STARWOOD PROPERTY TRUST, INC.
Form 10-Q
August 08, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

Commission file number 001-34436

---

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Maryland | 27-0247747 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 591 West Putnam Avenue Greenwich, Connecticut | 06830 |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's telephone number, including area code:

(203) 422-7700

---

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

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

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| (Do not check if a smaller reporting company) | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the issuer’s common stock, $0.01 par value, outstanding as of August 2, 2018 was 267,071,096.

---

Table of Contents

Special Note Regarding Forward-Looking Statements

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

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

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2017, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and this Quarterly Report on Form 10-Q, including those set forth under the captions "Risk Factors" and "Business";

- defaults by borrowers in paying debt service on outstanding indebtedness;

- impairment in the value of real estate property securing our loans or in which we invest;

- availability of mortgage origination and acquisition opportunities acceptable to us;

- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;

- national and local economic and business conditions;

- general and local commercial and residential real estate property conditions;

- changes in federal government policies;

· changes in federal, state and local governmental laws and regulations;

· increased competition from entities engaged in mortgage lending and securities investing activities;

· changes in interest rates; and

· the availability of, and costs associated with, sources of liquidity.

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

Table of Contents

TABLE OF CONTENTS


| | | Page |
|---|---|---|
| Part I | Financial Information | |
| Item 1. | Financial Statements | 4 |
| | Condensed Consolidated Balance Sheets | 4 |
| | Condensed Consolidated Statements of Operations | 5 |
| | Condensed Consolidated Statements of Comprehensive Income | 6 |
| | Condensed Consolidated Statements of Equity | 7 |
| | Condensed Consolidated Statements of Cash Flows | 8 |
| | Notes to Condensed Consolidated Financial Statements | 10 |
| | Note 1 Business and Organization | 10 |
| | Note 2 Summary of Significant Accounting Policies | 11 |
| | Note 3 Acquisitions and Divestitures | 17 |
| | Note 4 Loans | 19 |
| | Note 5 Investment Securities | 24 |
| | Note 6 Properties | 28 |
| | Note 7 Investment in Unconsolidated Entities | 30 |
| | Note 8 Goodwill and Intangibles | 31 |
| | Note 9 Secured Financing Agreements | 33 |
| | Note 10 Unsecured Senior Notes | 36 |
| | Note 11 Loan Securitization/Sale Activities | 38 |
| | Note 12 Derivatives and Hedging Activity | 39 |
| | Note 13 Offsetting Assets and Liabilities | 41 |
| | Note 14 Variable Interest Entities | 41 |
| | Note 15 Related-Party Transactions | 43 |
| | Note 16 Stockholders’ Equity and Non-Controlling Interests | 45 |
| | Note 17 Earnings per Share | 47 |
| | Note 18 Accumulated Other Comprehensive Income | 48 |
| | Note 19 Fair Value | 49 |
| | Note 20 Income Taxes | 54 |
| | Note 21 Commitments and Contingencies | 54 |
| | Note 22 Segment Data | 54 |
| | Note 23 Subsequent Events | 61 |
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 62 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 92 |
| Item 4. | Controls and Procedures | 95 |
| Part II | Other Information | |
| Item 1. | Legal Proceedings | 96 |
| Item 1A. | Risk Factors | 96 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 96 |
| Item 3. | Defaults Upon Senior Securities | 96 |
| Item 4. | Mine Safety Disclosures | 96 |
| Item 5. | Other Information | 96 |

| Item 6. | Exhibits | 97 |
|---|---|---|

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share data)

| | As of June 30, 2018 | As of December 31, 2017 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 235,419 | $ 369,448 |
| Restricted cash | 89,794 | 48,825 |
| Loans held-for-investment, net | 6,928,176 | 6,562,495 |
| Loans held-for-sale, at fair value | 1,092,769 | 745,743 |
| Loans transferred as secured borrowings | 74,217 | 74,403 |
| Investment securities ($301,259 and $284,735 held at fair value) | 441,935 | 718,203 |
| Properties, net | 2,936,684 | 2,647,481 |
| Intangible assets ($22,742 and $30,759 held at fair value) | 166,686 | 183,092 |
| Investment in unconsolidated entities | 166,716 | 185,503 |
| Goodwill | 140,437 | 140,437 |
| Derivative assets | 50,815 | 33,898 |
| Accrued interest receivable | 54,660 | 47,747 |
| Other assets | 177,578 | 138,140 |
| Variable interest entity (“VIE”) assets, at fair value | 48,044,873 | 51,045,874 |
| Total Assets | $ 60,600,759 | $ 62,941,289 |
| Liabilities and Equity | | |
| Liabilities: | | |
| Accounts payable, accrued expenses and other liabilities | $ 189,673 | $ 185,117 |
| Related-party payable | 25,324 | 42,369 |
| Dividends payable | 126,857 | 125,916 |
| Derivative liabilities | 36,135 | 36,200 |
| Secured financing agreements, net | 6,216,617 | 5,773,056 |
| Unsecured senior notes, net | 2,255,976 | 2,125,235 |
| Secured borrowings on transferred loans, net | 74,058 | 74,185 |
| VIE liabilities, at fair value | 46,976,428 | 50,000,010 |
| Total Liabilities | 55,901,068 | 58,362,088 |

| | | |
|---|---|---|
| Commitments and contingencies (Note 21) | | |
| Equity: | | |
| Starwood Property Trust, Inc. Stockholders' Equity: | | |
| Preferred stock, $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding | — | — |
| Common stock, $0.01 per share, 500,000,000 shares authorized, 267,541,825 issued and 262,361,685 outstanding as of June 30, 2018 and 265,983,309 issued and 261,376,424 outstanding as of December 31, 2017 | 2,675 | 2,660 |
| Additional paid-in capital | 4,738,969 | 4,715,246 |
| Treasury stock (5,180,140 shares and 4,606,885 shares) | (104,194) | (92,104) |
| Accumulated other comprehensive income | 68,134 | 69,924 |
| Accumulated deficit | (260,762) | (217,312) |
| Total Starwood Property Trust, Inc. Stockholders' Equity | 4,444,822 | 4,478,414 |
| Non-controlling interests in consolidated subsidiaries | 254,869 | 100,787 |
| Total Equity | 4,699,691 | 4,579,201 |
| Total Liabilities and Equity | $ 60,600,759 | $ 62,941,289 |

See notes to condensed consolidated financial statements.

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Interest income from loans | $ 151,704 | $ 120,612 | $ 289,324 | $ 232,495 |
| Interest income from investment securities | 10,790 | 12,370 | 26,059 | 27,594 |
| Servicing fees | 17,315 | 18,628 | 43,382 | 32,730 |
| Rental income | 88,891 | 58,966 | 170,001 | 116,008 |
| Other revenues | 856 | 993 | 1,377 | 1,462 |
| Total revenues | 269,556 | 211,569 | 530,143 | 410,289 |
| Costs and expenses: | | | | |
| Management fees | 27,494 | 24,633 | 58,136 | 49,017 |
| Interest expense | 91,592 | 71,317 | 178,775 | 137,177 |
| General and administrative | 35,528 | 32,520 | 67,670 | 62,949 |
| Acquisition and investment pursuit costs | 1,561 | 537 | 1,938 | 1,208 |
| Costs of rental operations | 32,897 | 23,024 | 62,590 | 43,902 |
| Depreciation and amortization | 37,150 | 22,032 | 68,894 | 44,260 |
| Loan loss allowance, net | 25,259 | (2,694) | 26,797 | (2,999) |
| Other expense | 497 | 142 | 601 | 900 |
| Total costs and expenses | 251,978 | 171,511 | 465,401 | 336,414 |
| Income before other income (loss), income taxes and non-controlling interests | 17,578 | 40,058 | 64,742 | 73,875 |
| Other income (loss): | | | | |
| Change in net assets related to consolidated VIEs | 43,946 | 77,761 | 96,599 | 146,931 |
| Change in fair value of servicing rights | (2,203) | (8,001) | (8,017) | (16,434) |
| Change in fair value of investment securities, net | 7,702 | (2,493) | 7,553 | (3,664) |
| Change in fair value of mortgage loans held-for-sale, net | 14,833 | 15,406 | 22,633 | 25,999 |
| Earnings from unconsolidated entities | 5,470 | 29,465 | 4,008 | 32,452 |
| Gain on sale of investments and other assets, net | 13,437 | 5,183 | 24,097 | 5,127 |
| Gain (loss) on derivative financial instruments, net | 32,622 | (37,586) | 15,763 | (41,935) |
| Foreign currency (loss) gain, net | (13,264) | 12,910 | 285 | 17,774 |
| Total other-than-temporary impairment (“OTTI”) | — | (109) | — | (109) |
| Noncredit portion of OTTI recognized in other comprehensive income | — | — | — | — |
| Net impairment losses recognized in earnings | — | (109) | — | (109) |
| Loss on extinguishment of debt | (186) | — | (186) | (5,916) |

| | | | | |
|---|---|---|---|---|
| Other income, net | 498 | 91 | 606 | 456 |
| Total other income | 102,855 | 92,627 | 163,341 | 160,681 |
| Income before income taxes | 120,433 | 132,685 | 228,083 | 234,556 |
| Income tax provision | (3,343) | (9,452) | (6,199) | (8,469) |
| Net income | 117,090 | 123,233 | 221,884 | 226,087 |
| Net income attributable to non-controlling interests | (7,860) | (5,853) | (12,722) | (6,349) |
| Net income attributable to Starwood Property Trust, Inc. | $ 109,230 | $ 117,380 | $ 209,162 | $ 219,738 |
| Earnings per share data attributable to Starwood Property Trust, Inc.: | | | | |
| Basic | $ 0.41 | $ 0.45 | $ 0.80 | $ 0.84 |
| Diluted | $ 0.40 | $ 0.44 | $ 0.77 | $ 0.83 |
| Dividends declared per common share | $ 0.48 | $ 0.48 | $ 0.96 | $ 0.96 |

See notes to condensed consolidated financial statements.

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $ 117,090 | $ 123,233 | $ 221,884 | $ 226,087 |
| Other comprehensive income (net change by component): | | | | |
| Cash flow hedges | (23) | 2 | (18) | 78 |
| Available-for-sale securities | 1,023 | 4,907 | 2,186 | 6,753 |
| Foreign currency translation | (8,176) | 11,005 | (3,958) | 13,012 |
| Other comprehensive income | (7,176) | 15,914 | (1,790) | 19,843 |
| Comprehensive income | 109,914 | 139,147 | 220,094 | 245,930 |
| Less: Comprehensive income attributable to non-controlling interests | (7,860) | (5,853) | (12,722) | (6,349) |
| Comprehensive income attributable to Starwood Property Trust, Inc. | $ 102,054 | $ 133,294 | $ 207,372 | $ 239,581 |

See notes to condensed consolidated financial statements.

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

| Common stock | | Additional | Treasury Stock | | | Accumulated Other | Total Starwood Property Trust, Inc. | Non- |
|---|---|---|---|---|---|---|---|---|
| Shares | Par Value | Paid-in Capital | Shares | Amount | Accumulated Deficit | Comprehensive Income | Stockholders' Equity | Controlling Interests |
| 265,983,309 | $ 2,660 | $ 4,715,246 | 4,606,885 | $ (92,104) | $ (217,312) | $ 69,924 | $ 4,478,414 | $ 100,787 |
| 14,982 | — | 314 | — | — | — | — | 314 | — |
| — | — | (17) | — | — | — | — | (17) | — |
| — | — | — | 573,255 | (12,090) | — | — | (12,090) | — |
| 773,822 | 8 | 10,597 | — | — | — | — | 10,605 | — |
| 769,712 | 7 | 15,791 | — | — | — | — | 15,798 | — |
| — | — | — | — | — | 209,162 | — | 209,162 | 12,722 |
| — | — | — | — | | (252,612) | — | (252,612) | — |
| — | — | — | — | — | — | (1,790) | (1,790) | — |
| — | — | — | — | — | — | — | — | 976 |
| — | — | — | — | — | — | — | — | 375,292 |
| — | — | (2,962) | — | — | — | — | (2,962) | (234,589 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| — | — | — | — | — | — | — | — | (319) |
| 267,541,825 | $ 2,675 | $ 4,738,969 | 5,180,140 | $ (104,194) | $ (260,762) | $ 68,134 | $ 4,444,822 | $ 254,869 |
| 263,893,806 | $ 2,639 | $ 4,691,180 | 4,606,885 | $ (92,104) | $ (115,579) | $ 36,138 | $ 4,522,274 | $ 37,799 |
| 16,407 | — | 369 | — | — | — | — | 369 | — |
| — | — | (12) | — | — | — | — | (12) | — |
| — | — | 3,755 | — | — | — | — | 3,755 | — |
| — | — | (18,105) | — | — | | | (18,105) | |
| 709,462 | 7 | 8,072 | — | — | — | — | 8,079 | — |
| 541,494 | 6 | 12,238 | — | — | — | — | 12,244 | — |
| — | — | — | — | — | 219,738 | — | 219,738 | 6,349 |
| — | — | — | — | — | (251,022) | — | (251,022) | — |
| — | — | — | — | — | — | 19,843 | 19,843 | — |
| — | — | — | — | — | — | — | — | 2,737 |
| — | — | — | — | — | — | — | — | (3,599) |
| 265,161,169 | $ 2,652 | $ 4,697,497 | 4,606,885 | $ (92,104) | $ (146,863) | $ 55,981 | $ 4,517,163 | $ 43,286 |

See notes to condensed consolidated financial statements.

7

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash Flows from Operating Activities: | | |
| Net income | $ 221,884 | $ 226,087 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Amortization of deferred financing costs, premiums and discounts on secured financing agreements and secured borrowings on transferred loans | 11,498 | 9,324 |
| Amortization of discounts and deferred financing costs on senior notes | 6,835 | 11,777 |
| Accretion of net discount on investment securities | (9,583) | (8,007) |
| Accretion of net deferred loan fees and discounts | (20,961) | (16,194) |
| Share-based compensation | 10,605 | 8,079 |
| Share-based component of incentive fees | 15,798 | 12,244 |
| Change in fair value of investment securities | (7,553) | 3,664 |
| Change in fair value of consolidated VIEs | (18,884) | (42,593) |
| Change in fair value of servicing rights | 8,017 | 16,434 |
| Change in fair value of loans held-for-sale | (22,633) | (25,999) |
| Change in fair value of derivatives | (13,432) | 39,223 |
| Foreign currency gain, net | (369) | (17,590) |
| Gain on sale of investments and other assets | (24,097) | (5,127) |
| Impairment charges on properties and related intangibles | 412 | 867 |
| Loan loss allowance, net | 26,797 | (2,999) |
| Depreciation and amortization | 67,857 | 42,701 |
| Earnings from unconsolidated entities | (4,008) | (32,452) |
| Distributions of earnings from unconsolidated entities | 4,569 | 4,284 |
| Loss on extinguishment of debt | 186 | 5,916 |
| Origination and purchase of loans held-for-sale, net of principal collections | (814,154) | (991,343) |
| Proceeds from sale of loans held-for-sale | 481,765 | 470,478 |
| Changes in operating assets and liabilities: | | |
| Related-party payable, net | (17,045) | (15,040) |
| Accrued and capitalized interest receivable, less purchased interest | (36,218) | (39,143) |
| Other assets | (15,038) | (2,391) |
| Accounts payable, accrued expenses and other liabilities | 85 | 2,763 |
| Net cash used in operating activities | (147,667) | (345,037) |
| Cash Flows from Investing Activities: | | |
| Origination and purchase of loans held-for-investment | (2,404,133) | (1,228,952) |
| Proceeds from principal collections on loans | 1,840,897 | 869,297 |
| Proceeds from loans sold | 194,720 | 37,079 |

| | | |
|---|---|---|
| Purchase of investment securities | (20,465) | (7,433) |
| Proceeds from sales of investment securities | 807 | 11,134 |
| Proceeds from principal collections on investment securities | 321,687 | 86,259 |
| Proceeds from sales and insurance recoveries on properties | 96,147 | 18,256 |
| Purchases and additions to properties and other assets | (36,769) | (25,503) |
| Investment in unconsolidated entities | (3,060) | — |
| Distribution of capital from unconsolidated entities | 21,287 | 3,235 |
| Payments for purchase or termination of derivatives | (17,373) | (39,755) |
| Proceeds from termination of derivatives | 13,807 | 22,981 |
| Return of investment basis in purchased derivative asset | — | 121 |
| Net cash provided by (used in) investing activities | 7,552 | (253,281) |

See notes to condensed consolidated financial statements.

