Issuances | | | | | | (13,993) | (13,993) |
| Cash repayments / receipts | (664) | (59,957) | (592) | | | 151,312 | 90,099 |
| Transfers into Level III | | | 117,413 | | | (756,832) | (639,419) |
| Transfers out of Level III | | | | | | 841,990 | 841,990 |
| Consolidations of VIEs | | | (5,021) | | 25,165,354 | (349,477) | 24,810,856 |
| Deconsolidations of VIEs | | | | | (1,218,514) | 860 | (1,217,654) |
| **December 31, 2013 balance** | 206,672 | 296,236 | 208,006 | 150,149 | 103,151,624 | (1,597,984) | 102,414,703 |
| Total realized and unrealized (losses) gains: | | | | | | | |
| Included in earnings: | | | | | | | |
| Change in fair value / gain on sale | 70,420 | 11,677 | 11,712 | (16,788) | (15,306,563) | (762,590) | (15,992,132) |
| OTTI | | (259) | | | | | (259) |
| Net accretion | | 20,600 | | | | | 20,600 |
| Included in OCI | | 59 | (12,876) | | | | (12,817) |
| Purchases / Originations | 1,785,769 | | 113,240 | | | | 1,899,009 |
| Sales | (1,670,522) | (68,134) | (29,301) | | | | (1,767,957) |
| Issuances | | | | | | (89,354) | (89,354) |
| Cash repayments / receipts | (719) | (53,126) | (1,124) | | | 118,165 | 63,196 |
| Transfers into Level III | | | 54,220 | | | (3,428,958) | (3,374,738) |
| Transfers out of Level III | | | (180) | (1,058) | | 2,827,109 | 2,825,871 |
| Consolidations of VIEs | | | (10,474) | | 29,363,132 | (2,004,330) | 27,348,328 |
| Deconsolidations of VIEs | | | 857 | | (9,392,128) | 44,822 | (9,346,449) |
| **December 31, 2014 balance** | $ 391,620 | $ 207,053 | $ 334,080 | $ 132,303 | $ 107,816,065 | $ (4,893,120) | $ 103,988,001 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Amount of total gains (losses) included in earnings attributable to assets still held at: | | | | | | | |
| December 31, 2013 | $ (2,427) | $ 20,746 | $ (5,320) | $ (6,844) | $ (11,785,009) | $ 522,399 | $ (11,256,455) |
| December 31, 2014 | 1,278 | 18,376 | 9,747 | (16,788) | (15,306,563) | (762,590) | (16,056,540) |

During the years ended December 31, 2014 and 2013, we transferred $54.2 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.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**20. Fair Value (Continued)**

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

| | December 31, 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 | $ 5,908,665 | $ 6,034,838 | $ 4,544,132 | $ 4,609,040 |
| Securities, held-to-maturity | 441,995 | 440,629 | 368,318 | 368,453 |
| European servicing rights | 11,849 | 12,741 | 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 | $ 3,267,230 | $ 3,251,035 | $ 2,438,798 | $ 2,436,708 |
| Convertible senior notes | 1,418,022 | 1,444,975 | 997,851 | 1,160,000 |

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 December 31, 2014 | Valuation Technique | Unobservable Input | Range as of December 31, 2014(1) | Range as of December 31, 2013(1) |
|---|---|---|---|---|---|
| Loans held-for-sale, fair value option | $ 391,620 | Discounted cash flow | Yield(b) | 4.2% - 4.9% | 5.2% - 5.9% |
| | | | Duration(c) | 5.0 - 10.0 years | 5.0 - 10.0 years |
| RMBS | 207,053 | Discounted cash flow | Constant prepayment rate(a) | 1.2% - 15.9% | (0.6)% - 16.6% |
| | | | Constant default rate(b) | 1.1% - 8.9% | 1.4% - 11.3% |
| | | | Loss severity(b) | 15% - 80%(e) | 15% - 92% |
| | | | Delinquency rate(c) | 2% - 43% | 3% - 48% |
| | | | Servicer advances(a) | 14% - 75% | 24% - 95% |
| | | | Annual coupon deterioration(b) | 0% - 0.6% | 0% - 0.7% |
| | | | Putback amount per projected total collateral loss(d) | 0% - 11% | 0% - 9% |
| CMBS | 334,080 | Discounted cash flow | Yield(b) | 0% - 421.4% | 0% - 890.0% |
| | | | Duration(c) | 0 - 11.8 years | 0 - 11.0 years |
| Domestic servicing rights | 132,303 | Discounted cash flow | Debt yield(a) | 8.25% | 8.75% |
| | | | Discount rate(b) | 15% | 15% |
| | | | Control migration(b) | 0% - 80% | 0% - 80% |
| VIE assets | 107,816,065 | Discounted cash flow | Yield(b) | 0% - 925.0% | 0% - 952.3% |
| | | | Duration(c) | 0 - 21.0 years | 0 - 22.7 years |
| VIE liabilities | 4,893,120 | Discounted cash flow | Yield(b) | 0% - 925.0% | 0% - 952.3% |
| | | | Duration(c) | 0 - 21.0 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**

(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.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**20. Fair Value (Continued)**

(c) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (lower or higher) fair value measurement depending on the structural features of the security in question.

(d) Any delay in the putback recovery date leads to a decrease in fair value, for the majority of securities in our RMBS portfolio.

(e) 85% of the portfolio falls within a range of 45%-80% as of December 31, 2014.

**21. Income Taxes**

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

Our TRSs engage in various real estate related operations, including special servicing of commercial real estate, originating and securitizing commercial mortgage loans, and investing in entities which engage in real estate related operations. The majority of our TRSs are held within the Investing and Servicing Segment. As of both December 31, 2014 and 2013, approximately $1.0 billion of the Investing and Servicing Segment's assets, including $88.6 million and $196.1 million in cash, respectively, 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 years ended December 31, 2014, 2013 and 2012 (in thousands):

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Current | | | |
| Federal | $ 28,677 | $ 27,850 | $ 831 |
| Foreign | 5,432 | 1,484 | |
| State | 4,946 | 4,768 | 192 |
| Total current | 39,055 | 34,102 | 1,023 |
| Deferred | | | |
| Federal | (9,975) | (6,915) | |
| Foreign | (3,400) | (1,829) | |
| State | (1,584) | (1,305) | |
| Total deferred | (14,959) | (10,049) | |
| Total income tax provision(1) | $ 24,096 | $ 24,053 | $ 1,023 |

(1) Includes provision of zero, $0.2 million and $0.2 million reflected in discontinued operations for the years ended December 31, 2014, 2013 and 2012, respectively.