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash Flows from Financing Activities: | | |
| Proceeds from borrowings | $ 3,001,735 | $ 2,134,245 |
| Principal repayments on and repurchases of borrowings | (2,410,574) | (1,590,421) |
| Payment of deferred financing costs | (20,005) | (8,211) |
| Proceeds from common stock issuances | 314 | 369 |
| Payment of equity offering costs | (17) | (647) |
| Payment of dividends | (251,671) | (249,925) |
| Contributions from non-controlling interests | 8,911 | — |
| Distributions to non-controlling interests | (237,551) | (3,599) |
| Purchase of treasury stock | (12,090) | — |
| Issuance of debt of consolidated VIEs | 7,948 | 10,188 |
| Repayment of debt of consolidated VIEs | (98,324) | (79,099) |
| Distributions of cash from consolidated VIEs | 58,908 | 38,840 |
| Net cash provided by financing activities | 47,584 | 251,740 |
| Net decrease in cash, cash equivalents and restricted cash | (92,531) | (346,578) |
| Cash, cash equivalents and restricted cash, beginning of period | 418,273 | 650,755 |
| Effect of exchange rate changes on cash | (529) | 1,016 |
| Cash, cash equivalents and restricted cash, end of period | $ 325,213 | $ 305,193 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 147,228 | $ 113,564 |
| Income taxes paid | 6,132 | 3,362 |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Dividends declared, but not yet paid | $ 126,555 | $ 125,587 |
| Consolidation of VIEs (VIE asset/liability additions) | 1,815,070 | 1,127,952 |
| Deconsolidation of VIEs (VIE asset/liability reductions) | 1,022,356 | 2,108,589 |
| Net assets acquired from consolidated VIEs | 27,737 | 19,652 |
| Contributions of Woodstar II Portfolio net assets from non-controlling interests | 366,381 | — |
| Settlement of loans transferred as secured borrowings | — | 35,000 |

See notes to condensed consolidated financial statements.

Table of Contents

Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of June 30, 2018

(Unaudited)

## 1. Business and Organization

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

We have three reportable business segments as of June 30, 2018:

- Real estate lending (the “Lending Segment”)—engages primarily in originating, acquiring, financing and managing commercial first mortgages, subordinated mortgages, mezzanine loans, preferred equity, CMBS, RMBS, certain residential mortgage loans, and other real estate and real estate-related debt investments in both the U.S. and Europe.

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

- Real estate investing and servicing (the “Investing and Servicing Segment”)—includes (i) a servicing business in the U.S. that manages and works out problem assets, (ii) an investment business that selectively acquires and manages unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions, and (iv) an investment business that selectively acquires commercial real estate assets, including properties acquired from CMBS trusts. This segment excludes the consolidation of securitization variable interest entities (“VIEs”).

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.

Table of Contents

2. Summary of Significant Accounting Policies

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

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

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

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

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

Basis of Accounting and Principles of Consolidation

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

results of operations, and cash flows have been included.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the “Form 10-K”), as filed with the Securities and Exchange Commission (“SEC”). The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the operating results for the full year.

Refer to our Form 10-K for a description of our recurring accounting policies. We have included disclosure in this Note 2 regarding principles of consolidation and other accounting policies that (i) are required to be disclosed quarterly, (ii) we view as critical, (iii) became significant since December 31, 2017 due to a corporate action or increase in the significance of the underlying business activity or (iv) changed upon adoption of an Accounting Standards Update (“ASU”) issued by the Financial Accounting Standards Board (“FASB”).

Variable Interest Entities

In addition to the Investing and Servicing Segment’s VIEs, certain other entities in which we hold interests are considered VIEs as the limited partners of these entities do not collectively possess (i) the right to remove the general partner without cause or (ii) the right to participate in significant decisions made by the partnership.

Table of Contents

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 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: (i) identifying the activities that most significantly impact the VIE's economic performance; and (ii) 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. The right to remove the decision maker in a VIE must be exercisable without cause for the decision maker to not be deemed the party that has the power to direct the activities of a VIE.

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

Our purchased investment securities include CMBS which are unrated and non-investment grade rated securities issued by CMBS trusts. In certain cases, we may contract to provide special servicing activities for these CMBS trusts, or, as holder of the controlling class, we may have the right to name and remove the special servicer for these trusts. In our role as special servicer, we provide services on defaulted loans within the trusts, such as foreclosure or work-out procedures, as permitted by the underlying contractual agreements. In exchange for these services, we receive a fee. These rights give us the ability to direct activities that could significantly impact the trust's economic performance. However, in those instances where an unrelated third party has the right to unilaterally remove us as special servicer without cause, we do not have the power to direct activities that most significantly impact the trust's economic performance. We evaluated all of our positions in such investments for consolidation.

For securitization VIEs in which we are determined to be the primary beneficiary, all of the underlying assets, liabilities and equity of the structures are recorded on our books, and the initial investment, along with any associated

unrealized holding gains and losses, are eliminated in consolidation. Similarly, the interest income earned from these structures, as well as the fees paid by these trusts to us in our capacity as special servicer, are eliminated in consolidation. Further, an allocable portion of the identified servicing intangible asset associated with the servicing fee streams, and the corresponding allocable amortization or change in fair value of the servicing intangible asset, are also eliminated in consolidation.

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

Table of Contents

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

We separately present the assets and liabilities of our consolidated securitization VIEs as individual line items on our condensed consolidated balance sheets. The liabilities of our consolidated securitization VIEs consist solely of obligations to the bondholders of the related CMBS trusts, and are thus presented as a single line item entitled "VIE liabilities." The assets of our consolidated securitization VIEs consist principally of loans, but at times, also include foreclosed loans which have been temporarily converted into real estate owned ("REO"). These assets in the aggregate are likewise presented as a single line item entitled "VIE assets."

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

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

REO assets generally represent a very small percentage of the overall asset pool of a CMBS trust. In a new issue CMBS trust there are no REO assets. We estimate that REO assets constitute approximately 3% of our consolidated securitization VIE assets, with the remaining 97% representing loans. However, it is important to note that the fair value of our securitization VIE assets is determined by reference to our securitization VIE liabilities as permitted under ASU 2014-13, Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. In other words, our VIE liabilities are more reliably measurable than the VIE assets, resulting in our current measurement methodology which utilizes this value to determine the fair value of our securitization VIE assets as a whole. As a result, these percentages are not necessarily indicative of the relative fair values of each of these asset categories if the assets were to be valued individually.

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

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

Fair Value Option

The guidance in ASC 825, Financial Instruments, provides a fair value option election that allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are 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.

Table of Contents

We have elected the fair value option for eligible financial assets and liabilities of our consolidated securitization VIEs, loans held-for-sale originated or acquired for future securitization, purchased CMBS issued by VIEs we could consolidate in the future and certain investments in marketable equity securities which, effective January 1, 2018, are now required to be carried at fair value through earnings. 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 were made due to the short-term nature of these instruments.

Fair Value Measurements

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

As discussed above, we measure the assets and liabilities of consolidated securitization VIEs at fair value pursuant to our election of the fair value option. The securitization VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the securitization VIE, we maximize the use of observable inputs over unobservable inputs. Refer to Note 19 for further discussion regarding our fair value measurements.

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

Loan Impairment

We evaluate each loan classified as held-for-investment for impairment at least quarterly. Impairment occurs when it is deemed probable that we will not be able to collect all amounts due according to the contractual terms of the loan. If

a loan is considered to be impaired, we record an allowance through the provision for loan losses to reduce the carrying value of the loan to the present value of expected future cash flows discounted at the loan's contractual effective rate or the fair value of the collateral, if repayment is expected solely from the collateral.

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

Table of Contents

Cost Method Equity Investments

On January 1, 2018, ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities, became effective prospectively for public companies with a calendar fiscal year. This ASU requires entities to carry all investments in equity securities, including other ownership interests such as partnerships, unincorporated joint ventures, and limited liability companies, at fair value with changes in fair value recognized within net income. This ASU does not apply to equity method investments, investments in Federal Home Loan Bank ("FHLB") stock, investments that result in consolidation of the investee or investments in certain investment companies. For investments in equity securities without a readily determinable fair value, an entity is permitted to elect a practicability exception, under which the investment will be measured at cost, less impairment, plus or minus observable price changes from orderly transactions of an identical or similar investment of the same issuer.

Additionally, this ASU eliminated the requirement to assess whether an impairment of an equity investment is other than temporary. The impairment model for equity investments subject to this election is now a single-step model whereby an entity performs a qualitative assessment to identify impairment. If the qualitative assessment indicates that an impairment exists, the entity would estimate the fair value of the investment and recognize in net income an impairment loss equal to the difference between the fair value and the carrying amount of the equity investment.

Our equity investments within the scope of this ASU are limited to our cost method equity investments discussed in Note 7, with the exception of our FHLB stock which is outside the scope of this ASU, and to our marketable equity security discussed in Note 5 for which we had previously elected the fair value option. Our cost method equity investments within the scope of this ASU do not have readily determinable fair values. Therefore, we have elected the practicability exception whereby we measure these investments at cost, less impairment, plus or minus observable price changes from orderly transactions of identical or similar investments of the same issuer. Refer to Note 7 for further discussion.

Revenue Recognition

On January 1, 2018, new accounting rules regarding revenue recognition became effective for public companies with a calendar fiscal year. None of our significant revenue sources – interest income from loans and investment securities, loan servicing fees, and rental income – are within the scope of the new revenue recognition guidance. The revenue recognition guidance also included revisions to existing accounting rules regarding the determination of whether a company is acting as a principal or agent in an arrangement and accounting for sales of nonfinancial assets where the seller has continuing involvement. These additional revisions also did not materially impact the Company.

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

We cease accruing interest on non-performing loans at the earlier of (i) the loan becoming significantly past due or (ii) management concluding that a full recovery of all interest and principal is doubtful. Interest income on non-accrual loans in which management expects a full recovery of the loan's outstanding principal balance is only recognized when received in cash. If a full recovery of principal is doubtful, the cost recovery method is applied whereby any cash received is applied to the outstanding principal balance of the loan. A non-accrual loan is returned to accrual status at such time as the loan becomes contractually current and management believes all future principal and interest will be received according to the contractual loan terms.

Table of Contents

Earnings Per Share

We present both basic and diluted earnings per share ("EPS") amounts in our financial statements. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the maximum potential dilution that could occur from (i) our share-based compensation, consisting of unvested restricted stock ("RSAs") and restricted stock units ("RSUs"), (ii) shares contingently issuable to our Manager, (iii) the conversion options associated with our outstanding convertible senior notes (see Notes 10 and 17), and (iv) non-controlling interests that are redeemable with our common stock (see Note 16). Potential dilutive shares are excluded from the calculation if they have an anti-dilutive effect in the period.

Nearly all of the Company's unvested RSUs and RSAs contain rights to receive non-forfeitable dividends and thus are participating securities. In addition, the non-controlling interests that are redeemable with our common stock are considered participating securities because they earn a preferred return indexed to the dividend rate on our common stock (see Note 16). Due to the existence of these participating securities, the two-class method of computing EPS is required, unless another method is determined to be more dilutive. Under the two-class method, undistributed earnings are reallocated between shares of common stock and participating securities. For the three and six months ended June 30, 2018 and 2017, the two-class method resulted in the most dilutive EPS calculation.

Use of Estimates

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

Recent Accounting Developments

On February 25, 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes a right-of-use model for lessee accounting which results in the recognition of most leased assets and lease liabilities on the balance sheet of the lessee. Lessor accounting was not significantly changed by this ASU. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018 by applying a modified retrospective approach. Early application is permitted. On July 30, 2018, the FASB issued ASU 2018-11, Leases (Topic 842) – Targeted

Improvements, which provides an optional transition method of applying the new leases standard at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. It also provides lessors with a practical expedient to not separate non-lease revenue components from the associated lease component if certain conditions are met. Our assessment of the effect of these ASUs on the Company remains ongoing; however, we currently do not expect the application of these ASUs to have a material impact as the Company primarily acts as a lessor.

On June 16, 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments, which mandates use of an "expected loss" credit model for estimating future credit losses of certain financial instruments instead of the "incurred loss" credit model that current GAAP requires. The "expected loss" model requires the consideration of possible credit losses over the life of an instrument as opposed to only estimating credit losses upon the occurrence of a discrete loss event in accordance with the current "incurred loss" methodology. This ASU is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019. Early application is permitted though no earlier than the first interim or annual period beginning after December 15, 2018. Though we have not completed our assessment of this ASU, we expect the ASU to result in our recognition of higher levels of allowances for loan losses. Our assessment of the estimated amount of such increases remains in process.

Table of Contents

On January 26, 2017, the FASB issued ASU 2017-04, Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment, which simplifies the method applied for measuring impairment in cases where goodwill is impaired. This ASU specifies that goodwill impairment will be measured as the excess of the reporting unit's carrying value (inclusive of goodwill) over its fair value, eliminating the requirement that all assets and liabilities of the reporting unit be remeasured individually in connection with measurement of goodwill impairment. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2019 and is applied prospectively. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On August 28, 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities, which amends and simplifies existing guidance regarding the designation and measurement of designated hedging relationships. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018. Early application is permitted. We do not expect the application of this ASU to materially impact the Company.

On June 20, 2018, the FASB issued ASU 2018-07, Compensation – Stock Compensation (Topic 718) –Improvements to Nonemployee Share-Based Payment Accounting, which aligns the accounting for nonemployee share-based compensation with the existing accounting model for employee share based compensation. This ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2018. Early application is permitted. We are in the process of assessing the impact this ASU will have on the Company.

3. Acquisitions and Divestitures

Investing and Servicing Segment Property Portfolio

During the three and six months ended June 30, 2018, our Investing and Servicing Segment acquired $25.0 million and $52.7 million, respectively, in net assets of one and three commercial real estate properties, respectively, from CMBS trusts for a total gross purchase price of $25.1 million and $53.1 million, respectively. These properties, aggregated with the controlling interests in 20 remaining commercial real estate properties acquired from CMBS trusts prior to December 31, 2017 for an aggregate acquisition price of $281.7 million, comprise the Investing and Servicing Segment Property Portfolio (the "REIS Equity Portfolio"). When the properties are acquired from CMBS trusts that are consolidated as VIEs on our balance sheet, the acquisitions are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statements of cash flows.

During the three and six months ended June 30, 2018, we sold two and five properties, respectively, within the Investing and Servicing Segment for $24.9 million and $40.0 million, respectively, recognizing a total gain on sale of $10.4 million and $16.8 million, respectively, within gain on sale of investments and other assets in our condensed

consolidated statements of operations. One of these properties was acquired by a third party which already held a $0.3 million non-controlling interest in the property. During the three and six months ended June 30, 2018, $2.4 million and $3.7 million of the gain on sale, respectively, was attributable to non-controlling interests. During the three and six months ended June 30, 2017, we sold two properties within the Investing and Servicing Segment for $14.7 million, recognizing a $5.1 million gain on sale within gain on sale of investments and other assets in our condensed consolidated statements of operations.

Table of Contents

Woodstar II Portfolio Acquisition

During the three months ended March 31, 2018, we acquired 18 of the 27 affordable housing communities comprising our “Woodstar II Portfolio”. The Woodstar II Portfolio is comprised of 6,109 units concentrated primarily in Central and South Florida and is 99% occupied. The 18 affordable housing communities acquired during the three months ended March 31, 2018 comprise 4,057 units and were acquired for $404.7 million, including contingent consideration of $26.7 million (the “Q1 2018 Closing”). The properties acquired in the Q1 2018 Closing were recognized initially at their purchase price of $378.0 million plus capitalized acquisition costs of $3.6 million. Contingent consideration of $26.7 million will be recognized when the contingency is resolved. Government sponsored mortgage debt of $7.3 million with weighted average fixed annual interest rates of 2.88% and remaining weighted average terms of 17.7 years was assumed at closing. We financed the Q1 2018 Closing utilizing new 10-year mortgage debt totaling $300.9 million with weighted average fixed annual interest rates of 3.82% (as set forth in Note 9).

In December 2017, we acquired eight of the affordable housing communities (the “Q4 2017 Closing”), which include 1,740 units, for $156.2 million, including contingent consideration of $10.8 million. We financed the Q4 2017 Closing utilizing 10-year mortgage debt totaling $116.7 million with a fixed 3.81% interest rate.

We effectuated the Woodstar II Portfolio acquisitions via a contribution of the properties by third parties (the “Contributors”) to SPT Dolphin Intermediate LLC (“SPT Dolphin”), a newly-formed, wholly-owned subsidiary of the Company. In exchange for the contribution, the Contributors received cash, Class A units of SPT Dolphin (the “Class A Units”) and rights to receive additional Class A Units if certain contingent events occur. Initially, the Class A unitholders had the right, commencing six months from issuance, to redeem their Class A Units for consideration equal to the current share price of the Company’s common stock on a one-for-one basis, with the consideration paid in either cash or the Company’s common stock, at the determination of the Company. During the three months ended June 30, 2018, redemption rights were amended to allow Class A unitholders the option to redeem only after the earlier of (i) August 16, 2018 and (ii) three business days after the acquisition of the final property in the Woodstar II Portfolio. No other terms of the redemption rights were amended.

The Q1 2018 Closing resulted in the Contributors receiving cash of $223.3 million, 6,979,089 Class A Units and rights to receive an additional 1,301,414 Class A Units if certain contingent events occur. In aggregate, the Q1 2018 Closing and Q4 2017 Closing have resulted in the Contributors receiving cash of $308.1 million, 9,758,863 Class A Units and rights to receive an additional 1,800,335 Class A Units if certain contingent events occur.

Since substantially all of the fair value of the properties acquired was concentrated in a group of similar identifiable assets, the Woodstar II Portfolio acquisitions were accounted for in accordance with the asset acquisition provisions of ASC 805, Business Combinations.

Master Lease Portfolio

During the three and six months ended June 30, 2018, we sold one and three retail properties within the Master Lease Portfolio for $18.4 million and $55.6 million, respectively, recognizing a gain on sale of $3.0 million and $6.9 million, respectively, within gain on sale of investments and other assets in our condensed consolidated statements of operations. Refer to Note 6 for further discussion of the Master Lease Portfolio.

Ireland Portfolio

During the three and six months ended June 30, 2017, we sold one office property within the Ireland Portfolio for $3.9 million, recognizing an immaterial gain on sale within gain on sale of investments and other assets in our condensed consolidated statements of operations. There were no properties sold within the Ireland Portfolio during the three and six months ended June 30, 2018. Refer to Note 6 for further discussion of the Ireland Portfolio.

Table of Contents

4. Loans

Our loans held-for-investment are accounted for at amortized cost and our loans held-for-sale are accounted for at the lower of cost or fair value, unless we have elected the fair value option. The following tables summarize our investments in mortgages and loans by subordination class as of June 30, 2018 and December 31, 2017 (dollars in thousands):

| June 30, 2018 | Carrying Value | Face Amount | Weighted Average Coupon | | Weighted Average Life ("WAL") (years)(1) |
|---|---|---|---|---|---|
| First mortgages (2) | $ 6,389,022 | $ 6,416,333 | 6.6 | % | 2.2 |
| Subordinated mortgages (3) | 157,439 | 157,243 | 11.7 | % | 1.7 |
| Mezzanine loans (2) | 386,545 | 385,772 | 11.0 | % | 1.2 |
| Other | 26,297 | 29,745 | 8.7 | % | 3.4 |
| Total loans held-for-investment | 6,959,303 | 6,989,093 | | | |
| Loans held-for-sale, fair value option, residential | 792,664 | 766,878 | 6.2 | % | 6.0 |
| Loans held-for-sale, fair value option, commercial | 300,105 | 292,535 | 5.1 | % | 9.6 |
| Loans transferred as secured borrowings | 74,217 | 74,692 | 6.7 | % | 1.8 |
| Total gross loans | 8,126,289 | 8,123,198 | | | |
| Loan loss allowance (loans held-for-investment) | (31,127) | — | | | |
| Total net loans | $ 8,095,162 | $ 8,123,198 | | | |
| | | | | | |
| December 31, 2017 | | | | | |
| First mortgages (2) | $ 5,818,804 | $ 5,843,623 | 6.2 | % | 2.0 |
| Subordinated mortgages (3) | 177,115 | 177,386 | 10.8 | % | 1.9 |
| Mezzanine loans (2) | 545,299 | 545,355 | 11.0 | % | 1.1 |
| Other | 25,607 | 29,320 | 8.5 | % | 3.9 |
| Total loans held-for-investment | 6,566,825 | 6,595,684 | | | |
| Loans held-for-sale, fair value option, residential | 613,287 | 594,105 | 6.2 | % | 5.4 |
| Loans held-for-sale, fair value option, commercial | 132,456 | 132,393 | 4.6 | % | 10.0 |
| Loans transferred as secured borrowings | 74,403 | 75,000 | 6.2 | % | 2.3 |
| Total gross loans | 7,386,971 | 7,397,182 | | | |
| Loan loss allowance (loans held-for-investment) | (4,330) | — | | | |
| Total net loans | $ 7,382,641 | $ 7,397,182 | | | |

(1) 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 or acquisition.

(2) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The application of this methodology resulted in mezzanine loans with carrying values of $983.3 million and $851.1 million being

classified as first mortgages as of June 30, 2018 and December 31, 2017, respectively.

(3) 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.

Table of Contents

During the three months ended June 30, 2018, the Company received distributions totaling $12.3 million from a profit participation in a mortgage loan that was repaid in 2016. The loan was secured by a retail and hospitality property located in the Times Square area of New York City. The profit participation is accounted for as a loan in accordance with the acquisition, development and construction accounting guidance within ASC 310-10, which results in distributions in excess of basis being recognized within interest income in our condensed consolidated statements of operations.

As of June 30, 2018, approximately $6.6 billion, or 94.6%, of our loans held-for-investment were variable rate and paid interest principally at LIBOR plus a weighted-average spread of 4.8%.

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, 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.

Table of Contents

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.<br>Loan collateral and performance relative to underwriting—The collateral has surpassed underwritten expectations.<br>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.<br>Loan structure—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.<br>Loan collateral and performance relative to underwriting—Collateral performance equals or exceeds underwritten expectations and covenants and performance criteria are being met or exceeded.<br>Quality and stability of collateral cash flows—Occupancy is stabilized with a diverse tenant mix.<br>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.<br>Loan collateral and performance relative to underwriting—Property performance is consistent with underwritten expectations.<br>Quality and stability of collateral cash flows—Occupancy is stabilized, near stabilized, or is on track with underwriting.<br>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.<br>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.<br>Quality and stability of collateral cash flows—Occupancy is not stabilized and the property has a large amount of rollover.<br>Loan structure—LTV is 80% to 90%. |
| 5 | Sponsor capability and financial condition—Credit history includes defaults, deeds in lieu, foreclosures, and/or bankruptcies.<br>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.<br>Quality and stability of collateral cash flows—The property has material vacancy and significant rollover of remaining tenants.<br>Loan structure—LTV exceeds 90%. |

Table of Contents

As of June 30, 2018, the risk ratings for loans subject to our rating system, which excludes loans for which the fair value option has been elected, by class of loan were as follows (dollars in thousands):

| | Balance Sheet Classification | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans Held-For-Investment | | | | | Loans Transferred | | % of |
| Risk Rating Category | First Mortgages | Subordinated Mortgages | Mezzanine Loans | Other | Loans Held-For-Sale | As Secured Borrowings | Total | Total Loans |
| 1 | $ 1,613 | $ — | $ — | $ 19,870 | $ — | $ — | $ 21,483 | 0.3 % |
| 2 | 2,625,794 | 11,810 | 181,396 | — | — | 74,217 | 2,893,217 | 35.6 % |
| 3 | 3,506,015 | 133,652 | 205,149 | 984 | — | — | 3,845,800 | 47.3 % |
| 4 | 85,006 | — | — | — | — | — | 85,006 | 1.0 % |
| 5 | — | — | — | — | — | — | — | — % |
| N/A | 170,594 (1) | 11,977 (1) | — | 5,443 (1) | 1,092,769 | — | 1,280,783 | 15.8 % |
| | $ 6,389,022 | $ 157,439 | $ 386,545 | $ 26,297 | $ 1,092,769 | $ 74,217 | $ 8,126,289 | 100.0 % |

(1) Represents loans individually evaluated for impairment in accordance with ASC 310-10.

As of December 31, 2017, the risk ratings for loans subject to our rating system, which excludes loans for which the fair value option has been elected, by class of loan were as follows (dollars in thousands):

| | Balance Sheet Classification | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans Held-For-Investment | | | | | Loans Transferred | | % of |
| Risk Rating Category | First Mortgages | Subordinated Mortgages | Mezzanine Loans | Other | Loans Held-For-Sale | As Secured Borrowings | Total | Total Loans |
| 1 | $ 2,003 | $ — | $ — | $ 20,267 | $ — | $ — | $ 22,270 | 0.3 % |
| 2 | 2,462,268 | 11,927 | 137,803 | — | — | — | 2,611,998 | 35.4 % |
| 3 | 3,183,592 | 165,188 | 407,496 | 5,340 | — | 74,403 | 3,836,019 | 51.9 % |
| 4 | 120,479 | — | — | — | — | — | 120,479 | 1.6 % |
| 5 | 50,462 | — | — | — | — | — | 50,462 | 0.7 % |
| N/A | — | — | — | — | 745,743 | — | 745,743 | 10.1 % |
| | $ 5,818,804 | $ 177,115 | $ 545,299 | $ 25,607 | $ 745,743 | $ 74,403 | $ 7,386,971 | 100.0 % |

In accordance with our loan impairment policy, during the three months ended June 30, 2018, we recorded impairment charges of $29.9 million related to commercial mortgage loans secured by three assets. Of this amount, $21.6 million relates to a residential conversion project located in New York City, for which our recorded investment was as follows as of June 30, 2018: (i) $119.7 million first mortgage loan ($118.5 million unpaid principal balance); (ii) $53.0 million mezzanine loan ($52.3 million unpaid principal balance); and (iii) $5.5 million unsecured

promissory note ($5.4 million unpaid principal balance) which is fully guaranteed by the sponsor.  We determined that the unsecured promissory note was not impaired.  In making our determinations surrounding impairment, we considered the property's liquidation value, the financial wherewithal of the sponsor, the borrower's competency in managing and operating the project and the overall economic environment.

The remaining $8.3 million of impairment charges relate to two subordinated mortgages on department stores located in the Greater Chicago area.  The sole tenant filed bankruptcy earlier this year, and the bankruptcy court ordered liquidation of the retailer during the three months ended June 30, 2018.  In making the determination that the loans were impaired, we considered the property's liquidation value and the financial wherewithal of the tenant's parent company to honor certain guarantees.  Our recorded investment in these loans totaled $12.2 million ($12.0 million unpaid principal balance).

Table of Contents

Each of the impaired loans was acquired as part of a loan pool purchase in 2014. All impairment charges were recognized within loan loss allowance, net in our condensed consolidated statements of operations for the three and six months ended June 30, 2018.

As of June 30, 2018, each of the above loans was 90 days or greater past due, as were $2.3 million of residential mortgage loans held-for-sale. In accordance with our interest income recognition policy, we ceased recognizing interest income on these loans when they became 90 days past due, and the loans were placed on cost recovery. No cash was received during the three months ended June 30, 2018 while the loans were on cost recovery.

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," plus (iii) impaired loan reserves, if any. The following table presents the activity in our allowance for loan losses (amounts in thousands):

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Allowance for loan losses at January 1 | $ 4,330 | $ 9,788 |
| Provision for (reversal of) loan losses | (3,055) | (2,999) |
| Provision for impaired loans | 29,852 | — |
| Charge-offs | — | — |
| Recoveries | — | — |
| Allowance for loan losses at June 30 | $ 31,127 | $ 6,789 |
| Recorded investment in loans related to the allowance for loan loss | $ 273,020 | $ 316,134 |

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Balance at January 1 | $ 7,382,641 | $ 5,946,274 |
| Acquisitions/originations/additional funding | 3,315,664 | 2,231,907 |
| Capitalized interest (1) | 29,499 | 33,817 |
| Basis of loans sold (2) | (676,214) | (507,613) |
| Loan maturities/principal repayments | (1,964,644) | (948,712) |
| Discount accretion/premium amortization | 20,961 | 16,194 |

| | | |
|---|---|---|
| Changes in fair value | 22,633 | 25,999 |
| Unrealized foreign currency translation (loss) gain | (8,608) | 19,565 |
| Change in loan loss allowance, net | (26,797) | 2,999 |
| Transfer to/from other asset classifications | 27 | 761 |
| Balance at June 30 | $ 8,095,162 | $ 6,821,191 |

(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.

Table of Contents

5. Investment Securities

Investment securities were comprised of the following as of June 30, 2018 and December 31, 2017 (amounts in thousands):

| | Carrying Value as of | |
|---|---|---|
| | June 30, 2018 | December 31, 2017 |
| RMBS, available-for-sale | $ 235,796 | $ 247,021 |
| CMBS, fair value option (1) | 1,076,411 | 1,024,143 |
| Held-to-maturity ("HTM") securities | 140,676 | 433,468 |
| Equity security, fair value | 13,037 | 13,523 |
| Subtotal—Investment securities | 1,465,920 | 1,718,155 |
| VIE eliminations (1) | (1,023,985) | (999,952) |
| Total investment securities | $ 441,935 | $ 718,203 |

(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):

| | RMBS, available-for-sale | CMBS, fair value option | HTM Securities | Equity Security | Total |
|---|---|---|---|---|---|
| Three Months Ended June 30, 2018 | | | | | |
| Purchases (1) | $ — | $ 20,465 | $ — | $ — | $ 20,465 |
| Sales | 807 | — | — | — | 807 |
| Principal collections | 8,036 | 240 | 94,181 | — | 102,457 |
| Three Months Ended June 30, 2017 | | | | | |
| Purchases (1) | $ 7,433 | $ — | $ — | $ — | $ 7,433 |
| Sales (2) | — | 700 | — | — | 700 |
| Principal collections | 8,555 | 1,322 | 332 | — | 10,209 |

| | RMBS, available-for-sale | CMBS, fair value option | HTM Securities | Equity Security | Total |
|---|---|---|---|---|---|
| Six Months Ended June 30, 2018 | | | | | |
| Purchases (3) | $ — | $ 20,465 | $ — | $ — | $ 20,465 |
| Sales (4) | 807 | — | — | — | 807 |
| Principal collections | 18,186 | 1,017 | 302,484 | — | 321,687 |
| Six Months Ended June 30, 2017 | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Purchases (3) | $ 7,433 | $ — | $ — | $ — | $ 7,433 |
| Sales (4) | — | 11,134 | — | — | 11,134 |
| Principal collections | 18,783 | 7,088 | 60,388 | — | 86,259 |

(1) During the three months ended June 30, 2018 and 2017, we purchased $61.7 million and $4.3 million of CMBS, respectively, for which we elected the fair value option. The purchases for the three months ended June 30, 2018 include $8.6 million of CMBS we acquired with a third party in connection with a newly formed partnership. The third-party interest of $4.2 million is reflected within non-controlling interests in consolidated subsidiaries in our condensed consolidated balance sheet as of June 30, 2018. Due to our consolidation of securitization VIEs, $41.2 million and $4.3 million, respectively, of this amount is eliminated and reflected as repayment of debt of consolidated VIEs in our condensed consolidated statements of cash flows.

(2) During the three months ended June 30, 2017, we sold $6.1 million of CMBS for which we previously elected the fair value option. Due to our consolidation of securitization VIEs, $5.4 million of this amount is eliminated and reflected as issuance of debt of consolidated VIEs in our condensed consolidated statements of cash flows.

Table of Contents

(3) During the six months ended June 30, 2018 and 2017, we purchased $91.9 million and $61.7 million of CMBS, respectively, for which we elected the fair value option. Due to our consolidation of securitization VIEs, $71.4 million and $61.7 million, respectively, of this amount is eliminated and reflected as repayment of debt of consolidated VIEs in our condensed consolidated statements of cash flows.

(4) During the six months ended June 30, 2018 and 2017, we sold $7.9 million and $21.3 million of CMBS, respectively, for which we had previously elected the fair value option. Due to our consolidation of securitization VIEs, $7.9 million and $10.2 million, respectively, of this amount is eliminated and reflected as issuance of debt of consolidated VIEs in our condensed consolidated statements of cash flows.

RMBS, Available-for-Sale

The Company classified all of its RMBS as available-for-sale as of June 30, 2018 and December 31, 2017. These RMBS are reported at fair value in the balance sheet with changes in fair value recorded in accumulated other comprehensive income ("AOCI").

The tables below summarize various attributes of our investments in available-for-sale RMBS as of June 30, 2018 and December 31, 2017 (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 |
| June 30, 2018 | | | | | | | | |
| RMBS | $ 185,618 | $ (9,897) | $ 175,721 | $ — | $ 60,096 | $ (21) | $ 60,075 | $ 235,796 |
| December 31, 2017 | | | | | | | | |
| RMBS | $ 199,029 | $ (9,897) | $ 189,132 | $ (94) | $ 58,011 | $ (28) | $ 57,889 | $ 247,021 |

| | Weighted Average Coupon (1) | | Weighted Average Rating | WAL (Years) (2) |
|---|---|---|---|---|
| June 30, 2018 | | | | |
| RMBS | 3.3 | % | CC+ | 6.2 |
| December 31, 2017 | | | | |
| RMBS | 2.8 | % | B | 6.4 |

(1) Calculated using the June 30, 2018 and December 31, 2017 one-month LIBOR rate of 2.090% and 1.564%, respectively, for floating rate securities.

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

As of June 30, 2018, approximately $198.7 million, or 84.3%, of RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.22%. As of December 31, 2017, approximately $207.0 million, or 83.8%, of RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 1.22%. We purchased all of the RMBS at a discount, a portion of which is being accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of this accretable discount.