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

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**21. Income Taxes (Continued)**

tax purposes. Deferred tax assets and liabilities are presented net by tax jurisdiction and are reported in other assets and other liabilities, respectively. At December 31, 2014 and 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):

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| ***U.S.*** | | |
| **Deferred tax asset, net** | | |
| Reserves and accruals | $ 13,818 | $ 11,454 |
| Domestic intangible assets | 9,617 | (714) |
| Investment securities and loans | (2,327) | (892) |
| Investment in unconsolidated entities | 883 | 1,811 |
| Deferred income | 427 | 59 |
| Net operating and capital loss carryforwards | 2,498 | 967 |
| Valuation allowance | (2,498) | (799) |
| Other U.S. temporary differences | 515 | (242) |
| | 22,933 | 11,644 |
| ***Europe*** | | |
| **Deferred tax liability, net** | | |
| European servicing rights | (2,681) | (6,257) |
| Net operating and capital loss carryforwards | 8,702 | 10,951 |
| Valuation allowance | (8,702) | (10,951) |
| Other European temporary differences | (337) | (527) |
| | (3,018) | (6,784) |
| **Net deferred tax assets (liabilities)** | $ 19,915 | $ 4,860 |

Unrecognized tax benefits were not material as of and during the years ended December 31, 2014 and 2013. The Company's tax returns are no longer subject to audit for years ended prior to January 1, 2011. The Company had pre-tax income from foreign operations of $13.5 million during the year ended December 31, 2014, a pre-tax loss of $2.5 million during the year ended December 31, 2013 and no pre-tax income or loss from foreign operations during the year ended December 31, 2012.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**21. Income Taxes (Continued)**

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 years ended December 31, 2014, 2013 and 2012 (dollar amounts in thousands):

| | For the years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | | 2013 | | | 2012 | | |
| Federal statutory tax rate | $ | 183,622 | 35.0% | $ | 117,034 | 35.0% | $ | 71,647 | 35.0% |
| REIT and other non-taxable income | | (160,745) | (30.7)% | | (93,892) | (28.1)% | | (70,816) | (34.6)% |
| State income taxes | | 3,149 | 0.6% | | 3,769 | 1.1% | | 192 | 0.1% |
| Federal benefit of state tax deduction | | (1,102) | (0.2)% | | (1,319) | (0.4)% | | | |
| Valuation allowance | | 1,315 | 0.3% | | (1,928) | (0.6)% | | | |
| Other | | (2,143) | (0.4)% | | 389 | 0.2% | | | |
| Effective tax rate | $ | 24,096 | 4.6% | $ | 24,053 | 7.2% | $ | 1,023 | 0.5% |

The changes in the valuation allowance associated with our deferred tax assets are as follows for the years ended December 31, 2014 and 2013 (amounts in thousands):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| January 1 balance | $ | 11,750 | $ | 2,895 |
| Acquisition of LNR | | | | 9,499 |
| Additions (releases) to income tax provision | | 1,315 | | (1,928) |
| Provision to return adjustments to deferred tax amounts | | (822) | | 1,178 |
| Foreign currency adjustments reflected in OCI | | (1,086) | | 622 |
| Other | | 43 | | (516) |
| December 31 balance | $ | 11,200 | $ | 11,750 |

**22. Commitments and Contingencies**

As of December 31, 2014, we had future funding commitments on 54 loans totaling $2.1 billion, of which we expect to fund $2.0 billion. These future funding commitments primarily relate to construction projects, capital improvements, tenant improvements and leasing commissions. Generally, funding commitments are subject to certain conditions that must be met, such as customary construction draw certifications, minimum debt service coverage ratios or executions of new leases before advances are made to the borrower.

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

In connection with our acquisition of LNR in 2013, we recognized an intangible unfavorable lease liability of $15.3 million related to an operating lease for LNR's offices in Miami Beach, Florida which expires in 2021. This liability is included in accounts payable, accrued expenses and other liabilities and

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**22. Commitments and Contingencies (Continued)**

is being amortized over the remaining seven years of the underlying lease term at a rate of approximately $1.9 million per year. Amortization of this liability is reflected in general and administrative expenses in our consolidated statements of operations. The liability balance was $12.1 million and $14.0 million as of December 31, 2014 and 2013, respectively.

Future minimum rental payments and sublease income related to our existing corporate leases and subleases for each of the next five years and thereafter are as follows (in thousands):

| | Minimum Rents | Sublease Income |
|---|---|---|
| 2015 | $ 6,467 | $ 1,378 |
| 2016 | 6,057 | 1,405 |
| 2017 | 5,735 | 923 |
| 2018 | 5,730 | 802 |
| 2019 | 5,490 | 255 |
| Thereafter | 7,421 | 57 |
| Total | $ 36,900 | $ 4,820 |

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 consolidated financial statements.

**23. Segment and Geographic 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. Refer to Note 1 for a discussion of the composition of our reportable business segments. During the year ended December 31, 2014, we changed our methodology for allocating certain shared costs including management fee expense. Prior years presented have been retrospectively adjusted to conform to this new methodology. Also during the year ended December 31, 2014, as described in Note 1, we changed the name of one of our segments, from the "LNR Segment" to the "Investing and Servicing Segment."

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**23. Segment and Geographic Data (Continued)**

The table below presents our results of operations for the year ended December 31, 2014 by business segment (amounts in thousands):

| | Lending Segment | Investing and Servicing Segment | Single Family Residential | Subtotal | Investing and Servicing VIEs | Total |
|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | |
| Interest income from loans | $ 420,683 | $ 13,979 | $ | $ 434,662 | $ | $ 434,662 |
| Interest income from investment securities | 68,348 | 109,819 | | 178,167 | (66,151) | 112,016 |
| Servicing fees | 330 | 227,145 | | 227,475 | (91,910) | 135,565 |
| Other revenues | 406 | 21,450 | | 21,856 | (1,224) | 20,632 |
| **Total revenues** | **489,767** | **372,393** | | **862,160** | **(159,285)** | **702,875** |
| **Costs and expenses:** | | | | | | |
| Management fees(1) | 69,378 | 47,393 | 791 | 117,562 | 170 | 117,732 |
| Interest expense(1) | 133,728 | 26,285 | 1,091 | 161,104 | | 161,104 |
| General and administrative | 24,530 | 144,408 | | 168,938 | 723 | 169,661 |
| Acquisition and investment pursuit costs | 2,475 | 1,206 | | 3,681 | | 3,681 |
| Depreciation and amortization | | 16,627 | | 16,627 | | 16,627 |
| Loan loss allowance | 2,047 | | | 2,047 | | 2,047 |
| Other expense | 52 | 13,105 | | 13,157 | | 13,157 |
| **Total costs and expenses** | **232,210** | **249,024** | **1,882** | **483,116** | **893** | **484,009** |
| **Income before other income, income taxes and non-controlling interests** | **257,557** | **123,369** | **(1,882)** | **379,044** | **(160,178)** | **218,866** |
| **Other income:** | | | | | | |
| Income of consolidated VIEs, net | | | | | 212,506 | 212,506 |
| Change in fair value of servicing rights | | (53,065) | | (53,065) | 36,278 | (16,787) |
| Change in fair value of investment securities, net | 822 | 97,723 | | 98,545 | (83,468) | 15,077 |
| Change in fair value of mortgage loans held-for-sale, net | | 70,420 | | 70,420 | | 70,420 |
| Earnings from unconsolidated entities | 9,660 | 13,610 | | 23,270 | (3,338) | 19,932 |
| Gain on sale of investments, net | 12,886 | | | 12,886 | | 12,886 |
| Gain (loss) on derivative financial instruments, net | 30,713 | (10,262) | | 20,451 | | 20,451 |
| Foreign currency (loss), net | (29,139) | (803) | | (29,942) | | (29,942) |
| OTTI | (259) | (797) | | (1,056) | | (1,056) |
| Other (expense) income, net | (327) | 4,159 | | 3,832 | | 3,832 |
| **Total other income** | **24,356** | **120,985** | | **145,341** | **161,978** | **307,319** |
| **Income (loss) from continuing operations before income taxes** | **281,913** | **244,354** | **(1,882)** | **524,385** | **1,800** | **526,185** |
| Income tax (provision) | (1,476) | (22,620) | | (24,096) | | (24,096) |
| **Income (loss) from continuing operations** | **280,437** | **221,734** | **(1,882)** | **500,289** | **1,800** | **502,089** |
| Loss from discontinued operations, net of tax | | | (1,551) | (1,551) | | (1,551) |
| **Net income (loss)** | **280,437** | **221,734** | **(3,433)** | **498,738** | **1,800** | **500,538** |
| Net income attributable to non-controlling interests | (3,717) | | | (3,717) | (1,800) | (5,517) |
| **Net income (loss) attributable to Starwood Property Trust, Inc.** | **$ 276,720** | **$ 221,734** | **$ (3,433)** | **$ 495,021** | **$** | **$ 495,021** |

(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 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 year ended December 31, 2014, management fees and interest expense of $47.3 million and $21.5 million, respectively, were allocated from the Lending Segment to the Investing and Servicing Segment, while $0.8 million and $1.1 million, respectively, were allocated from the Lending Segment to the SFR segment.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**23. Segment and Geographic Data (Continued)**

The table below presents our results of operations for the year ended December 31, 2013 by business segment (amounts in thousands):

| | Lending Segment | Investing and Servicing Segment | Single Family Residential | Subtotal | Investing and Servicing VIEs | Total |
|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | |
| Interest income from loans | $ 335,078 | $ 9,562 | $ | $ 344,640 | $ | $ 344,640 |
| Interest income from investment securities | 57,802 | 54,020 | | 111,822 | (37,510) | 74,312 |
| Servicing fees | | 179,015 | | 179,015 | (54,289) | 124,726 |
| Other revenues | 598 | 6,111 | | 6,709 | (892) | 5,817 |
| **Total revenues** | **393,478** | **248,708** | | **642,186** | **(92,691)** | **549,495** |
| **Costs and expenses:** | | | | | | |
| Management fees(1) | 55,759 | 20,935 | | 76,694 | 122 | 76,816 |
| Interest expense(1) | 99,469 | 12,334 | | 111,803 | | 111,803 |
| General and administrative | 16,783 | 132,713 | | 149,496 | 523 | 150,019 |
| Business combination costs | 17,958 | | | 17,958 | | 17,958 |
| Acquisition and investment pursuit costs | 2,819 | 829 | | 3,648 | | 3,648 |
| Depreciation and amortization | | 9,701 | | 9,701 | | 9,701 |
| Loan loss allowance | 1,923 | | | 1,923 | | 1,923 |
| Other expense | 150 | 1,148 | | 1,298 | | 1,298 |
| **Total costs and expenses** | **194,861** | **177,660** | | **372,521** | **645** | **373,166** |
| **Income before other income, income taxes and non-controlling interests** | **198,617** | **71,048** | | **269,665** | **(93,336)** | **176,329** |
| **Other income (loss):** | | | | | | |
| Income of consolidated VIEs, net | | | | | 116,377 | 116,377 |
| Change in fair value of servicing rights | | (15,868) | | (15,868) | 9,024 | (6,844) |
| Change in fair value of investment securities, net | (148) | 22,657 | | 22,509 | (31,393) | (8,884) |
| Change in fair value of mortgage loans held-for-sale, net | | 43,849 | | 43,849 | | 43,849 |
| Earnings from unconsolidated entities | 4,776 | 4,502 | | 9,278 | (437) | 8,841 |
| Gain on sale of investments, net | 25,063 | | | 25,063 | | 25,063 |
| (Loss) gain on derivative financial instruments, net | (13,259) | 2,089 | | (11,170) | | (11,170) |
| Foreign currency gain (loss), net | 10,478 | (95) | | 10,383 | | 10,383 |
| OTTI | (1,014) | | | (1,014) | | (1,014) |
| Other income | 15 | 1,037 | | 1,052 | | 1,052 |
| **Total other income** | **25,911** | **58,171** | | **84,082** | **93,571** | **177,653** |
| **Income from continuing operations before income taxes** | **224,528** | **129,219** | | **353,747** | **235** | **353,982** |
| Income tax benefit (provision) | 1,722 | (25,580) | | (23,858) | | (23,858) |
| **Income from continuing operations** | **226,250** | **103,639** | | **329,889** | **235** | **330,124** |
| Loss from discontinued operations, net of tax | | | (19,794) | (19,794) | | (19,794) |
| **Net income (loss)** | **226,250** | **103,639** | **(19,794)** | **310,095** | **235** | **310,330** |
| Net income attributable to non-controlling interests | (5,065) | | | (5,065) | (235) | (5,300) |
| **Net income (loss) attributable to Starwood Property Trust, Inc.** | **$ 221,185** | **$ 103,639** | **$ (19,794)** | **$ 305,030** | **$** | **$ 305,030** |

(1) Refer to Note 1 to the table above for the year ended December 31, 2014. During the year ended December 31, 2013, management fees and interest expense of $20.9 million and $9.2 million, respectively, were allocated to the Investing and Servicing Segment. This includes additional management incentive fees of $7.0 million that were retrospectively re-allocated to the Investing and Servicing Segment from the Lending Segment in order to conform to our current allocation method.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**23. Segment and Geographic Data (Continued)**