---

Table of Contents

The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS as of June 30, 2018 and December 31, 2017 (amounts in thousands):

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Principal balance | $ 345,200 | $ 366,711 |
| Accretable yield | (50,877) | (55,712) |
| Non-accretable difference | (118,602) | (121,867) |
| Total discount | (169,479) | (177,579) |
| Amortized cost | $ 175,721 | $ 189,132 |

The principal balance of credit deteriorated RMBS was $324.7 million and $345.5 million as of June 30, 2018 and December 31, 2017, respectively. Accretable yield related to these securities totaled $45.0 million and $49.2 million as of June 30, 2018 and December 31, 2017, respectively.

The following table discloses the changes to accretable yield and non-accretable difference for our RMBS during the three and six months ended June 30, 2018 (amounts in thousands):

| Three Months Ended June 30, 2018 | Accretable Yield | Non-Accretable Difference |
|---|---|---|
| Balance as of April 1, 2018 | $ 51,794 | $ 121,488 |
| Accretion of discount | (2,622) | — |
| Principal write-downs, net | — | (1,003) |
| Sales | (178) | — |
| Transfer to/from non-accretable difference | 1,883 | (1,883) |
| Balance as of June 30, 2018 | $ 50,877 | $ 118,602 |
| | | |
| Six Months Ended June 30, 2018 | | |
| Balance as of January 1, 2018 | $ 55,712 | $ 121,867 |
| Accretion of discount | (5,441) | — |
| Principal write-downs, net | — | (2,481) |
| Sales | (178) | — |
| Transfer to/from non-accretable difference | 784 | (784) |
| Balance as of June 30, 2018 | $ 50,877 | $ 118,602 |

We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was $0.4 million and $0.5 million for the three months ended June 30, 2018 and 2017, respectively, and $0.9 million and $0.9 million for the six months ended June 30, 2018 and 2017, respectively, which has been recorded as management fees in the accompanying condensed consolidated statements of operations.

The following table presents the gross unrealized losses and estimated fair value of any available-for-sale securities that were in an unrealized loss position as of June 30, 2018 and December 31, 2017, and 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 June 30, 2018 | | | | |
| RMBS | $ 1,931 | $ — | $ (21) | $ — |
| As of December 31, 2017 | | | | |
| RMBS | $ 10,321 | $ 643 | $ (99) | $ (23) |

Table of Contents

As of June 30, 2018 and December 31, 2017, there were one and three securities, respectively, with unrealized losses reflected in the table above. After evaluating these securities and recording adjustments for credit-related OTTI, we concluded that the remaining unrealized losses reflected above were noncredit-related and would be recovered from the securities' estimated future cash flows. We considered a number of factors in reaching this conclusion, including that we did not intend to sell the securities, it was not considered more likely than not that we would be forced to sell the securities prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of the OTTI we record on securities, are calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. Significant judgment is used in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

CMBS, Fair Value Option

As discussed in the "Fair Value Option" section of Note 2 herein, we elect the fair value option for the Investing and Servicing Segment's CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of June 30, 2018, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were $1.1 billion and $4.2 billion, respectively. The $1.1 billion fair value balance represents our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value (all except $52.4 million at June 30, 2018) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS.

As of June 30, 2018, none of our CMBS where we have elected the fair value option were variable rate.

HTM Securities

The table below summarizes unrealized gains and losses of our investments in HTM securities as of June 30, 2018 and December 31, 2017 (amounts in thousands):

| | Net Carrying Amount (Amortized Cost) | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|---|---|---|---|
| June 30, 2018 | | | | |
| CMBS | $ 120,088 | $ 3,237 | $ (1,932) | $ 121,393 |

| | | | | |
|---|---|---|---|---|
| Preferred interests | 20,588 | 1,675 | — | 22,263 |
| Total | $ 140,676 | $ 4,912 | $ (1,932) | $ 143,656 |
| December 31, 2017 | | | | |
| CMBS | $ 413,110 | $ 2,002 | $ (7,779) | $ 407,333 |
| Preferred interests | 20,358 | 647 | — | 21,005 |
| Total | $ 433,468 | $ 2,649 | $ (7,779) | $ 428,338 |

The table below summarizes the maturities of our HTM CMBS and our HTM preferred equity interests in limited liability companies that own commercial real estate as of June 30, 2018 (amounts in thousands):

| | CMBS | Preferred Interests | Total |
|---|---|---|---|
| Less than one year | $ 25,157 | $ — | $ 25,157 |
| One to three years | 66,211 | — | 66,211 |
| Three to five years | 28,720 | 20,588 | 49,308 |
| Thereafter | — | — | — |
| Total | $ 120,088 | $ 20,588 | $ 140,676 |

Table of Contents

Equity Security, Fair Value

During 2012, we acquired 9,140,000 ordinary shares from a related-party in Starwood European Real Estate Finance Limited (“SEREF”), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange. The fair value of the investment remeasured in USD was $13.0 million and $13.5 million as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018, our shares represent an approximate 2% interest in SEREF.

6. Properties

Our properties are held within the following portfolios:

Ireland Portfolio

The Ireland Portfolio is comprised of 11 net leased fully occupied office properties and one multifamily property all located in Dublin, Ireland, which the Company acquired during the year ended December 31, 2015. The Ireland Portfolio, which collectively is comprised of approximately 600,000 square feet, includes total gross properties and lease intangibles of $529.3 million and debt of $338.5 million as of June 30, 2018.

Woodstar I Portfolio

The Woodstar I Portfolio is comprised of 32 affordable housing communities with 8,948 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas. During the year ended December 31, 2015, we acquired 18 of the 32 affordable housing communities of the Woodstar I Portfolio with the final 14 communities acquired during the year ended December 31, 2016. The Woodstar I Portfolio includes total gross properties and lease intangibles of $619.8 million and federal, state and county sponsored financing and other debt of $408.2 million as of June 30, 2018.

Woodstar II Portfolio

The Woodstar II Portfolio is comprised of 27 affordable housing communities with 6,109 units concentrated primarily in Central and South Florida. Refer to Note 3 for further discussion of the Woodstar II Portfolio.

Medical Office Portfolio

The Medical Office Portfolio is comprised of 34 medical office buildings acquired during the year ended December 31, 2016. These properties, which collectively comprise 1.9 million square feet, are geographically dispersed throughout the U.S. and primarily affiliated with major hospitals or located on or adjacent to major hospital campuses. The Medical Office Portfolio includes total gross properties and lease intangibles of $760.1 million and debt of $483.6 million as of June 30, 2018.

Master Lease Portfolio

The Master Lease Portfolio is comprised of 17 retail properties and three industrial properties geographically dispersed throughout the U.S., with more than 50% of the portfolio, by carrying value, located in Utah, Florida, Texas and Minnesota. These properties collectively comprise 5.0 million square feet and were leased back to the seller under corporate guaranteed master net lease agreements with initial terms of 24.6 years and periodic rent escalations. The Master Lease Portfolio includes total gross properties of $505.0 million and debt of $262.0 million as of June 30, 2018.

Investing and Servicing Segment Property Portfolio

The REIS Equity Portfolio is comprised of 23 commercial real estate properties and one equity interest in an unconsolidated commercial real estate property. The REIS Equity Portfolio includes total gross properties and lease intangibles of $372.6 million and debt of $218.9 million as of June 30, 2018. Refer to Note 3 for further discussion of the REIS Equity Portfolio.

Table of Contents

The table below summarizes our properties held as of June 30, 2018 and December 31, 2017 (dollars in thousands):

| | Depreciable Life | June 30, 2018 | December 31, 2017 |
|---|---|---|---|
| Property Segment | | | |
| Land and land improvements | 0 – 15 years | $ 661,101 | $ 585,915 |
| Buildings and building improvements | 5 – 45 years | 2,066,975 | 1,838,266 |
| Furniture & fixtures | 3 – 7 years | 41,993 | 31,028 |
| Investing and Servicing Segment | | | |
| Land and land improvements | 0 – 15 years | 91,086 | 86,711 |
| Buildings and building improvements | 3 – 40 years | 223,322 | 212,094 |
| Furniture & fixtures | 2 – 5 years | 1,580 | 1,036 |
| Properties, cost | | 3,086,057 | 2,755,050 |
| Less: accumulated depreciation | | (149,373) | (107,569) |
| Properties, net | | $ 2,936,684 | $ 2,647,481 |

During the three and six months ended June 30, 2018, we sold three and eight operating properties for $43.3 million and $95.6 million, respectively, recognizing a gain on sale of $13.4 million and $23.7 million, respectively, within gain on sale of investments and other assets in our condensed consolidated statements of operations. One of these properties sold in March 2018 was acquired by a third party which already held a $0.3 million non-controlling interest in the property. During the three and six months ended June 30, 2018, $2.4 million and $3.7 million, respectively, of the gain on sale was attributable to non-controlling interests. During the three and six months ended June 30, 2017, we sold three operating properties for $18.6 million which resulted in a $5.2 million gain recognized within gain on sale of investments and other assets in our condensed consolidated statement of operations.

Table of Contents

7. Investment in Unconsolidated Entities

The table below summarizes our investment in unconsolidated entities as of June 30, 2018 and December 31, 2017 (dollars in thousands):

| | Participation / Ownership % (1) | Carrying value as of June 30, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Equity method: | | | | |
| Retail Fund | 33% | $ 110,122 | | $ 110,704 |
| Investor entity which owns equity in an online real estate company | 50% | 9,347 | | 9,312 |
| Equity interests in commercial real estate | 50% | 6,748 | (2) | 23,192 |
| Equity interest in and advances to a residential mortgage originator | N/A | 9,235 | (3) | 7,742 |
| Various | 25% - 50% | 5,458 | | 3,538 |
| | | 140,910 | | 154,488 |
| Cost method: | | | | |
| Equity interest in a servicing and advisory business | 6% | 6,207 | | 12,234 |
| Investment funds which own equity in a loan servicer and other real estate assets | 4% - 6% | 9,225 | | 9,225 |
| Various | 0% - 3% | 10,374 | | 9,556 |
| | | 25,806 | | 31,015 |
| | | $ 166,716 | | $ 185,503 |

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

(2) In March 2018, our preferred equity investment in a portfolio of student housing properties was redeemed in full for cash proceeds of $16.7 million.

(3) Includes a $2.0 million subordinated loan the Company funded during the three months ended June 30, 2018. Refer to Note 15 for further discussion.

As of June 30, 2018, the carrying value of our equity investment in a residential mortgage originator exceeded the underlying equity in net assets of such investee by $1.6 million. This difference is the result of the Company recording its investment in the investee at its acquisition date fair value, which included certain non-amortizing intangible assets not recognized by the investee. Should the Company determine these intangible assets held by the investee are impaired, the Company will recognize such impairment loss through earnings from unconsolidated entities in our consolidated statement of operations, otherwise, such difference between the carrying value of our equity investment in the residential mortgage originator and the underlying equity in the net assets of the residential mortgage originator will continue to exist. Other than our equity interest in the residential mortgage originator, there were no differences

between the carrying value of our equity method investments and the underlying equity in the net assets of the investees as of June 30, 2018.

During the three and six months ended June 30, 2018, we did not become aware of any observable price changes in our cost method investments that are within the scope of ASU 2016-01 or any indicators of impairment.

Table of Contents

## 8. Goodwill and Intangibles

### Goodwill

Goodwill at June 30, 2018 and December 31, 2017 represents the excess of consideration transferred over the fair value of net assets of LNR Property LLC ("LNR") acquired on April 19, 2013. The goodwill recognized is attributable to value embedded in LNR's existing platform, which includes a network of commercial real estate asset managers, work-out specialists, underwriters and administrative support professionals as well as proprietary historical performance data on commercial real estate assets.

### Intangible Assets

#### Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. At June 30, 2018 and December 31, 2017 the balance of the domestic servicing intangible was net of $23.8 million and $28.2 million, respectively, which was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs. Before VIE consolidation, as of June 30, 2018 and December 31, 2017, the domestic servicing intangible had a balance of $46.6 million and $59.0 million, respectively, which represents our economic interest in this asset.

#### Lease Intangibles

In connection with our acquisitions of commercial real estate, we recognized in-place lease intangible assets and favorable lease intangible assets associated with certain non-cancelable operating leases of the acquired properties.

The following table summarizes our intangible assets, which are comprised of servicing rights intangibles and lease intangibles, as of June 30, 2018 and December 31, 2017 (amounts in thousands):

| | As of June 30, 2018 | | | As of December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| Domestic servicing rights, at fair value | $ 22,742 | $ — | $ 22,742 | $ 30,759 | $ — | $ 30,759 |
| In-place lease intangible assets | 200,953 | (86,308) | 114,645 | 187,816 | (65,351) | 122,465 |
| Favorable lease intangible assets | 37,672 | (8,373) | 29,299 | 37,231 | (7,363) | 29,868 |
| Total net intangible assets | $ 261,367 | $ (94,681) | $ 166,686 | $ 255,806 | $ (72,714) | $ 183,092 |

Table of Contents

The following table summarizes the activity within intangible assets for the six months ended June 30, 2018 (amounts in thousands):

| | Domestic Servicing Rights | In-place Lease Intangible Assets | Favorable Lease Intangible Assets | Total |
|---|---|---|---|---|
| Balance as of January 1, 2018 | $ 30,759 | $ 122,465 | $ 29,868 | $ 183,092 |
| Acquisition of additional Woodstar II Portfolio properties | — | 10,015 | — | 10,015 |
| Acquisition of additional REIS Equity Portfolio properties | — | 7,321 | 2,678 | 9,999 |
| Amortization | — | (23,339) | (2,160) | (25,499) |
| Sales | — | (705) | (883) | (1,588) |
| Foreign exchange gain | — | (751) | (204) | (955) |
| Impairment (1) | — | (361) | — | (361) |
| Changes in fair value due to changes in inputs and assumptions | (8,017) | — | — | (8,017) |
| Balance as of June 30, 2018 | $ 22,742 | $ 114,645 | $ 29,299 | $ 166,686 |

(1) Impairment of intangible lease assets is recognized within other expense in our condensed consolidated statements of operations.

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

| | |
|---|---|
| 2018 (remainder of) | $ 18,005 |
| 2019 | 23,515 |
| 2020 | 17,819 |
| 2021 | 15,279 |
| 2022 | 12,432 |
| Thereafter | 56,894 |
| Total | $ 143,944 |

32

Table of Contents

9. Secured Financing Agreements

The following table is a summary of our secured financing agreements in place as of June 30, 2018 and December 31, 2017 (dollars in thousands):