The table below presents our results of operations for the year ended December 31, 2012 by business segment (amounts in thousands):

| | Lending Segment | Single Family Residential | Total |
|---|---|---|---|
| **Revenues:** | | | |
| Interest income from loans | $ 251,615 | $ | $ 251,615 |
| Interest income from investment securities | 55,419 | | 55,419 |
| Other revenues | 260 | | 260 |
| **Total revenues** | **307,294** | | **307,294** |
| **Costs and expenses:** | | | |
| Management fees | 57,286 | | 57,286 |
| Interest expense | 47,125 | | 47,125 |
| General and administrative | 11,663 | | 11,663 |
| Acquisition and investment pursuit costs | 3,476 | | 3,476 |
| Loan loss allowance | 2,061 | | 2,061 |
| Other expense | 150 | | 150 |
| **Total costs and expenses** | **121,761** | | **121,761** |
| **Income before other income (loss), income taxes and non-controlling interests** | **185,533** | | **185,533** |
| **Other income (loss):** | | | |
| Change in fair value of investment securities, net | 295 | | 295 |
| Change in fair value of mortgage loans held-for-sale | (5,760) | | (5,760) |
| Earnings from unconsolidated entities | 5,086 | | 5,086 |
| Gain on sale of investments, net | 24,836 | | 24,836 |
| Loss on derivative financial instruments, net | (14,157) | | (14,157) |
| Foreign currency gain, net | 15,120 | | 15,120 |
| OTTI | (4,402) | | (4,402) |
| Other income, net | 7 | | 7 |
| **Total other income (loss)** | **21,025** | | **21,025** |
| **Income from continuing operations before income taxes** | **206,558** | | **206,558** |
| Income tax provision | (871) | | (871) |
| **Income from continuing operations** | **205,687** | | **205,687** |
| Loss from discontinued operations, net of tax | | (2,005) | (2,005) |
| **Net income (loss)** | **205,687** | **(2,005)** | **203,682** |
| Net income attributable to non-controlling interests | (2,487) | | (2,487) |
| **Net income (loss) attributable to Starwood Property Trust, Inc.** | **$ 203,200** | **$ (2,005)** | **$ 201,195** |

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Explanation of Responses:

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**23. Segment and Geographic Data (Continued)**

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

| | Lending Segment | Investing and Servicing Segment | Subtotal | Investing and Servicing VIEs | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Cash and cash equivalents | $ 169,149 | $ 85,252 | $ 254,401 | $ 786 | $ 255,187 |
| Restricted cash | 34,941 | 13,763 | 48,704 | | 48,704 |
| Loans held-for-investment, net | 5,746,289 | 32,949 | 5,779,238 | | 5,779,238 |
| Loans held-for-sale | | 391,620 | 391,620 | | 391,620 |
| Loans transferred as secured borrowings | 129,427 | | 129,427 | | 129,427 |
| Investment securities | 764,517 | 753,553 | 1,518,070 | (519,822) | 998,248 |
| Intangible assets servicing rights | | 190,207 | 190,207 | (46,055) | 144,152 |
| Investment in unconsolidated entities | 152,012 | 48,693 | 200,705 | (6,722) | 193,983 |
| Goodwill | | 140,437 | 140,437 | | 140,437 |
| Derivative assets | 23,579 | 3,049 | 26,628 | | 26,628 |
| Accrued interest receivable | 39,188 | 914 | 40,102 | | 40,102 |
| Other assets | 36,068 | 100,902 | 136,970 | (1,464) | 135,506 |
| VIE assets, at fair value | | | | 107,816,065 | 107,816,065 |
| **Total Assets** | **$ 7,095,170** | **$ 1,761,339** | **$ 8,856,509** | **$ 107,242,788** | **$ 116,099,297** |
| **Liabilities and Equity** | | | | | |
| **Liabilities:** | | | | | |
| Accounts payable, accrued expenses and other liabilities | $ 46,635 | $ 97,424 | $ 144,059 | $ 457 | $ 144,516 |
| Related-party payable | 36,346 | 4,405 | 40,751 | | 40,751 |
| Dividends payable | 108,189 | | 108,189 | | 108,189 |
| Derivative liabilities | 3,662 | 1,814 | 5,476 | | 5,476 |
| Secured financing agreements, net | 2,915,426 | 222,363 | 3,137,789 | | 3,137,789 |
| Convertible senior notes, net | 1,418,022 | | 1,418,022 | | 1,418,022 |
| Secured borrowings on transferred loans | 129,441 | | 129,441 | | 129,441 |
| VIE liabilities, at fair value | | | | 107,232,201 | 107,232,201 |
| **Total Liabilities** | **4,657,721** | **326,006** | **4,983,727** | **107,232,658** | **112,216,385** |
| **Equity:** | | | | | |
| **Starwood Property Trust, Inc. Stockholders' Equity:** | | | | | |
| Preferred stock | | | | | |
| Common stock | 2,248 | | 2,248 | | 2,248 |
| Additional paid-in capital | 2,397,099 | 1,438,626 | 3,835,725 | | 3,835,725 |
| Treasury stock | (23,635) | | (23,635) | | (23,635) |
| Accumulated other comprehensive income | 55,781 | 115 | 55,896 | | 55,896 |
| Accumulated deficit | (5,970) | (3,408) | (9,378) | | (9,378) |

| | | | | | |
|---|---|---|---|---|---|
| Total Starwood Property Trust, Inc. Stockholders' Equity | 2,425,523 | 1,435,333 | 3,860,856 | | 3,860,856 |
| Non-controlling interests in consolidated subsidiaries | 11,926 | | 11,926 | 10,130 | 22,056 |
| **Total Equity** | **2,437,449** | **1,435,333** | **3,872,782** | **10,130** | **3,882,912** |
| **Total Liabilities and Equity** | **$ 7,095,170** | **$ 1,761,339** | **$ 8,856,509** | **$ 107,242,788** | **$ 116,099,297** |

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**23. Segment and Geographic Data (Continued)**

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

| | Lending Segment | Investing and Servicing Segment | Single Family Residential | Subtotal | Investing and Servicing VIEs | Total |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| 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 |
| **Total Assets** | **$ 5,714,187** | **$ 1,380,940** | **$ 1,017,688** | **$ 8,112,815** | **$ 102,657,760** | **$ 110,770,575** |
| **Liabilities and Equity** | | | | | | |
| **Liabilities:** | | | | | | |
| 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 |
| **Total Liabilities** | **3,498,498** | **272,316** | **23,056** | **3,793,870** | **102,649,572** | **106,443,442** |
| **Equity:** | | | | | | |
| **Starwood Property Trust, Inc. Stockholders' Equity:** | | | | | | |
| 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 |
| | 132,625 | (207,233) | (10,111) | (84,719) | | (84,719) |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retained earnings (accumulated deficit) | | | | | | | | | | | | |
| Total Starwood Property Trust, Inc. Stockholders' Equity | | 2,179,169 | | 1,108,624 | | 994,735 | | 4,282,528 | | | | 4,282,528 |
| Non-controlling interests in consolidated subsidiaries | | 36,520 | | | | (103) | | 36,417 | | 8,188 | | 44,605 |
| **Total Equity** | | **2,215,689** | | **1,108,624** | | **994,632** | | **4,318,945** | | **8,188** | | 4,327,133 |
| **Total Liabilities and Equity** | **$** | **5,714,187** | **$** | **1,380,940** | **$** | **1,017,688** | **$** | **8,112,815** | **$** | **102,657,760** | **$** | **110,770,575** |

Revenues generated from foreign sources were $111.5 million and $64.8 million for the years ended December 31, 2014 and 2013, respectively, and not material for the year ended December 31,

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**Starwood Property Trust, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**As of December 31, 2014**

**23. Segment and Geographic Data (Continued)**

2012. The majority of our revenues generated from foreign sources are derived from the United Kingdom.

**24. Quarterly Financial Data (Unaudited)**

The following table summarizes our quarterly financial data which, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations (amounts in thousands, except per share data):

| | For the Three-Month Periods Ended | | | |
|---|---|---|---|---|
| | **March 31** | **June 30** | **September 30** | **December 31** |
| **2014:** | | | | |
| Revenues | $ 171,979 | $ 170,750 | $ 181,368 | $ 178,778 |
| Income from continuing operations | 122,432 | 120,382 | 167,390 | 91,885 |
| Net income | 120,881 | 120,382 | 167,390 | 91,885 |
| Net income attributable to Starwood Property Trust, Inc. | 120,601 | 117,868 | 165,044 | 91,508 |
| Basic earnings per share: | | | | |
| Continuing operations | 0.62 | 0.53 | 0.73 | 0.41 |
| Net income | 0.61 | 0.53 | 0.73 | 0.41 |
| Diluted earnings per share: | | | | |
| Continuing operations | 0.61 | 0.52 | 0.73 | 0.40 |
| Net income | 0.60 | 0.52 | 0.73 | 0.40 |
| **2013:** | | | | |
| Revenues | 84,009 | 134,443 | 150,392 | 180,651 |
| Income from continuing operations | 65,712 | 67,569 | 92,944 | 103,899 |
| Net income | 63,424 | 61,511 | 89,246 | 96,149 |
| Net income attributable to Starwood Property Trust, Inc. | 62,243 | 60,454 | 87,360 | 94,973 |
| Basic earnings per share: | | | | |
| Continuing operations | 0.47 | 0.41 | 0.53 | 0.52 |
| Net income | 0.46 | 0.37 | 0.51 | 0.48 |
| Diluted earnings per share: | | | | |
| Continuing operations | 0.47 | 0.41 | 0.53 | 0.52 |
| Net income | 0.46 | 0.37 | 0.51 | 0.48 |

Annual EPS may not equal the sum of each quarter's EPS due to rounding and other computational factors.

**25. Subsequent Events**

Our significant events subsequent to December 31, 2014 were as follows:

Dividend Declaration

On February 25, 2015, our board of directors declared a dividend of $0.48 per share for the first quarter of 2015, which is payable on April 15, 2015 to common stockholders of record as of March 31, 2015.

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**Starwood Property Trust, Inc. and Subsidiaries**