| | Current Maturity | Extended Maturity (a) | Pricing | | Pledged Asset Carrying Value | Maximum Facility Size | | Carrying Value at June 30, 2018 | Carrying Value at December 31, 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Lender 1 Repo 1 | (b) | (b) | LIBOR + 1.75% to 5.75% | | $ 1,618,912 | $ 2,000,000 | | $ 1,257,271 | $ 1,137,654 |
| Lender 2 Repo 1 | Apr 2020 | Apr 2023 | LIBOR + 2.00% to 2.35% | | 283,182 | 900,000 | (c) | 194,357 | 238,428 |
| Lender 3 Repo 1 | N/A | N/A | N/A | | — | — | | — | 75,291 |
| Lender 4 Repo 2 | May 2021 | May 2023 | LIBOR + 2.00% to 3.25% | | 741,093 | 1,000,000 | (d) | 333,278 | 215,372 |
| Lender 6 Repo 1 | Aug 2020 | N/A | LIBOR + 2.00% to 2.75% | | 653,722 | 600,000 | | 497,045 | 494,353 |
| Lender 6 Repo 2 | Oct 2022 | Oct 2023 | GBP LIBOR + 2.75% | | 435,311 | 335,935 | | 335,935 | 332,815 |
| Lender 9 Repo 1 | Sep 2018 | N/A | LIBOR + 1.65% | | — | — | | — | 65,762 |
| Lender 10 Repo 1 | Mar 2020 | Mar 2022 | LIBOR + 1.65% to 2.75% | | 171,000 | 140,000 | | 136,800 | 77,800 |
| Lender 11 Repo 1 | Jun 2019 | Jun 2020 | LIBOR + 2.75% | | — | 200,000 | | — | — |
| Lender 11 Repo 2 | Sep 2018 | Sep 2022 | LIBOR + 2.25% to 2.75% | | 79,718 | 250,000 | | 54,000 | — |
| Lender 12 Repo 1 | Jun 2021 | Jun 2024 | LIBOR + 2.10% to 2.45% | | 57,291 | 250,000 | | 43,500 | — |
| Lender 7 Secured Financing | Feb 2021 | Feb 2023 | LIBOR + 2.25% | (e) | 28,219 | 650,000 | (f) | 21,169 | — |
| | Aug 2019 | N/A | | | — | — | | — | 15,617 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Lender 8 Secured Financing | | | LIBOR + 4.00% | | | | | |
| Conduit Repo 2 | Nov 2018 | Nov 2019 | LIBOR + 2.25% | | 120,189 | 200,000 | 89,190 | 40,075 |
| Conduit Repo 3 | Feb 2020 | Feb 2021 | LIBOR + 2.10% | | 108,021 | 150,000 | 78,422 | 26,895 |
| MBS Repo 1 | (g) | (g) | LIBOR + 1.90% | | — | — | — | 6,510 |
| MBS Repo 2 | Dec 2019 | N/A | LIBOR + 1.90% to 2.45% | | 100,412 | 69,122 | 69,122 | 222,672 |
| MBS Repo 3 | (h) | (h) | LIBOR + 1.32% to 1.95% | | 239,266 | 163,525 | 163,525 | 224,150 |
| MBS Repo 4 | (i) | N/A | LIBOR + 1.70% | | 167,737 | 110,000 | 39,000 | 77,318 |
| MBS Repo 5 | Jun 2028 | Dec 2028 | 4.13% | | 25,572 | 150,000 | 23,551 | — |
| Investing and Servicing Segment Property Mortgages | Aug 2018 to Jun 2026 | N/A | Various | | 245,105 | 218,019 | 196,996 | 177,411 |
| Ireland Portfolio Mortgage | May 2020 | N/A | EURIBOR + 1.69% | | 475,754 | 340,741 | 340,741 | 349,900 |
| Woodstar I Portfolio Mortgages | Nov 2025 to Oct 2026 | N/A | 3.72% to 3.97% | | 363,962 | 276,748 | 276,748 | 276,748 |
| Woodstar I Portfolio Government Financing | Mar 2026 to Jun 2049 | N/A | 1.00% to 5.00% | | 303,177 | 132,308 | 132,308 | 133,418 |
| Woodstar II Portfolio Mortgages | Jan 2028 to Apr 2028 | N/A | 3.81% to 3.85% | | 512,125 | 417,669 | 417,669 | 116,745 |
| Woodstar II Portfolio Government Financing | Jun 2030 to Apr 2046 | N/A | 1.00% to 3.00% | | 133,804 | 7,361 | 7,361 | — |
| Medical Office Portfolio Mortgages | Dec 2021 | Dec 2023 | LIBOR + 2.50% | | 695,869 | 524,499 | 491,197 | 497,613 |
| Master Lease Portfolio Mortgages | Oct 2027 | N/A | 4.36% to 4.38% | | 462,552 | 265,900 | 265,900 | 265,900 |
| Term Loan A | Dec 2020 | Dec 2021 | LIBOR + 2.25% | (e) | 902,809 | 300,000 | 300,000 | 300,000 |
| Revolving Secured | Dec 2020 | Dec 2021 | LIBOR + 2.25% | (e) | — | 100,000 | — | — |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Financing | | | | | | | |
| FHLB | Feb 2021 | N/A | Various | 792,664 | 498,000 | 498,000 | 445,000 |
| | | | | $ 9,717,466 | $ 10,249,827 | 6,263,085 | 5,813,447 |
| Unamortized net premium | | | | | | 2,519 | 2,559 |
| Unamortized deferred financing costs | | | | | | (48,987) | (42,950) |
| | | | | | | $ 6,216,617 | $ 5,773,056 |

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

(b) Maturity date for borrowings collateralized by loans is September 2018 before extension options and September 2021 assuming exercise of extension options. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions and not to exceed September 2025.

Table of Contents

(c) The initial maximum facility size of $600.0 million may be increased to $900.0 million, subject to certain conditions.
(d) The initial maximum facility size of $600.0 million may be increased to $1.0 billion at our option, subject to certain conditions.
(e) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement.
(f) The initial maximum facility size of $300.0 million may be increased to $650.0 million, subject to certain conditions.
(g) Facility carries a rolling 11-month term which may reset monthly with the lender's consent not to exceed December 2018. This facility carries no maximum facility size.
(h) Facility carries a rolling 12-month term which may reset monthly with the lender's consent. Current maturity is June 2019. This facility carries no maximum facility size. Amounts reflect the outstanding balance as of June 30, 2018.
(i) The date that is 270 days after the buyer delivers notice to seller, subject to a maximum date of May 2020.

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

During the six months ended June 30, 2018, we entered into two mortgage loans with aggregate maximum borrowings of $34.8 million to finance commercial real estate previously acquired by our Investing and Servicing Segment. As of June 30, 2018, these facilities carry a remaining weighted average term of 4.0 years with floating annual interest rates of LIBOR + 2.62%.

In February 2018, we amended the Lender 7 Secured Financing facility to extend the current maturity from July 2018 to February 2021, reduce the spread from LIBOR + 2.75% to LIBOR + 2.25% and decrease available borrowings from $450.0 million to $300.0 million while maintaining the option to upsize to $650.0 million, subject to certain conditions.

In February 2018, we amended the Conduit Repo 3 facility to extend the current maturity from February 2018 to February 2020.

In February and March 2018, we entered into mortgage loans with total borrowings of $300.9 million to finance the Q1 2018 Closing of our Woodstar II Portfolio. The loans carry 10-year terms and weighted average fixed annual interest rates of 3.82%. Additional government sponsored mortgage loans of $7.3 million with weighted average fixed annual interest rates of 2.88% and remaining weighted average terms of 17.7 years were assumed at closing.

In April 2018, we amended the Lender 2 Repo 1 facility to extend the current maturity from October 2018 to April 2020 with three one-year extension options and allow for the option to upsize to $900.0 million, subject to certain

conditions.

In April 2018, we amended the MBS Repo 4 facility to decrease available borrowings from $225.0 million to $110.0 million, decrease the pricing margin from LIBOR + 1.90% to LIBOR + 1.70% and extend the maximum maturity date from September 2018 to May 2020.

In May 2018, we amended the Lender 4 Repo 2 facility to extend the maturity from December 2018 to May 2021 with two one-year extension options.

In June 2018, we entered into a $150.0 million repurchase facility ("MBS Repo 5") to finance vertical risk retention CMBS investments within our Investing and Servicing Segment. The facility carries a ten-year initial term with a six-month extension option.

In June 2018, we entered into a $250.0 million repurchase facility ("Lender 12 Repo 1") to finance certain loans held-for-investment. The facility carries a three-year initial term with three one-year extension options and an annual interest rate of LIBOR + 2.10% to 2.45%, subject to a 25 basis point floor.



---

Table of Contents

Our secured financing agreements contain certain financial tests and covenants. As of June 30, 2018, we were in compliance with all such covenants.

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

| | Repurchase Agreements | Other Secured Financing | Total |
|---|---|---|---|
| 2018 (remainder of) | $ 235,346 | $ 12,136 | $ 247,482 |
| 2019 | 280,352 | 176,819 | 457,171 |
| 2020 | 888,834 | 354,431 | 1,243,265 |
| 2021 | 450,057 | 678,060 | 1,128,117 |
| 2022 | 891,061 | 30,648 | 921,709 |
| Thereafter | 569,346 | 1,695,995 | 2,265,341 |
| Total | $ 3,314,996 | $ 2,948,089 | $ 6,263,085 |

For the three and six months ended June 30, 2018, approximately $5.8 million and $10.9 million, respectively, of amortization of deferred financing costs from secured financing agreements was included in interest expense on our condensed consolidated statements of operations. For the three and six months ended June 30, 2017, approximately $4.7 million and $9.4 million, respectively, of amortization of deferred financing costs from secured financing agreements was included in interest expense on our condensed consolidated statements of operations.

The following table sets forth our outstanding balance of repurchase agreements related to the following asset collateral classes as of June 30, 2018 and December 31, 2017 (amounts in thousands):

| Class of Collateral | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Loans held-for-investment | $ 2,821,623 | $ 2,637,475 |
| Loans held-for-sale | 198,175 | 66,970 |

| | | |
|---|---|---|
| Investment securities | 295,198 | 530,650 |
| | $ 3,314,996 | $ 3,235,095 |

We seek to mitigate risks associated with our repurchase agreements by managing risk related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value. The margin call provisions under the majority of our repurchase facilities, consisting of 31% of these agreements, do not permit valuation adjustments based on capital markets activity. Instead, margin calls on these facilities are limited to collateral-specific credit marks. To monitor credit risk associated with the performance and value of our loans and investments, our asset management team regularly reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary. For repurchase agreements containing margin call provisions for general capital markets activity, approximately 28% of these pertain to our loans held-for-sale, for which we manage credit risk through the purchase of credit index instruments. We further seek to manage risks associated with our repurchase agreements by matching the maturities and interest rate characteristics of our loans with the related repurchase agreements.

Table of Contents

10. Unsecured Senior Notes

The following table is a summary of our unsecured senior notes outstanding as of June 30, 2018 and December 31, 2017 (dollars in thousands):

| | Coupon Rate | | Effective Rate (1) | | Maturity Date | Remaining Period of Amortization | | Carrying Value at June 30, 2018 | Carrying Value at December 31, 2017 |
|---|---|---|---|---|---|---|---|---|---|
| 2018 Convertible Notes | N/A | | N/A | | N/A | N/A | | — | 369,981 |
| 2019 Convertible Notes | 4.00 | % | 5.35 | % | 1/15/2019 | 0.5 | years | 341,363 | 341,363 |
| 2021 Senior Notes (February) | 3.63 | % | 3.89 | % | 2/1/2021 | 2.6 | years | 500,000 | — |
| 2021 Senior Notes (December) | 5.00 | % | 5.32 | % | 12/15/2021 | 3.5 | years | 700,000 | 700,000 |
| 2023 Convertible Notes | 4.38 | % | 4.86 | % | 4/1/2023 | 4.8 | years | 250,000 | 250,000 |
| 2025 Senior Notes | 4.75 | % | 5.04 | % | 3/15/2025 | 6.7 | years | 500,000 | 500,000 |
| Total principal amount | | | | | | | | 2,291,363 | 2,161,344 |
| Unamortized discount—Convertible Notes | | | | | | | | (7,556) | (11,186) |
| Unamortized discount—Senior Notes | | | | | | | | (18,483) | (16,654) |
| Unamortized deferred financing costs | | | | | | | | (9,348) | (8,269) |
| Carrying amount of debt components | | | | | | | | $ 2,255,976 | $ 2,125,235 |
| Carrying amount of conversion option equity components recorded in additional paid-in capital for outstanding convertible notes | | | | | | | | $ 6,423 | $ 31,638 |

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

Senior Notes

On January 29, 2018, we issued $500.0 million of 3.625% Senior Notes due 2021 (the "2021 February Notes"). The 2021 February Notes mature on February 1, 2021. Prior to November 1, 2020, we may redeem some or all of the 2021 February Notes at a price equal to 100% of the principal amount thereof, plus the applicable "make-whole" premium as of the applicable date of redemption. On and after November 1, 2020, we may redeem some or all of the 2021 February Notes at a price equal to 100% of the principal amount thereof. In addition, prior to February 1, 2020, we may redeem up to 40% of the 2021 February Notes at the applicable redemption price using the proceeds of certain equity offerings. The 2021 February Notes were swapped to floating rate (see Note 12).

Convertible Senior Notes

In March 2018, we repaid the full outstanding principal amount of the 4.55% Convertible Senior Notes due 2018 (the "2018 Notes") in cash upon their maturity. We recognized interest expense of $7.6 million and $18.9 million during the three and six months ended June 30, 2018, respectively, from our unsecured convertible senior notes. We recognized interest expense of $19.2 million and $38.7 million during the three and six months ended June 30, 2017, respectively, from our unsecured convertible senior notes.

Table of Contents

On March 29, 2017, we issued $250.0 million of 4.375% Convertible Senior Notes due 2023 (the "2023 Notes"). The proceeds from the issuance of the 2023 Notes were used to repurchase $230.0 million of the 2018 Notes for $250.7 million. The repurchase price was allocated between the fair value of the liability component and the fair value of the equity component of the 2018 Notes at the repurchase date. The portion of the repurchase price attributable to the equity component totaled $18.1 million and was recognized as a reduction of additional paid-in capital during the six months ended June 30, 2017. The portion of the repurchase price attributable to the liability component exceeded the net carrying amount of the liability component by $5.9 million, which was recognized as a loss on extinguishment of debt in our condensed consolidated statement of operations for the six months ended June 30, 2017.

The following table details the conversion attributes of our Convertible Notes outstanding as of June 30, 2018 (amounts in thousands, except rates):

| | June 30, 2018 | | Conversion Spread Value - Shares (3) | | | |
|---|---|---|---|---|---|---|
| | | | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
| | Conversion Rate (1) | Conversion Price (2) | 2018 | 2017 | 2018 | 2017 |
| 2018 Notes | N/A | N/A | — | 1,162 | — | 1,157 |
| 2019 Notes | 51.4738 | $ 19.43 | 1,863 | 1,980 | 1,900 | 1,971 |
| 2023 Notes | 38.5959 | $ 25.91 | — | — | — | — |
| | | | 1,863 | 3,142 | 1,900 | 3,128 |

(1) The conversion rate represents the number of shares of common stock issuable per $1,000 principal amount of Convertible Notes converted, as adjusted in accordance with the indentures governing the Convertible Notes (including the applicable supplemental indentures).

(2) As of June 30, 2018 and 2017, the market price of the Company's common stock was $21.71 and $22.39 per share, respectively.

(3) The conversion spread value represents the portion of the Convertible Notes that are "in-the-money", representing the value that would be delivered to investors in shares upon an assumed conversion.

The if-converted value of the 4.00% Convertible Senior Notes due 2019 (the "2019 Notes") exceeded their principal amount by $40.1 million at June 30, 2018 as the closing market price of the Company's common stock of $21.71 per share exceeded the implicit conversion price of $19.43 per share. However, the if converted value of the 2023 Notes was less than their principal amount by $40.5 million at June 30, 2018 as the closing market price of the Company's common stock was less than the implicit conversion price of $25.91 per share.

Due to facts and circumstances existing as of June 30, 2018, the Company no longer asserts its intent to fully settle the principal amount of the Convertible Notes in cash upon conversion. The if-converted value of the principal amount of the 2019 Notes and 2023 Notes was $341.4 million and $209.5 million, respectively, as of June 30, 2018.

Subsequent to June 30, 2018, we received redemptions related to our 2019 Notes with a par amount totaling $258.8 million. Based on the Company's closing share price as of August 7, 2018, these redemptions represent $299.6 million of total value, of which $104.0 million settled in July 2018 through the issuance of 4.7 million shares. We expect to settle the remaining $195.6 million of value through share issuances totaling $168.1 million and cash payments totaling $27.5 million.

Table of Contents

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 an interest in the VIE and/or serve as special servicer for the VIE. The following summarizes the fair value and par value of loans sold from our conduit platform, as well as the amount of sale proceeds used in part to repay the outstanding balance of the repurchase agreements associated with these loans for the three and six months ended June 30, 2018 and 2017 (amounts in thousands):

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Fair value of loans sold | $ 215,133 | $ 291,182 | $ 481,765 | $ 470,478 |
| Par value of loans sold | 208,141 | 272,293 | 464,959 | 440,857 |
| Repayment of repurchase agreements | 157,538 | 206,461 | 351,382 | 332,979 |

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

| | Loan Transfers Accounted for as Sales | | Loan Transfers Accounted for as Secured Borrowings | |
|---|---|---|---|---|
| | Face Amount | Proceeds | Face Amount | Proceeds |
| For the Three Months Ended June 30, | | | | |
| 2018 | $ 50,000 | $ 49,447 | $ — | $ — |
| 2017 | — | — | — | — |
| For the Six Months Ended June 30, | | | | |
| 2018 | $ 196,400 | $ 194,720 | $ — | $ — |

| | | | | |
|---|---|---|---|---|
| 2017 | 38,750 | 37,079 | — | — |

During the three and six months ended June 30, 2018 and 2017, gains (losses) recognized by the Lending Segment on sales of loans were not material.

Table of Contents

12. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

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

Designated Hedges

The Company does not generally elect to apply the hedge accounting designation to its hedging instruments. During the three and six months ended June 30, 2018, the Company's only designated hedges were comprised of one and two outstanding interest rate swaps, respectively, that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of June 30, 2018, the fair value of the one remaining cash flow hedge was not material. Additionally, during the three and six months ended June 30, 2018 and 2017 the impact of these cash flow hedges on our net income was not material and we did not recognize any hedge ineffectiveness in earnings associated with these cash flow hedges.

Non-designated Hedges and Derivatives

The Company has entered into the following types of non-designated hedges and derivatives:

- Foreign exchange ("Fx") forwards whereby we agree to buy or sell a specified amount of foreign currency for a specified amount of USD at a future date, economically fixing the USD amounts of foreign denominated cash flows we expect to receive or pay related to certain foreign denominated loan investments and properties;
- Interest rate contracts which hedge a portion of our exposure to changes in interest rates;
- Credit index instruments which hedge a portion of our exposure to the credit risk of our commercial loans held-for-sale; and
- Forward loan purchase commitments whereby we agree to buy a specified amount of residential mortgage loans at a future date for a specified price and the counterparty is contractually obligated to deliver such mortgage loans (see Note 21).