**Schedule IV  Mortgage Loans on Real Estate**

**December 31, 2014**

**(Dollars in thousands)**

| Description/ Location | Prior Liens(1) | Face Amount | Carrying Amount | Interest Rate(2) | Payment Terms(3) | Maturity Date(4) |
|---|---|---|---|---|---|---|
| **Individually Significant First Mortgages:** | | | | | | |
| Hospitality, Kailua-Kona, HI 1 | $ | $ 162,181 | $ 161,293 | L+3.00% | I/O | 7/9/2020 |
| Hospitality, Kailua-Kona, HI 2 | | 49,359 | 49,165 | L+8.36% | I/O | 7/9/2020 |
| Mixed Use, New York, NY | | 118,750 | 117,553 | L+8.00% | I/O | 1/31/2019 |
| Office, London, England | | 109,997 | 107,833 | 5.60% | I/O | 12/18/2016 |
| Office, London, England | | 93,462 | 92,550 | 5.61% | I/O | 10/1/2018 |
| Office, London, England | | 327,117 | 323,915 | 3GBP+3.90% | I/O | 10/1/2018 |
| Office, London, England | | 71,092 | 70,025 | 3GBP+4.50% | I/O | 12/18/2016 |
| Office, New York, NY | | 151,995 | 150,137 | L+3.50% | I/O | 4/9/2018 |
| **Aggregated First Mortgages:** | | | | | | |
| Hospitality, International, Floating (1 mortgage) | N/A | N/A | 33,596 | 3EU+7.00% | N/A | 2016 |
| Hospitality, Mid Atlantic, Fixed (1 mortgage) | N/A | N/A | 4,484 | 5.63% | N/A | 2015 |
| Hospitality, Mid Atlantic, Floating (2 mortgages) | N/A | N/A | 45,974 | L+3.25% to 9.42% | N/A | 2017 |
| Hospitality, North East, Floating (8 mortgages) | N/A | N/A | 77,993 | L+2.75% to 9.75% | N/A | 2016 - 2018 |
| Hospitality, South East, Fixed (3 mortgages) | N/A | N/A | 77,321 | 4.14% to 12.69% | N/A | 2016 - 2017 |
| Hospitality, South East, Floating (4 mortgages) | N/A | N/A | 99,873 | L+2.75% to 9.33% | N/A | 2019 |
| Hospitality, West, Floating (4 mortgages) | N/A | N/A | 87,901 | L+2.50% to 10.17% | N/A | 2018 - 2019 |
| Industrial, South East, Fixed (7 mortgages) | N/A | N/A | 33,915 | 7.80% to 9.83% | N/A | 2017 - 2024 |
| Industrial, West, Fixed (1 mortgage) | N/A | N/A | 681 | 9.75% | N/A | 2017 |
| Mixed Use, North East, Floating (2 mortgages) | N/A | N/A | 71,195 | L+2.00% to 3.50% | N/A | 2017 - 2020 |
| Mixed Use, South West, Floating (1 mortgage) | N/A | N/A | 84,519 | L+2.25% | N/A | 2020 |
| Mixed Use, West, Floating (2 mortgages) | N/A | N/A | 31,573 | L+1.00% to 7.50% | N/A | 2017 - 2018 |
| Multi-family, International, Fixed (1 mortgage) | N/A | N/A | 23,115 | 8.55% | N/A | 2018 |
| Multi-family, International, Floating (1 mortgage) | N/A | N/A | 3,872 | GBP+7.65% | N/A | 2017 |
| Multi-family, Mid Atlantic, Floating (1 mortgage) | N/A | N/A | 36,444 | L+2.00% | N/A | 2019 |
| Multi-family, North East, Floating (17 mortgages) | N/A | N/A | 148,422 | L+4.34% to 8.75% | N/A | 2018 - 2019 |
| Multi-family, West, Floating (24 mortgages) | N/A | N/A | 488,288 | L+1.00% to 10.13% | N/A | 2016 - 2020 |
| Office, Mid Atlantic, Fixed (1 mortgage) | N/A | N/A | 49,435 | 5.25% | N/A | 2017 |
| Office, Mid Atlantic, Floating (3 mortgages) | N/A | N/A | 151,321 | L+2.25% to 5.50% | N/A | 2017 - 2019 |
| Office, Midwest, Floating (6 mortgages) | N/A | N/A | 154,606 | L+2.00% to 10.58% | N/A | 2017 - 2019 |
| Office, North East, Fixed (2 mortgages) | N/A | N/A | 49,293 | 5.10% to 5.24% | N/A | 2020 |
| Office, North East, Floating (8 mortgages) | N/A | N/A | 146,342 | L+2.25% to 11.38% | N/A | 2016 - 2019 |
| Office, South East, Fixed (2 mortgages) | N/A | N/A | 118,490 | 5.00% to 12.00% | N/A | 2024 |
| Office, South West, Floating (6 mortgages) | N/A | N/A | 73,247 | L+5.40% to 5.50% | N/A | 2017 |
| Office, West, Floating (9 mortgages) | N/A | N/A | 159,070 | L+2.25% to 11.50% | N/A | 2017 - 2019 |
| Other, International, Fixed (1 mortgage) | N/A | N/A | 3,228 | 5.02% | N/A | 2016 |
| Other, Midwest, Floating (2 mortgages) | N/A | N/A | 43,708 | L+8.00% | N/A | 2016 |
| Other, North East, Floating (2 mortgages) | N/A | N/A | 77,452 | L+3.25% to 8.83% | N/A | 2019 |
| Other, South East, Fixed (1 mortgage) | N/A | N/A | 9,339 | 10.00% | N/A | 2017 |
| Other, South East, Floating (2 mortgages) | N/A | N/A | 28,970 | L+8.50% | N/A | 2018 |
| Other, Various, Fixed (1 mortgage) | N/A | N/A | 42,140 | 10.00% | N/A | 2025 |
| Residential, West, Floating (1 mortgage) | N/A | N/A | 63,217 | L+5.25% | N/A | 2018 |
| Retail, International, Floating (1 mortgage) | N/A | N/A | 54,246 | L+8.00% | N/A | 2016 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Retail, Midwest, Fixed (4 mortgages) | N/A | N/A | 3,345 | 10.00% to 10.25% | N/A | 2017 |
| Retail, North East, Fixed (3 mortgages) | N/A | N/A | 21,866 | 5.74% to 10.00% | N/A | 2015 - 2017 |
| Retail, North East, Floating (8 mortgages) | N/A | N/A | 63,752 | L+2.25% to 8.05% | N/A | 2017 |
| Retail, South East, Fixed (4 mortgages) | N/A | N/A | 9,992 | 5.93% to 10.00% | N/A | 2016 - 2019 |
| Retail, South West, Fixed (2 mortgages) | N/A | N/A | 2,307 | 6.03% | N/A | 2018 |
| Retail, South West, Floating (5 mortgages) | N/A | N/A | 28,051 | L+1.25% to 5.75% | N/A | 2015 - 2017 |
| Retail, Various, Floating (2 mortgages) | N/A | N/A | 22,758 | L+2.25% to 9.25% | N/A | 2016 |
| Retail, West, Fixed (6 mortgages) | N/A | N/A | 9,210 | 5.82% to 7.99% | N/A | 2017 - 2023 |
| Investing and Servicing Segment Loans Held-for-Sale, Various, Fixed | N/A | N/A | 391,620 | 4.23% to 4.78% | N/A | 2019 - 2024 |
| Investing and Servicing Segment Loans Held-for-Investment, Various, Fixed | N/A | N/A | 30,864 | 6.35% to 7.07% | N/A | 2011 - 2020 |
| Investing and Servicing Segment Loans Held-for-Investment, Various, Floating | N/A | N/A | 2,085 | WSJ Prime+1.00% | N/A | 2033 |

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| Description/ Location | Prior Liens(1) | Face Amount | Carrying Amount | Interest Rate(2) | Payment Terms(3) | Maturity Date(4) |
|---|---|---|---|---|---|---|
| **Individually Significant Subordinated and Mezzanine Loans:** | | | | | | |
| Mixed Use, New York, NY | 157,500 | 81,187 | 77,939 | L+8.00% | I/O | 1/31/2019 |
| Office, New York, NY | | 140,000 | 139,213 | L+10.90% | I/O | 4/9/2018 |
| **Aggregated Subordinated and Mezzanine Loans:** | | | | | | |
| Hospitality, International, Floating (1 mortgage) | N/A | N/A | 46,246 | 3GBP+11.65% | N/A | 2018 |
| Hospitality, North East, Floating (1 mortgage) | N/A | N/A | 9,859 | L+11.17% | N/A | 2018 |
| Hospitality, South East, Floating (4 mortgages) | N/A | N/A | 148,368 | L+4.50% to 11.15% | N/A | 2016 - 2019 |
| Hospitality, Various, Fixed (2 mortgages) | N/A | N/A | 114,606 | 10.00% to 11.26% | N/A | 2016 - 2017 |
| Hospitality, Various, Floating (5 mortgages) | N/A | N/A | 205,654 | L+3.00% to 11.83% | N/A | 2016 - 2018 |
| Hospitality, West, Fixed (5 mortgages) | N/A | N/A | 126,306 | 10.00% to 17.45% | N/A | 2016 - 2017 |
| Hospitality, West, Floating (6 mortgages) | N/A | N/A | 59,462 | L+7.75% to 10.96% | N/A | 2017 - 2018 |
| Industrial, South East, Fixed (8 mortgages) | N/A | N/A | 60,553 | 8.18% | N/A | 2024 |
| Mixed Use, North East, Floating (4 mortgages) | N/A | N/A | 103,125 | L+9.69% to 11.25% | N/A | 2017 - 2020 |
| Mixed Use, South West, Floating (1 mortgage) | N/A | N/A | 21,294 | L+9.75% | N/A | 2020 |
| Mixed Use, West, Floating (6 mortgages) | N/A | N/A | 66,287 | L+7.50% to 9.31% | N/A | 2018 |
| Multi-family, Mid Atlantic, Fixed (1 mortgage) | N/A | N/A | 2,974 | 10.50% | N/A | 2024 |
| Multi-family, Mid Atlantic, Floating (1 mortgage) | N/A | N/A | 9,111 | L+7.75% | N/A | 2019 |
| Multi-family, Midwest, Fixed (1 mortgage) | N/A | N/A | 1,809 | 7.62% | N/A | 2016 |
| Multi-family, North East, Fixed (1 mortgage) | N/A | N/A | 7,591 | 13.00% | N/A | 2016 |
| Multi-family, North East, Floating (2 mortgages) | N/A | N/A | 51,753 | L+8.00% to 11.00% | N/A | 2016 - 2019 |
| Multi-family, South East, Fixed (1 mortgage) | N/A | N/A | 2,921 | 5.47% | N/A | 2020 |
| Multi-family, South West, Fixed (1 mortgage) | N/A | N/A | 4,228 | 8.51% | N/A | 2016 |
| Multi-family, West, Fixed (1 mortgage) | N/A | N/A | 3,719 | 7.83% | N/A | 2016 |
| Multi-family, West, Floating (1 mortgage) | N/A | N/A | 7,870 | L+9.25% | N/A | 2019 |
| Office, Mid Atlantic, Floating (1 mortgage) | N/A | N/A | 29,460 | L+13.85% | N/A | 2019 |
| Office, Midwest, Floating (3 mortgages) | N/A | N/A | 52,705 | L+8.25% to 9.00% | N/A | 2017 - 2019 |
| Office, North East, Fixed (6 mortgages) | N/A | N/A | 114,979 | 6.79% to 9.00% | N/A | 2016 - 2023 |
| Office, North East, Floating (5 mortgages) | N/A | N/A | 132,536 | L+8.00% to 10.67% | N/A | 2017 - 2019 |
| Office, South East, Fixed (2 mortgages) | N/A | N/A | 10,196 | 8.25% to 12.00% | N/A | 2016 - 2020 |
| Office, South West, Fixed (4 mortgages) | N/A | N/A | 142,526 | 5.84% to 6.52% | N/A | 2017 |
| Office, West, Floating (9 mortgages) | N/A | N/A | 119,396 | L+7.34% to 10.42% | N/A | 2017 - 2019 |
| Other, International, Fixed (1 mortgage) | N/A | N/A | 7,118 | 15.12% | N/A | 2016 |
| Other, South East, Fixed (1 mortgage) | N/A | N/A | 4,664 | 12.02% | N/A | 2021 |
| Other, West, Floating (2 mortgages) | N/A | N/A | 52,260 | L+6.10% to 10.08% | N/A | 2018 |
| Retail, International, Fixed (1 mortgage) | N/A | N/A | 26,948 | 12.00% | N/A | 2017 |
| Retail, Midwest, Fixed (3 mortgages) | N/A | N/A | 89,421 | 6.97% to 7.16% | N/A | 2017 - 2024 |
| Retail, West, Floating (1 mortgage) | N/A | N/A | 27,926 | L+8.85% | N/A | 2017 |
| Loan Loss Allowance | | | (6,031) | | | |
| Prepaid Loan Costs, Net | | | (6,298) | | | |
| | | | **$ 6,300,285** | | | |

Notes to Schedule IV:

(1)

Represents third-party priority liens. Third party portions of pari-passu participations are not considered prior liens. Additionally, excludes the outstanding debt on third party joint ventures of underlying borrowers.

(2)
L = one month LIBOR rate, GBP = one month GBP LIBOR rate, 3GBP = three month GBP LIBOR rate, 3EU = three month Euro LIBOR rate.

(3)
I/O = interest only until final maturity.

(4)
Based on management's judgment of extension options being exercised.

For the activity within our loan portfolio during the years ended December 31, 2014, 2013 and 2012, refer to the loan activity table in Note 5 to our consolidated financial statements included herein.

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. 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 our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosures.

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

*Management Report on Internal Control Over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2014, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in *Internal Control Integrated Framework,*issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, our management has concluded that our internal control over financial reporting as of December 31, 2014 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report included in this Form 10-K, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2014.

*Changes to 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 December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None noted.

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## PART III

### Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this Item with respect to members of our board of directors and with respect to our Audit Committee will be contained in the Proxy Statement for the 2015 Annual Meeting of Shareholders ("2015 Proxy Statement") under the captions "Election of Directors" and "Board and Committee Meetings Audit Committee" and in the chart disclosing Audit Committee membership and is incorporated herein by this reference. Information required by this Item with respect to our executive officers will be contained in the 2015 Proxy Statement under the caption "Executive Officers," and is incorporated herein by this reference. Information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 will be contained in the 2015 Proxy Statement under the caption "Compliance with Section 16(a) of the Securities Exchange Act of 1934," and is incorporated herein by this reference.

*Code of Ethics*

We have adopted a Code of Business Conduct and Ethics for all directors, officers and employees of the Company which is available on our website at http://ir.starwoodpropertytrust.com/govdocs.aspx?iid=4235133. In addition, stockholders may request a free copy of the Code of Business Conduct and Ethics from:

Starwood Property Trust, Inc.
Attention: Investor Relations
591 West Putnam Avenue
Greenwich, CT 06830
(202) 422-7700

We have also adopted a Code of Ethics for our Principal Executive Officer and Senior Financial Officers setting forth a code of ethics applicable to our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer, which is available on our website at http://ir.starwoodpropertytrust.com/govdocs.aspx?iid=4235133. Stockholders may request a free copy of the Code of Ethics for Principal Executive Officer and Senior Financial Officers from the address and phone number set forth above.

*Corporate Governance Guidelines*

We have also adopted Corporate Governance Guidelines, which are available on our website at http://ir.starwoodpropertytrust.com/govdocs.aspx?iid=4235133. Stockholders may request a free copy of the Corporate Governance Guidelines from the address and phone number set forth above.

### Item 11. Executive Compensation.

Information required by this Item will be contained in the 2015 Proxy Statement under the captions "Executive Compensation" and "Compensation of Directors" and is incorporated herein by this reference, provided that the Compensation Committee Report shall not be deemed to be "filed" with this Annual Report on Form 10-K.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this Item will be contained in the 2015 Proxy Statement under the captions "Security Ownership of Certain Beneficial Owners, Directors and Management" and "Equity Compensation Plan Information" and is incorporated herein by this reference.

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## Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item will be contained in the 2015 Proxy Statement under the captions "Certain Relationships and Related Transactions" and "Corporate Governance  Determination of Director Independence" and is incorporated herein by this reference.