The following table summarizes our non-designated Fx forwards, interest rate contracts, credit index instruments and forward loan purchase commitments as of June 30, 2018 (notional amounts in thousands):

| Type of Derivative | Number of Contracts | Aggregate Notional Amount | Notional Currency | Maturity |
|---|---|---|---|---|
| Fx contracts – Sell Euros ("EUR") | 35 | 339,241 | EUR | July 2018 – March 2022 |
| Fx contracts – Buy Pounds Sterling ("GBP") | 2 | 5,145 | GBP | July 2019 |
| Fx contracts – Sell Pounds Sterling ("GBP") | 132 | 200,841 | GBP | July 2018 – December 2021 |
| Interest rate swaps – Paying fixed rates | 26 | 1,003,449 | USD | April 2019 – July 2028 |
| Interest rate swaps – Receiving fixed rates | 2 | 970,000 | USD | January 2021 – March 2025 |
| Interest rate caps | 2 | 294,000 | EUR | May 2020 |
| Interest rate caps | 10 | 127,054 | USD | November 2018 – October 2021 |
| Credit index instruments | 9 | 74,000 | USD | September 2058 – November 2059 |
| Forward loan purchase commitments | 2 | 65,000 | USD | September 2018 |
| Total | 220 | | | |

39

Table of Contents

The table below presents the fair value of our derivative financial instruments as well as their classification on the condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017 (amounts in thousands):

| | Fair Value of Derivatives in an Asset Position (1) as of | | Fair Value of Derivatives in a Liability Position (2) as of | |
|---|---|---|---|---|
| | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate swaps | $ 7 | $ 25 | $ — | $ — |
| Total derivatives designated as hedging instruments | 7 | 25 | — | — |
| Derivatives not designated as hedging instruments: | | | | |
| Interest rate contracts | 45,835 | 27,234 | 25,078 | 2,781 |
| Foreign exchange contracts | 4,455 | 6,400 | 11,057 | 33,419 |
| Credit index instruments | 518 | 239 | — | — |
| Total derivatives not designated as hedging instruments | 50,808 | 33,873 | 36,135 | 36,200 |
| Total derivatives | $ 50,815 | $ 33,898 | $ 36,135 | $ 36,200 |

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

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

The tables below present the effect of our derivative financial instruments on the condensed consolidated statements of operations and of comprehensive income for the three and six months ended June 30, 2018 and 2017 (amounts in thousands):

| Derivatives Designated as Hedging Instruments | Gain (Loss) Recognized in OCI | Gain (Loss) Reclassified from AOCI into Income | Gain (Loss) Recognized in Income | Location of Gain (Loss) |
|---|---|---|---|---|
| For the Three Months Ended June 30, | (effective portion) | (effective portion) | (ineffective portion) | Recognized in Income |
| 2018 | $ (1) | $ 22 | $ — | Interest expense |
| 2017 | $ 1 | $ (1) | $ — | Interest expense |
| For the Six Months Ended June 30, | | | | |
| 2018 | $ 8 | $ 26 | $ — | Interest expense |
| 2017 | $ 48 | $ (30) | $ — | Interest expense |

| Derivatives Not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income | Amount of Gain (Loss) Recognized in Income for the Three Months Ended June 30, | | Amount of Gain (Loss) Recognized in Income for the Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| Interest rate contracts | Gain (loss) on derivative financial instruments | $ (128) | $ (7,822) | $ 6,109 | $ (6,354) |
| Foreign exchange contracts | Gain (loss) on derivative financial instruments | 32,818 | (29,422) | 9,675 | (35,164) |
| Credit index instruments | Gain (loss) on derivative financial instruments | (68) | (342) | (21) | (417) |
| | | $ 32,622 | $ (37,586) | $ 15,763 | $ (41,935) |

Table of Contents

13. Offsetting Assets and Liabilities

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

| | (i) 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 June 30, 2018 | | | | | | |
| Derivative assets | $ 50,815 | $ — | $ 50,815 | $ 4,966 | $ — | $ 45,849 |
| Derivative liabilities | $ 36,135 | $ — | $ 36,135 | $ 4,966 | $ 19,433 | $ 11,736 |
| Repurchase agreements | 3,314,996 | — | 3,314,996 | 3,314,996 | — | — |
| | $ 3,351,131 | $ — | $ 3,351,131 | $ 3,319,962 | $ 19,433 | $ 11,736 |
| As of December 31, 2017 | | | | | | |
| Derivative assets | $ 33,898 | $ — | $ 33,898 | $ 6,523 | $ — | $ 27,375 |
| Derivative liabilities | $ 36,200 | $ — | $ 36,200 | $ 6,523 | $ 15,333 | $ 14,344 |
| Repurchase agreements | 3,235,095 | — | 3,235,095 | 3,235,095 | — | — |
| | $ 3,271,295 | $ — | $ 3,271,295 | $ 3,241,618 | $ 15,333 | $ 14,344 |

14. Variable Interest Entities

Investment Securities

As discussed in Note 2, we evaluate all of our investments and other interests in entities for consolidation, including our investments in CMBS and our retained interests in securitization transactions we initiated, all of which are

generally considered to be variable interests in VIEs.

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

VIEs in which we are the Primary Beneficiary

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

We also hold controlling interests in non-securitization entities that are considered VIEs, most of which were established to facilitate the acquisition of certain properties.  SPT Dolphin, the entity which holds the Woodstar II Portfolio, is a VIE because the third party interest holders do not carry kick-out rights or substantive participating rights.  We were deemed to be the primary beneficiary of the VIE because we possess both the power to direct the activities of the VIE that most significantly impact its economic performance and a significant economic interest in the entity.  This VIE had assets of $667.0 million and liabilities of $428.8 million as of June 30, 2018.  In total, our consolidated non-securitization VIEs had assets of $800.3 million and liabilities of $508.4 million as of June 30, 2018.

VIEs in which we are not the Primary Beneficiary

In certain instances, we hold a variable interest in a VIE in the form of CMBS, but either (i) we are not appointed, or do not serve as, special servicer or (ii) an unrelated third party has the rights to unilaterally remove us as special servicer without cause. In these instances, we do not have the power to direct activities that most significantly impact the VIE’s economic performance. In other cases, the variable interest we hold does not obligate us to absorb losses or provide us with the right to receive benefits from the VIE which could potentially be significant. For these structures, we are not deemed to be the primary beneficiary of the VIE, and we do not consolidate these VIEs.

As of June 30, 2018, two of our CDO structures were in default or imminent default, which, pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO’s economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO’s economic performance, we do not consolidate the VIE.  As of June 30, 2018, neither of these CDO structures were consolidated.

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization VIEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of June 30, 2018, our maximum risk of loss related to securitization VIEs in which we were not the primary beneficiary was $52.4 million on a fair value basis.

As of June 30, 2018, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of $10.6 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

We also hold passive non-controlling interests in certain unconsolidated entities that are considered VIEs. We are not the primary beneficiaries of these VIEs as we do not possess the power to direct the activities of the VIEs that most significantly impact their economic performance and therefore report our interests, which totaled $128.6 million as of June 30, 2018, within investment in unconsolidated entities on our condensed consolidated balance sheet.  Our maximum risk of loss is limited to our carrying value of the investments.

15. Related-Party Transactions

Management Agreement

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

In February 2018, our board of directors authorized an amendment to our Management Agreement to adjust the calculation of the base management fee and incentive fee to treat equity securities of subsidiaries issued in exchange for properties or interests therein as issued common stock, effective December 28, 2017 (the "Amendment"). Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further discussion of the Amendment.

Base Management Fee.  For the three months ended June 30, 2018 and 2017, approximately $18.0 million and $16.9 million, respectively, was incurred for base management fees. For the six months ended June 30, 2018 and 2017, approximately $35.5 million and $33.8 million, respectively, was incurred for base management fees. As of June 30, 2018 and December 31, 2017, there were $18.0 million and $17.1 million, respectively, of unpaid base management fees included in related-party payable in our condensed consolidated balance sheets.

Incentive Fee.  For the three months ended June 30, 2018 and 2017, approximately $5.7 million and $4.3 million, respectively, was incurred for incentive fees. For the six months ended June 30, 2018 and 2017, approximately $15.3 million and $9.8 million, respectively, was incurred for incentive fees. As of June 30, 2018 and December 31, 2017, approximately $5.7 million and $22.0 million, respectively, of unpaid incentive fees were included in related-party payable in our condensed consolidated balance sheets.

Expense Reimbursement.  For the three months ended June 30, 2018 and 2017, approximately $1.9 million and $1.3 million, respectively, was incurred for executive compensation and other reimbursable expenses and recognized within general and administrative expenses in our condensed consolidated statements of operations. For the six months ended June 30, 2018 and 2017, approximately $4.0 million and $2.8 million, respectively, was incurred for executive compensation and other reimbursable expenses. As of June 30, 2018 and December 31, 2017, approximately $1.6 million and $3.3 million, respectively, of unpaid reimbursable executive compensation and other

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

Equity Awards. In certain instances, we issue RSAs to certain employees of affiliates of our Manager who perform services for us. During the three months ended June 30, 2018 and 2017, there were no RSA's granted. Expenses related to the vesting of awards to employees of affiliates of our Manager were $0.8 million during both the three months ended June 30, 2018 and 2017 and are reflected in general and administrative expenses in our condensed consolidated statements of operations. During the six months ended June 30, 2018 and 2017, we granted 189,813 and 138,264 RSAs, respectively, at grant date fair values of $4.0 million and $3.1 million, respectively. Expenses related to the vesting of awards to employees of affiliates of our Manager were $1.3 million and $1.4 million during the six months ended June 30, 2018 and 2017, respectively. These shares generally vest over a three-year period.

Table of Contents

Manager Equity Plan

In May 2017, the Company's shareholders approved the Starwood Property Trust, Inc. 2017 Manager Equity Plan (the "2017 Manager Equity Plan") which replaced the Starwood Property Trust, Inc. Manager Equity Plan ("Manager Equity Plan"). In April 2018, we granted 775,000 RSUs to our Manager under the 2017 Manager Equity Plan. In March 2017, we granted 1,000,000 RSUs to our Manager under the Manager Equity Plan. In May 2015, we granted 675,000 RSUs to our Manager under the Manager Equity Plan. In connection with these grants and prior similar grants, we recognized share-based compensation expense of $3.3 million and $2.9 million within management fees in our condensed consolidated statements of operations for the three months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, we recognized $6.2 million and $4.4 million, respectively, related to these awards. Refer to Note 16 for further discussion of these grants.

Investments in Loans and Securities

In January 2018, the Company acquired a $130.0 million first mortgage participation from an unaffiliated third party, which bears interest at LIBOR plus 4.00%. The loan is secured by four U.S. power plants that each have long-term power purchase agreements with investment grade counterparties. The borrower is an affiliate of our Manager.

In February 2018, a GBP denominated first mortgage loan that we had co-originated with SEREF in November 2013, which was secured by Centre Point, an iconic tower located in Central London, England, was repaid in full.

In March 2018, the Company acquired a €55.0 million newly-originated loan participation from SEREF, which is secured by a luxury resort in Estepona, Spain.

During the three months ended June 30, 2018, the Company acquired $44.4 million of loans held-for-sale from a residential mortgage originator in which it holds an equity interest. Also during the three months ended June 30, 2018, the Company originated a $2.0 million subordinated loan to this residential mortgage originator which carries an 8% fixed interest rate and matures in September 2019. Refer to Note 7 for further discussion.

In June 2018, a subordinate CMBS investment in a securitization issued by an affiliate of our Manager was paid off in full. We acquired the security, which was secured by five regional malls in Ohio, California and Washington, for $84.1 million in December 2013. In January 2016, we acquired an additional $9.7 million of this subordinate CMBS investment.

Acquisitions from Consolidated CMBS Trusts

Our Investing and Servicing Segment acquires interests in properties for its REIS Equity Portfolio from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in our condensed consolidated statements of cash flows. During the three months ended June 30, 2017, we acquired $19.7 million of net real estate assets from consolidated CMBS trusts for a gross purchase price of $19.9 million. No real estate assets were acquired from consolidated CMBS trusts during the

three months ended June 30, 2018. During the six months ended June 30, 2018 and 2017, we acquired $27.7 million and $19.7 million, respectively, of net real estate assets from consolidated CMBS trusts for a gross purchase price of $28.0 million and $19.9 million, respectively. Refer to Note 3 for further discussion of these acquisitions.

Refer to Note 16 to the consolidated financial statements included in our Form 10-K for further discussion of related-party agreements.

16. Stockholders' Equity and Non-Controlling Interests

During the six months ended June 30, 2018 our board of directors declared the following dividends:

| Declaration Date | Record Date | Ex-Dividend Date | Payment Date | Amount | Frequency |
|---|---|---|---|---|---|
| 5/4/18 | 6/29/18 | 6/27/18 | 7/13/18 | $ 0.48 | Quarterly |
| 2/28/18 | 3/30/18 | 3/28/18 | 4/13/18 | $ 0.48 | Quarterly |

During the six months ended June 30, 2018 and 2017, there were no shares issued under our At-The-Market Equity Offering Sales Agreement. During the six months ended June 30, 2018 and 2017, shares issued under the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the "DRIP Plan") were not material.

In February 2017, our board of directors extended the term of our $500.0 million common stock and Convertible Note repurchase program through January 2019. Refer to Note 17 to the consolidated financial statements included in our Form 10-K for further information regarding the repurchase program. During the six months ended June 30, 2018, we repurchased 573,255 shares of common stock for $12.1 million and no Convertible Notes under our repurchase program. There were no share or Convertible Notes repurchases under the repurchase program during the six months ended June 30, 2017. The repurchase of the 2018 Notes discussed in Note 10 was not considered part of the repurchase program and therefore did not reduce our available capacity for future repurchases under the repurchase program. As of June 30, 2018, we had $250.1 million of remaining capacity to repurchase common stock and/or Convertible Notes under the repurchase program.

Equity Incentive Plans

In May 2017, the Company's shareholders approved the 2017 Manager Equity Plan and the Starwood Property Trust, Inc. 2017 Equity Plan (the "2017 Equity Plan"), which allow for the issuance of up to 11,000,000 stock options, stock appreciation rights, RSAs, RSUs or other equity-based awards or any combination thereof to the Manager, directors, employees, consultants or any other party providing services to the Company. The 2017 Manager Equity Plan succeeds and replaces the Manager Equity Plan and the 2017 Equity Plan succeeds and replaces the Starwood Property Trust, Inc. Equity Plan (the "Equity Plan") and the Starwood Property Trust, Inc. Non-Executive Director Stock Plan (the "Non-Executive Director Stock Plan").

The table below summarizes our share awards granted or vested under the Manager Equity Plan and 2017 Manager Equity Plan during the six months ended June 30, 2018 and 2017 (dollar amounts in thousands):

| Grant Date | Type | Amount Granted | Grant Date Fair Value | Vesting Period |
|---|---|---|---|---|
| April 2018 | RSU | 775,000 | $ 16,329 | 3 years |
| March 2017 | RSU | 1,000,000 | 22,240 | 3 years |
| May 2015 | RSU | 675,000 | 16,511 | 3 years |

As of June 30, 2018, there were 9.5 million shares available for future grants under the 2017 Manager Equity Plan and the 2017 Equity Plan.

Table of Contents

Schedule of Non-Vested Shares and Share Equivalents

| | 2017 Equity Plan | 2017 Manager Equity Plan | Total | Weighted Average Grant Date Fair Value (per share) |
|---|---|---|---|---|
| Balance as of January 1, 2018 | 885,138 | 806,251 | 1,691,389 | $ 21.95 |
| Granted | 486,323 | 775,000 | 1,261,323 | 21.14 |
| Vested | (267,037) | (287,499) | (554,536) | 21.79 |
| Forfeited | — | — | — | — |
| Balance as of June 30, 2018 | 1,104,424 | 1,293,752 | 2,398,176 | 21.56 |

Non-Controlling Interests in Consolidated Subsidiaries

As discussed in Note 3, in connection with our Woodstar II Portfolio acquisitions, we issued 9.8 million Class A Units in SPT Dolphin. After the earlier of (i) August 16, 2018 and (ii) three business days after the acquisition of the final property in the Woodstar II Portfolio, Class A Units are redeemable for consideration equal to the current share price of the Company's common stock on a one-for-one basis, with the consideration paid in either cash or the Company's common stock, at the determination of the Company. In consolidation, the issued Class A Units are reflected as non-controlling interests in consolidated subsidiaries on our condensed consolidated balance sheets.

To the extent SPT Dolphin has sufficient cash available, the Class A Units earn a preferred return indexed to the dividend rate of the Company's common stock. Any distributions made pursuant to this waterfall are recognized within net income attributable to non-controlling interests in our condensed consolidated statements of operations. During the three and six months ended June 30, 2018, we recognized net income attributable to non-controlling interests of $4.6 million and $7.1 million, respectively, associated with these Class A Units.