## Item 14. Principal Accountant Fees and Services.

Information required by this Item will be contained in the 2015 Proxy Statement under the captions "Independent Registered Public Accounting Firm" and "Pre-Approval Policies for Services of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

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## PART IV

### Item 15. Exhibits and Financial Statement Schedules.

(a)

Documents filed as part of this report:

(1)

Financial Statements:

See Item 8 "Financial Statements and Supplementary Data", filed herewith, for a list of financial statements.

(2)

Financial Statement Schedules:
Included within Item 8:

Schedule IV Mortgage Loans on Real Estate

(3)

Exhibits:

| Exhibit No. | Description |
|---|---|
| 2.1 | Unit Purchase Agreement, dated January 23, 2013, by and among Starwood Property Trust, Inc., LNR Property LLC, Aozora Investments LLC, CBR I LLC, iStar Marlin LLC, Opps VIIb LProp, L.P. and VNO LNR Holdco LLC (Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed January 24, 2013) |
| 2.2 | Separation and Distribution Agreement, dated January 16, 2014, by and between Starwood Property Trust, Inc. and Starwood Waypoint Residential Trust (Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed January 21, 2014) |
| 3.1 | Articles of Amendment and Restatement of Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 3.2 | Amended and Restated Bylaws of Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed March 17, 2014) |
| 4.1 | Form of Indenture for Senior Debt Securities between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-3 filed February 11, 2013) |
| 4.2 | First Supplemental Indenture, dated as of February 15, 2013, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed February 15, 2013) |
| 4.3 | Form of 4.55% Convertible Senior Notes due 2018 (Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed February 15, 2013) |
| 4.4 | Second Supplemental Indenture, dated as of July 3, 2013, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed July 3, 2013) |
| 4.5 | Form of 4.00% Convertible Senior Notes due 2019 (Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed July 3, 2013) |
| 4.6 | Third Supplemental Indenture, dated as of October 8, 2014, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed October 8, 2014) |
| 4.7 | Form of 3.75% Convertible Senior Notes due 2017 (Incorporated by reference to Exhibit 4.3 of the Company's Current Report |

on Form 8-K filed October 8, 2014)

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| Exhibit No. | Description |
|---|---|
| 10.1 | Registration Rights Agreement, dated August 17, 2009, among Starwood Property Trust, Inc., SPT Investment, LLC and SPT Management, LLC (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 10.2 | Management Agreement, dated August 17, 2009, among SPT Management, LLC and Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 10.3 | Amendment No. 1, dated May 7, 2012, to Management Agreement, dated August 17, 2009, as amended, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 8, 2012) |
| 10.4 | Amendment No. 2, dated December 4, 2014, to Management Agreement, dated August 17, 2009, as amended, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed December 5, 2014) |
| 10.5 | Co-Investment and Allocation Agreement, dated August 17, 2009, among Starwood Property Trust, Inc., SPT Management, LLC and Starwood Capital Group Global, L.P. (Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 10.6 | Starwood Property Trust, Inc. Non-Executive Director Stock Plan (Incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 10.7 | Form of Restricted Stock Award Agreement for Independent Directors (Incorporated by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 10.8 | Starwood Property Trust, Inc. Manager Equity Plan (Incorporated by reference to Exhibit 10.7 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 10.9 | Restricted Stock Unit Award Agreement, dated August 17, 2009, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 10.10 | Starwood Property Trust, Inc. Equity Plan (Incorporated by reference to Exhibit 10.9 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009) |
| 10.11 | Master Repurchase and Securities Contract, dated March 31, 2010, between Starwood Property Mortgage Sub-1, L.L.C. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q filed May 10, 2010) |
| 10.12 | Master Repurchase and Securities Contract, dated August 6, 2010, between Starwood Property Mortgage Sub-2, L.L.C. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 12, 2010) |
| 10.13 | Master Repurchase Agreement, dated December 2, 2010, between Starwood Property Mortgage Sub-3, L.L.C. and Goldman Sachs Mortgage Company (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed December 6, 2010) |

| Exhibit No. | Description |
|---|---|
| 10.14 | Credit Agreement, dated December 3, 2010, among SPT Real Estate Sub II, LLC, Starwood Property Trust, Inc. and certain subsidiaries of Starwood Property Trust, Inc., as guarantors, and Bank of America, N.A., as administrative agent (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed August 6, 2014) |
| 10.15 | Amendment No. 2, dated November 3, 2011, to Amended and Restated Master Repurchase and Securities Contract, Amended and Restated Guarantee and Security Agreement and Amended and Restated Fee and Pricing Letter between and among Starwood Property Mortgage Sub-2, L.L.C., Starwood Property Mortgage Sub-2A, L.L.C., Starwood Property Trust, Inc. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K filed February 29, 2012) |
| 10.16 | First Amendment to the Starwood Property Trust, Inc. Manager Equity Plan (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 6, 2013) |
| 10.17 | First Amendment to the Starwood Property Trust, Inc. Equity Plan (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed May 6, 2013) |
| 10.18 | Second Amended and Restated Master Repurchase and Securities Contract, dated January 27, 2014, between and among Starwood Property Mortgage Sub 2, L.L.C., Starwood Property Mortgage Sub-2-A, L.L.C. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K filed February 26, 2014) |
| 10.19 | Third Amended and Restated Master Repurchase and Securities Contract, dated October 23, 2014, between and among Starwood Property Mortgage Sub 2, L.L.C., Starwood Property Mortgage Sub-2-A, L.L.C. and Wells Fargo Bank, National Association |
| 21.1 | Subsidiaries of the Registrant |
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification pursuant to Section 302 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 |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 25, 2015

By: /s/ BARRY S. STERNLICHT

Barry S. Sternlicht
*Chief Executive Officer and Chairman of the Board of Directors*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | |
|---|---|---|
| Date: February 25, 2015 | By: | /s/ BARRY S. STERNLICHT<br>Barry S. Sternlicht<br>Chief Executive Officer and Chairman of the Board of Directors<br>(Principal Executive Officer) |
| Date: February 25, 2015 | By: | /s/ RINA PANIRY<br>Rina Paniry<br>Chief Financial Officer, Treasurer and Principal Financial Officer |
| Date: February 25, 2015 | By: | /s/ JEFFREY G. DISHNER<br>Jeffrey G. Dishner<br>Director |
| Date: February 25, 2015 | By: | /s/ RICHARD D. BRONSON<br>Richard D. Bronson<br>Director |
| Date: February 25, 2015 | By: | /s/ CAMILLE J. DOUGLAS<br>Camille J. Douglas<br>Director |

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| | | |
|---|---|---|
| Date: February 25, 2015 | By: | /s/ STRAUSS ZELNICK |
| | | Strauss Zelnick<br>Director |
| Date: February 25, 2015 | By: | /s/ SOLOMON J. KUMIN |
| | | Solomon J. Kumin<br>Director |

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