In March 2018, we acquired the non-controlling interest held by a third party in one of our consolidated REIS Equity Portfolio properties, which was carried at $0.3 million, for $3.3 million. The excess of the consideration paid to acquire the non-controlling interest over the carrying value of the non-controlling interest was recorded as a reduction of stockholders' equity in March 2018.

Table of Contents

17. Earnings per Share

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Basic Earnings | | | | |
| Income attributable to STWD common stockholders | $ 109,230 | $ 117,380 | $ 209,162 | $ 219,738 |
| Less: Income attributable to participating shares not already deducted as non-controlling interests | (1,034) | (828) | (1,755) | (1,728) |
| Basic earnings | $ 108,196 | $ 116,552 | $ 207,407 | $ 218,010 |
| Diluted Earnings | | | | |
| Income attributable to STWD common stockholders | $ 109,230 | $ 117,380 | $ 209,162 | $ 219,738 |
| Less: Income attributable to participating shares not already deducted as non-controlling interests | (1,034) | (828) | (1,755) | (1,728) |
| Add: Interest expense on Convertible Notes (1) | 7,593 | N/A | 15,159 | N/A |
| Diluted earnings | $ 115,789 | $ 116,552 | $ 222,566 | $ 218,010 |
| Number of Shares: | | | | |
| Basic — Average shares outstanding | 260,998 | 259,472 | 260,832 | 259,236 |
| Effect of dilutive securities — Convertible Notes (1) | 27,134 | 3,142 | 27,044 | 3,128 |
| Effect of dilutive securities — Contingently issuable shares | 128 | 96 | 128 | 96 |
| Effect of dilutive securities — Unvested non-participating shares | 50 | 141 | 36 | 104 |
| Diluted — Average shares outstanding | 288,310 | 262,851 | 288,040 | 262,564 |
| Earnings Per Share Attributable to STWD Common Stockholders: | | | | |
| Basic | $ 0.41 | $ 0.45 | $ 0.80 | $ 0.84 |
| Diluted | $ 0.40 | $ 0.44 | $ 0.77 | $ 0.83 |

(1) Prior to June 30, 2018, the Company had asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. Accordingly, under GAAP, the dilutive effect to EPS for the prior year periods was determined using the treasury stock method by dividing only the "conversion spread value" of the "in-the-money" Convertible Notes by the Company's average share price and including the resulting share amount in the diluted EPS denominator. The conversion value of the principal amount of the Convertible Notes was not included. As of June 30, 2018, the Company no longer asserts its intent to fully settle the principal amount of the Convertible Notes in cash upon conversion. Accordingly, under GAAP, the dilutive effect to EPS for the current year periods is determined using the "if-converted" method whereby interest expense on the outstanding Convertible Notes is added back to the diluted EPS numerator and the full number of potential shares contingently issuable upon their

conversion is included in the diluted EPS denominator. Refer to Note 10 for further discussion.

As of June 30, 2018 and 2017, participating shares of 11.9 million and 1.7 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. Such participating shares at June 30, 2018 included 9.8 million potential shares of our common stock issuable upon redemption of the Class A Units in SPT Dolphin, as discussed in Note 16.

Table of Contents

18. Accumulated Other Comprehensive Income

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

| | Effective Portion of Cumulative Loss on Cash Flow Hedges | Cumulative Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation | Total |
|---|---|---|---|---|
| Three Months Ended June 30, 2018 | | | | |
| Balance at April 1, 2018 | $ 30 | $ 59,052 | $ 16,228 | $ 75,310 |
| OCI before reclassifications | (1) | 1,052 | (8,176) | (7,125) |
| Amounts reclassified from AOCI | (22) | (29) | — | (51) |
| Net period OCI | (23) | 1,023 | (8,176) | (7,176) |
| Balance at June 30, 2018 | $ 7 | $ 60,075 | $ 8,052 | $ 68,134 |
| Three Months Ended June 30, 2017 | | | | |
| Balance at April 1, 2017 | $ 50 | $ 46,775 | $ (6,758) | $ 40,067 |
| OCI before reclassifications | 1 | 4,917 | 11,005 | 15,923 |
| Amounts reclassified from AOCI | 1 | (10) | — | (9) |
| Net period OCI | 2 | 4,907 | 11,005 | 15,914 |
| Balance at June 30, 2017 | $ 52 | $ 51,682 | $ 4,247 | $ 55,981 |
| Six Months Ended June 30, 2018 | | | | |
| Balance at January 1, 2018 | $ 25 | $ 57,889 | $ 12,010 | $ 69,924 |
| OCI before reclassifications | 8 | 2,261 | (3,958) | (1,689) |
| Amounts reclassified from AOCI | (26) | (75) | — | (101) |
| Net period OCI | (18) | 2,186 | (3,958) | (1,790) |
| Balance at June 30, 2018 | $ 7 | $ 60,075 | $ 8,052 | $ 68,134 |
| Six Months Ended June 30, 2017 | | | | |
| Balance at January 1, 2017 | $ (26) | $ 44,929 | $ (8,765) | $ 36,138 |
| OCI before reclassifications | 48 | 6,848 | 13,012 | 19,908 |
| Amounts reclassified from AOCI | 30 | (95) | — | (65) |
| Net period OCI | 78 | 6,753 | 13,012 | 19,843 |
| Balance at June 30, 2017 | $ 52 | $ 51,682 | $ 4,247 | $ 55,981 |

The reclassifications out of AOCI impacted the condensed consolidated statements of operations for the three and six months ended June 30, 2018 and 2017 as follows (amounts in thousands):

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

| Details about AOCI Components | Ended June 30, 2018 | 2017 | Ended June 30, 2018 | 2017 | in the Statements of Operations |
|---|---|---|---|---|---|
| Gain (loss) on cash flow hedges: | | | | | |
| Interest rate contracts | $ 22 | $ (1) | $ 26 | $ (30) | Interest expense |
| Unrealized gains on available-for-sale securities: | | | | | |
| Interest realized upon collection | — | 10 | 46 | 95 | Interest income from investment securities |
| Net realized gain on sale of investment | 29 | — | 29 | — | Gain on sale of investments and other assets, net |
| Total | 29 | 10 | 75 | 95 | |
| Total reclassifications for the period | $ 51 | $ 9 | $ 101 | $ 65 | |

48

Table of Contents

## 19. Fair Value

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

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

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

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

### Valuation Process

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

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

Table of Contents

Fair Value Disclosures

The following tables present our financial assets and liabilities carried at fair value on a recurring basis in the condensed consolidated balance sheets by their level in the fair value hierarchy as of June 30, 2018 and December 31, 2017 (amounts in thousands):

| | June 30, 2018 | | | |
|---|---|---|---|---|
| | Total | Level I | Level II | Level III |
| Financial Assets: | | | | |
| Loans held-for-sale, fair value option | $ 1,092,769 | $ — | $ 195,510 | $ 897,259 |
| RMBS | 235,796 | — | — | 235,796 |
| CMBS | 52,426 | — | 27,776 | 24,650 |
| Equity security | 13,037 | 13,037 | — | — |
| Domestic servicing rights | 22,742 | — | — | 22,742 |
| Derivative assets | 50,815 | — | 50,815 | — |
| VIE assets | 48,044,873 | — | — | 48,044,873 |
| Total | $ 49,512,458 | $ 13,037 | $ 274,101 | $ 49,225,320 |
| Financial Liabilities: | | | | |
| Derivative liabilities | $ 36,135 | $ — | $ 36,135 | $ — |
| VIE liabilities | 46,976,428 | — | 44,974,313 | 2,002,115 |
| Total | $ 47,012,563 | $ — | $ 45,010,448 | $ 2,002,115 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Total | Level I | Level II | Level III |
| Financial Assets: | | | | |
| Loans held-for-sale, fair value option | $ 745,743 | $ — | $ — | $ 745,743 |
| RMBS | 247,021 | — | — | 247,021 |
| CMBS | 24,191 | — | — | 24,191 |
| Equity security | 13,523 | 13,523 | — | — |
| Domestic servicing rights | 30,759 | — | — | 30,759 |
| Derivative assets | 33,898 | — | 33,898 | — |
| VIE assets | 51,045,874 | — | — | 51,045,874 |
| Total | $ 52,141,009 | $ 13,523 | $ 33,898 | $ 52,093,588 |
| Financial Liabilities: | | | | |
| Derivative liabilities | $ 36,200 | $ — | $ 36,200 | $ — |
| VIE liabilities | 50,000,010 | — | 47,811,073 | 2,188,937 |
| Total | $ 50,036,210 | $ — | $ 47,847,273 | $ 2,188,937 |

Table of Contents

The changes in financial assets and liabilities classified as Level III are as follows for the three and six months ended June 30, 2018 and 2017 (amounts in thousands):

| | Loans | | | Domestic Servicing | | VIE | |
|---|---|---|---|---|---|---|---|
| Three Months Ended June 30, 2018 | Held for sale | RMBS | CMBS | Rights | VIE Assets | Liabilities | Total |
| April 1, 2018 balance | $ 723,733 | $ 240,853 | $ 23,969 | $ 24,945 | $ 49,233,307 | $ (2,205,734) | $ 48,041,0 |
| Total realized and unrealized gains (losses): | | | | | | | |
| Included in earnings: | | | | | | | |
| Change in fair value / gain on sale | 14,833 | 141 | (542) | (2,203) | (1,766,507) | 297,960 | (1,456,31 |
| Net accretion | — | 2,622 | — | — | — | — | 2,622 |
| Included in OCI | — | 1,023 | — | — | — | — | 1,023 |
| Purchases / Originations | 633,433 | — | 1,463 | — | — | — | 634,896 |
| Sales | (215,133) | (807) | — | — | — | — | (215,940 |
| Cash repayments / receipts | (64,097) | (8,036) | (240) | — | — | (45,177) | (117,550 |
| Transfers into Level III | — | — | — | — | — | (160,071) | (160,071 |
| Transfers out of Level III | (195,510) | — | — | — | — | 109,592 | (85,918) |
| Consolidation of VIEs | — | — | — | — | 725,189 | — | 725,189 |
| Deconsolidation of VIEs | — | — | — | — | (147,116) | 1,315 | (145,801 |
| June 30, 2018 balance | $ 897,259 | $ 235,796 | $ 24,650 | $ 22,742 | $ 48,044,873 | $ (2,002,115) | $ 47,223,2 |
| Amount of total gains (losses) included in earnings attributable to assets still held at June 30, 2018 | $ 2,071 | $ 2,623 | $ (542) | $ (2,203) | $ (1,766,507) | $ 297,960 | $ (1,466,59 |

| Three Months Ended June 30, 2017 | Loans Held for sale | RMBS | CMBS | Domestic Servicing Rights | VIE Assets | VIE Liabilities | Total |
|---|---|---|---|---|---|---|---|
| April 1, 2017 balance | $ 340,266 | $ 249,419 | $ 15,472 | $ 46,649 | $ 60,185,851 | $ (2,161,295) | $ 58,676,3 |
| Total realized and unrealized gains (losses): | | | | | | | |
| Included in earnings: | | | | | | | |
| Change in fair value / gain on sale | 15,406 | — | (2,343) | (8,001) | (5,702,684) | 213,503 | (5,484,1 |
| OTTI | — | (109) | — | — | — | — | (109) |
| Net accretion | — | 3,302 | — | — | — | — | 3,302 |
| Included in OCI | — | 4,907 | — | — | — | — | 4,907 |
| Purchases / Originations | 557,068 | 7,433 | — | — | — | — | 564,501 |
| Sales | (291,182) | — | (700) | — | — | — | (291,882 |
| Issuances | — | — | — | — | — | (5,429) | (5,429) |
| Cash repayments / receipts | (11,442) | (8,555) | (1,322) | — | — | (5,240) | (26,559) |
| Transfers into Level III | — | — | — | — | — | (319,457) | (319,457 |
| Transfers out of Level III | — | — | — | — | — | 34,288 | 34,288 |
| Consolidation of VIEs | — | — | — | — | — | — | — |
| Deconsolidation of VIEs | — | — | 2,741 | — | (580,452) | 79,037 | (498,674 |
| June 30, 2017 balance | $ 610,116 | $ 256,397 | $ 13,848 | $ 38,648 | $ 53,902,715 | $ (2,164,593) | $ 52,657,1 |
| Amount of total (losses) gains included in earnings attributable to assets still held at June 30, 2017 | $ (3,291) | $ 3,186 | $ 396 | $ (8,001) | $ (5,702,684) | $ 213,503 | $ (5,496,8 |

Table of Contents

| Six Months Ended June 30, 2018 | Loans Held for sale | RMBS | CMBS | Domestic Servicing Rights | VIE Assets | VIE Liabilities | Total |
|---|---|---|---|---|---|---|---|
| January 1, 2018 balance | $ 745,743 | $ 247,021 | $ 24,191 | $ 30,759 | $ 51,045,874 | $ (2,188,937) | $ 49,904,6 |
| Total realized and unrealized gains (losses): | | | | | | | |
| Included in earnings: | | | | | | | |
| Change in fair value / gain on sale | 22,633 | 141 | 13 | (8,017) | (3,793,715) | 535,050 | (3,243,8 |
| Net accretion | — | 5,441 | — | — | — | — | 5,441 |
| Included in OCI | — | 2,186 | — | — | — | — | 2,186 |
| Purchases / Originations | 910,692 | — | 1,463 | — | — | — | 912,155 |
| Sales | (481,765) | (807) | — | — | — | — | (482,57 |
| Issuances | — | — | — | — | — | (7,948) | (7,948) |
| Cash repayments / receipts | (104,534) | (18,186) | (1,017) | — | — | (57,810) | (181,54 |
| Transfers into Level III | — | — | — | — | — | (690,959) | (690,95 |
| Transfers out of Level III | (195,510) | — | — | — | — | 317,850 | 122,340 |
| Consolidation of VIEs | — | — | — | — | 1,815,070 | — | 1,815,0 |
| Deconsolidation of VIEs | — | — | — | — | (1,022,356) | 90,639 | (931,71 |
| June 30, 2018 balance | $ 897,259 | $ 235,796 | $ 24,650 | $ 22,742 | $ 48,044,873 | $ (2,002,115) | $ 47,223,2 |
| Amount of total gains (losses) included in earnings attributable to assets still held at June 30, 2018 | $ 1,482 | $ 5,388 | $ 13 | $ (8,017) | $ (3,793,715) | $ 535,050 | $ (3,259,7 |

| | Loans Held for sale | RMBS | CMBS | Domestic Servicing Rights | VIE Assets | VIE Liabilities | Total |
|---|---|---|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Six Months Ended June 30, 2017 | | | | | | | |
| January 1, 2017 balance | $ 63,279 | $ 253,915 | $ 31,546 | $ 55,082 | $ 67,123,261 | $ (2,585,369) | $ 64,9 |
| Total realized and unrealized gains (losses): | | | | | | | |
| Included in earnings: | | | | | | | |
| Change in fair value / gain on sale | 25,999 | — | (3,686) | (16,434) | (12,239,909) | 598,484 | (11, |
| OTTI | — | (109) | — | — | — | — | (109 |
| Net accretion | — | 7,188 | — | — | — | — | 7,18 |
| Included in OCI | — | 6,753 | — | — | — | — | 6,75 |
| Purchases / Originations | 1,002,955 | 7,433 | — | — | — | — | 1,01 |
| Sales | (470,478) | — | (11,134) | — | — | — | (481 |
| Issuances | — | — | — | — | — | (10,188) | (10, |
| Cash repayments / receipts | (11,639) | (18,783) | (7,088) | — | — | (36,036) | (73, |
| Transfers into Level III | — | — | — | — | — | (383,427) | (383 |
| Transfers out of Level III | — | — | — | — | — | 163,740 | 163, |
| Consolidation of VIEs | — | — | — | — | 1,127,952 | — | 1,12 |
| Deconsolidation of VIEs | — | — | 4,210 | — | (2,108,589) | 88,203 | (2,0 |
| June 30, 2017 balance | $ 610,116 | $ 256,397 | $ 13,848 | $ 38,648 | $ 53,902,715 | $ (2,164,593) | $ 52,6 |
| Amount of total (losses) gains included in earnings attributable to assets still held at June 30, 2017 | $ (3,291) | $ 6,973 | $ 228 | $ (16,434) | $ (12,239,909) | $ 598,484 | $ (11, |

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

Table of Contents

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

| | June 30, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | 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 | $ 7,002,393 | $ 7,084,822 | $ 6,636,898 | $ 6,729,302 |
| HTM securities | 140,676 | 143,656 | 433,468 | 428,338 |
| Financial liabilities not carried at fair value: | | | | |
| Secured financing agreements and secured borrowings on transferred loans | $ 6,290,675 | $ 6,215,340 | $ 5,847,241 | $ 5,810,998 |
| Unsecured senior notes | 2,255,976 | 2,271,438 | 2,125,235 | 2,191,285 |

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

| | Carrying Value at June 30, 2018 | Valuation Technique | Unobservable Input | Range as of (1) June 30, 2018 | December 31, 2017 |
|---|---|---|---|---|---|
| Loans held-for-sale, fair value option | $ 897,259 | Discounted cash flow | Yield (b) | 4.8% - 6.0% | 4.3% - 6.0% |
| | | | Duration (c) | 1.8 - 12.3 years | 1.8 - 12.1 years |
| RMBS | 235,796 | Discounted cash flow | Constant prepayment rate (a) | 2.6% - 24.2% | 2.5% - 21.4% |
| | | | Constant default rate (b) | 1.0% - 5.5% | 0.9% - 5.8% |
| | | | Loss severity (b) | 15% - 81% (e) | 14% - 75% (e) |
| | | | Delinquency rate (c) | 5% - 32% | 4% - 33% |
| | | | Servicer advances (a) | 23% - 83% | 20% - 83% |
| | | | Annual coupon deterioration (b) | 0% - 0.8% | 0% - 0.8% |
| | | | Putback amount per projected total collateral loss (d) | 0% - 7% | 0% - 7% |

| | | | | | |
|---|---|---|---|---|---|
| CMBS | 24,650 | Discounted cash flow | Yield (b) | 0% - 852.3% | 0% - 168.5% |
| | | | Duration (c) | 0 - 9.7 years | 0 - 9.7 years |
| Domestic servicing rights | 22,742 | Discounted cash flow | Debt yield (a) | 7.50% | 7.75% |
| | | | Discount rate (b) | 15% | 15% |
| | | | Control migration (b) | 0% - 80% | 0% - 80% |
| VIE assets | 48,044,873 | Discounted cash flow | Yield (b) | 0% - 815.0% | 0% - 826.6% |
| | | | Duration (c) | 0 - 14.2 years | 0 - 14.0 years |
| VIE liabilities | (2,002,115) | Discounted cash flow | Yield (b) | 0% - 815.0% | 0% - 826.6% |
| | | | Duration (c) | 0 - 14.2 years | 0 - 14.0 years |

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

Sensitivity of the Fair Value to Changes in the Unobservable Inputs

(a) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.
(b) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.
(c) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (higher or lower) 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) 72% and 81% of the portfolio falls within a range of 45%-80% as of June 30, 2018 and December 31, 2017, respectively.

Table of Contents

## 20. Income Taxes

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

Our TRSs engage in various real estate related operations, including special servicing of commercial real estate, originating and securitizing commercial mortgage loans, and investing in entities which engage in real estate related operations. As of June 30, 2018 and December 31, 2017, approximately $1.3 billion and $673.1 million, respectively, of assets, including $18.2 million and $24.1 million in cash, respectively, were owned by TRS entities. Our TRSs are not consolidated for U.S. federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

The following table is a reconciliation of our U.S. federal income tax determined using our statutory federal tax rate to our reported income tax provision for the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

| | For the Three Months Ended June 30, | | | | For the Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| Federal statutory tax rate | $ 25,291 | 21.0 % | $ 46,439 | 35.0 % | $ 47,897 | 21.0 % | $ 82,094 | 35.0 |
| REIT and other non-taxable income | (23,157) | (19.2) % | (37,000) | (27.9) % | (43,500) | (19.1) % | (73,425) | (31.2) |
| State income taxes | 558 | 0.5 % | 20 | — % | 1,151 | 0.5 % | (119) | (0.1) |
| Federal benefit of state tax deduction | (118) | (0.1) % | (7) | — % | (242) | (0.1) % | 42 | — |
| Other | 769 | 0.6 % | — | — % | 893 | 0.4 % | (123) | (0.1) |
| Effective tax rate | $ 3,343 | 2.8 % | $ 9,452 | 7.1 % | $ 6,199 | 2.7 % | $ 8,469 | 3.6 |

## 21. Commitments and Contingencies

As of June 30, 2018, we had future funding commitments on 56 loans totaling $2.0 billion, of which we expect to fund $1.8 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 June 2018, we executed an agreement to purchase up to $600.0 million of residential mortgage loans that meet our investment criteria from a third-party residential mortgage originator over the next twelve months. As of June 30, 2018, we had outstanding purchase commitments of $65.0 million under this agreement to acquire loans at an agreed-upon price within 75 days.

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

## 22. Segment Data

In its operation of the business, management, including our chief operating decision maker, who is our Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis prior to the impact of consolidating securitization VIEs under ASC 810. The segment information within this note is reported on that basis.

Table of Contents

The table below presents our results of operations for the three months ended June 30, 2018 by business segment (amounts in thousands):

| | Lending Segment | Property Segment | Investing and Servicing Segment | Corporate | Subtotal | Investing and Servicing VIEs | Total |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Interest income from loans | $ 148,268 | $ — | $ 3,436 | $ — | $ 151,704 | $ — | $ 151,704 |
| Interest income from investment securities | 8,930 | — | 30,472 | — | 39,402 | (28,612) | 10,790 |
| Servicing fees | 50 | — | 24,687 | — | 24,737 | (7,422) | 17,315 |
| Rental income | — | 74,401 | 14,490 | — | 88,891 | — | 88,891 |
| Other revenues | 224 | 81 | 516 | 86 | 907 | (51) | 856 |
| Total revenues | 157,472 | 74,482 | 73,601 | 86 | 305,641 | (36,085) | 269,556 |
| Costs and expenses: | | | | | | | |
| Management fees | 463 | — | 18 | 26,907 | 27,388 | 106 | 27,494 |
| Interest expense | 34,826 | 19,380 | 5,807 | 31,854 | 91,867 | (275) | 91,592 |
| General and administrative | 6,251 | 1,971 | 23,855 | 3,367 | 35,444 | 84 | 35,528 |
| Acquisition and investment pursuit costs | 1,692 | (52) | (79) | — | 1,561 | — | 1,561 |
| Costs of rental operations | — | 25,991 | 6,906 | — | 32,897 | — | 32,897 |
| Depreciation and amortization | 16 | 31,738 | 5,396 | — | 37,150 | — | 37,150 |
| Loan loss allowance, net | 25,259 | — | — | — | 25,259 | — | 25,259 |
| Other expense | 77 | — | 420 | — | 497 | — | 497 |
| Total costs and expenses | 68,584 | 79,028 | 42,323 | 62,128 | 252,063 | (85) | 251,978 |
| Income (loss) before other income (loss), income taxes and non-controlling interests | 88,888 | (4,546) | 31,278 | (62,042) | 53,578 | (36,000) | 17,578 |
| Other income (loss): | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Change in net assets related to consolidated VIEs | — | — | — | — | — | 43,946 | 43,946 |
| Change in fair value of servicing rights | — | — | (3,255) | — | (3,255) | 1,052 | (2,203) |
| Change in fair value of investment securities, net | 482 | — | 15,110 | — | 15,592 | (7,890) | 7,702 |
| Change in fair value of mortgage loans held-for-sale, net | 184 | — | 14,649 | — | 14,833 | — | 14,833 |
| Earnings (loss) from unconsolidated entities | 1,803 | 2,933 | 1,454 | — | 6,190 | (720) | 5,470 |
| Gain on sale of investments and other assets, net | 135 | 2,941 | 10,361 | — | 13,437 | — | 13,437 |
| Gain (loss) on derivative financial instruments, net | 19,467 | 19,920 | (398) | (6,367) | 32,622 | — | 32,622 |
| Foreign currency (loss) gain, net | (13,264) | (1) | 1 | — | (13,264) | — | (13,264) |
| Loss on extinguishment of debt | — | — | (186) | — | (186) | — | (186) |
| Other income, net | — | 489 | 9 | — | 498 | — | 498 |
| Total other income (loss) | 8,807 | 26,282 | 37,745 | (6,367) | 66,467 | 36,388 | 102,855 |
| Income (loss) before income taxes | 97,695 | 21,736 | 69,023 | (68,409) | 120,045 | 388 | 120,433 |
| Income tax provision | (1,720) | (611) | (1,012) | — | (3,343) | — | (3,343) |
| Net income (loss) | 95,975 | 21,125 | 68,011 | (68,409) | 116,702 | 388 | 117,090 |
| Net income attributable to non-controlling interests | (361) | (4,684) | (2,427) | — | (7,472) | (388) | (7,860) |
| Net income (loss) attributable to | $ 95,614 | $ 16,441 | $ 65,584 | $ (68,409) | $ 109,230 | $ — | $ 109,230 |

Starwood
Property
Trust, Inc.

Table of Contents

The table below presents our results of operations for the three months ended June 30, 2017 by business segment (amounts in thousands):

| | Lending Segment | Property Segment | Investing and Servicing Segment | Corporate | Subtotal | Investing and Servicing VIEs | Total |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Interest income from loans | $ 116,993 | $ — | $ 3,619 | $ — | $ 120,612 | $ — | $ 120,612 |
| Interest income from investment securities | 11,611 | — | 38,192 | — | 49,803 | (37,433) | 12,370 |
| Servicing fees | 216 | — | 33,663 | — | 33,879 | (15,251) | 18,628 |
| Rental income | — | 46,279 | 12,687 | — | 58,966 | — | 58,966 |
| Other revenues | 293 | 221 | 545 | — | 1,059 | (66) | 993 |
| Total revenues | 129,113 | 46,500 | 88,706 | — | 264,319 | (52,750) | 211,569 |
| Costs and expenses: | | | | | | | |
| Management fees | 469 | — | 18 | 24,096 | 24,583 | 50 | 24,633 |
| Interest expense | 24,486 | 10,899 | 4,856 | 31,351 | 71,592 | (275) | 71,317 |
| General and administrative | 5,359 | 1,000 | 22,789 | 3,298 | 32,446 | 74 | 32,520 |
| Acquisition and investment pursuit costs | 385 | 99 | 53 | — | 537 | — | 537 |
| Costs of rental operations | — | 17,792 | 5,232 | — | 23,024 | — | 23,024 |
| Depreciation and amortization | 16 | 17,279 | 4,737 | — | 22,032 | — | 22,032 |
| Loan loss allowance, net | (2,694) | — | — | — | (2,694) | — | (2,694) |
| Other expense | — | (34) | 176 | — | 142 | — | 142 |
| Total costs and expenses | 28,021 | 47,035 | 37,861 | 58,745 | 171,662 | (151) | 171,511 |
| Income (loss) before other income (loss), income taxes and non-controlling interests | 101,092 | (535) | 50,845 | (58,745) | 92,657 | (52,599) | 40,058 |
| Other income (loss): | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Change in net assets related to consolidated VIEs | — | — | — | — | — | 77,761 | 77,761 |
| Change in fair value of servicing rights | — | — | (13,667) | — | (13,667) | 5,666 | (8,001) |
| Change in fair value of investment securities, net | (149) | — | 12,256 | — | 12,107 | (14,600) | (2,493) |
| Change in fair value of mortgage loans held-for-sale, net | (152) | — | 15,558 | — | 15,406 | — | 15,406 |
| Earnings from unconsolidated entities | 1,230 | 2,488 | 35,892 | — | 39,610 | (10,145) | 29,465 |
| (Loss) gain on sale of investments and other assets, net | (3) | 77 | 5,109 | — | 5,183 | — | 5,183 |
| Loss on derivative financial instruments, net | (14,926) | (20,481) | (2,179) | — | (37,586) | — | (37,586) |
| Foreign currency gain, net | 12,882 | 17 | 11 | — | 12,910 | — | 12,910 |
| OTTI | (109) | — | — | — | (109) | — | (109) |
| Other income, net | — | — | 704 | — | 704 | (613) | 91 |
| Total other income (loss) | (1,227) | (17,899) | 53,684 | — | 34,558 | 58,069 | 92,627 |
| Income (loss) before income taxes | 99,865 | (18,434) | 104,529 | (58,745) | 127,215 | 5,470 | 132,685 |
| Income tax provision | (127) | — | (9,325) | — | (9,452) | — | (9,452) |
| Net income (loss) | 99,738 | (18,434) | 95,204 | (58,745) | 117,763 | 5,470 | 123,233 |
| Net income attributable to non-controlling interests | (353) | — | (30) | — | (383) | (5,470) | (5,853) |
| Net income (loss) attributable to Starwood Property | $ 99,385 | $ (18,434) | $ 95,174 | $ (58,745) | $ 117,380 | $ — | $ 117,380 |

Trust, Inc.

56

---

Table of Contents

The table below presents our results of operations for the six months ended June 30, 2018 by business segment (amounts in thousands):

| | Lending Segment | Property Segment | Investing and Servicing Segment | Corporate | Subtotal | Investing and Servicing VIEs | Total |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Interest income from loans | $ 283,240 | $ — | $ 6,084 | $ — | $ 289,324 | $ — | $ 289,324 |
| Interest income from investment securities | 23,369 | — | 64,871 | — | 88,240 | (62,181) | 26,059 |
| Servicing fees | 215 | — | 58,121 | — | 58,336 | (14,954) | 43,382 |
| Rental income | — | 141,111 | 28,890 | — | 170,001 | — | 170,001 |
| Other revenues | 418 | 182 | 744 | 138 | 1,482 | (105) | 1,377 |
| Total revenues | 307,242 | 141,293 | 158,710 | 138 | 607,383 | (77,240) | 530,143 |
| Costs and expenses: | | | | | | | |
| Management fees | 943 | — | 36 | 56,958 | 57,937 | 199 | 58,136 |
| Interest expense | 66,847 | 35,914 | 10,902 | 65,657 | 179,320 | (545) | 178,775 |
| General and administrative | 12,946 | 3,830 | 44,875 | 5,849 | 67,500 | 170 | 67,670 |
| Acquisition and investment pursuit costs | 1,912 | (46) | 72 | — | 1,938 | — | 1,938 |
| Costs of rental operations | — | 49,479 | 13,111 | — | 62,590 | — | 62,590 |
| Depreciation and amortization | 33 | 58,207 | 10,654 | — | 68,894 | — | 68,894 |
| Loan loss allowance, net | 26,797 | — | — | — | 26,797 | — | 26,797 |
| Other expense | 154 | — | 447 | — | 601 | — | 601 |
| Total costs and expenses | 109,632 | 147,384 | 80,097 | 128,464 | 465,577 | (176) | 465,401 |
| Income (loss) before other income (loss), income taxes and non-controlling interests | 197,610 | (6,091) | 78,613 | (128,326) | 141,806 | (77,064) | 64,742 |
| Other income (loss): | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Change in net assets related to consolidated VIEs | — | — | — | — | — | 96,599 | 96,599 |
| Change in fair value of servicing rights | — | — | (12,423) | — | (12,423) | 4,406 | (8,017) |
| Change in fair value of investment securities, net | (222) | — | 29,089 | — | 28,867 | (21,314) | 7,553 |
| Change in fair value of mortgage loans held-for-sale, net | (1,508) | — | 24,141 | — | 22,633 | — | 22,633 |
| Earnings (loss) from unconsolidated entities | 3,247 | (582) | 3,050 | — | 5,715 | (1,707) | 4,008 |
| Gain on sale of investments and other assets, net | 414 | 6,883 | 16,800 | — | 24,097 | — | 24,097 |
| Gain (loss) on derivative financial instruments, net | 8,649 | 21,839 | 4,644 | (19,369) | 15,763 | — | 15,763 |
| Foreign currency gain (loss), net | 286 | 1 | (2) | — | 285 | — | 285 |
| Loss on extinguishment of debt | — | — | (186) | — | (186) | — | (186) |
| Other income, net | 43 | 506 | 57 | — | 606 | — | 606 |
| Total other income (loss) | 10,909 | 28,647 | 65,170 | (19,369) | 85,357 | 77,984 | 163,341 |
| Income (loss) before income taxes | 208,519 | 22,556 | 143,783 | (147,695) | 227,163 | 920 | 228,083 |
| Income tax provision | (2,667) | (1,872) | (1,660) | — | (6,199) | — | (6,199) |
| Net income (loss) | 205,852 | 20,684 | 142,123 | (147,695) | 220,964 | 920 | 221,884 |
| Net income attributable to non-controlling interests | (722) | (7,137) | (3,943) | — | (11,802) | (920) | (12,722) |
| Net income (loss) attributable to | $ 205,130 | $ 13,547 | $ 138,180 | $ (147,695) | $ 209,162 | $ — | $ 209,162 |

Starwood
Property
Trust, Inc.

Table of Contents

The table below presents our results of operations for the six months ended June 30, 2017 by business segment (amounts in thousands):

| | Lending Segment | Property Segment | Investing and Servicing Segment | Corporate | Subtotal | Investing and Servicing VIEs | Total |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Interest income from loans | $ 226,039 | $ — | $ 6,456 | $ — | $ 232,495 | $ — | $ 232,495 |
| Interest income from investment securities | 24,330 | — | 73,028 | — | 97,358 | (69,764) | 27,594 |
| Servicing fees | 426 | — | 63,744 | — | 64,170 | (31,440) | 32,730 |
| Rental income | — | 91,132 | 24,876 | — | 116,008 | | |