STARWOOD PROPERTY TRUST, INC.
Form 10-K
February 26, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from to
Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**27-0247747**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
591 West Putnam Avenue **Greenwich, Connecticut**	**06830**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's phone number, including area code **(203) 422-8100**

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

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

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

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

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

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 ý No o

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 ý No o

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

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

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of June 30, 2013, the aggregate market value of the voting stock held by non-affiliates was $4,047,081,390 based on the reported last sale price of our common stock on June 30, 2013. Shares of our common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded from this calculation in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares of the issuer's common stock, $0.01 par value, outstanding as of February 26, 2014 was 195,513,195.

DOCUMENTS INCORPORATED BY REFERENCE

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or prior to April 30, 2014.

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Special Note Regarding Forward-Looking Statements

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

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

factors described in this Annual Report on Form 10-K, including those set forth under the captions "Risk Factors" and "Business";

defaults by borrowers in paying debt service on outstanding indebtedness;

impairment in the value of real estate property securing our loans;

availability of mortgage origination and acquisition opportunities acceptable to us;

Our ability to fully integrate LNR Property LLC, a Delaware limited liability company ("LNR"), which was acquired on April 19, 2013, into our business and achieve the benefits that we anticipate from this acquisition;

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

national and local economic and business conditions;

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;

changes in interest rates; and

the availability of and costs associated with sources of liquidity.

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

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PART I

Item 1. Business.

The following description of our business should be read in conjunction with the information included elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2013. This description contains forward-looking statements that involve risks and uncertainties. Actual results could differ significantly from the results discussed in the forward-looking statements due to the factors set forth in "Risk Factors" and elsewhere in this Annual Report on Form 10-K. References in this Annual Report on Form 10-K to "we," "our," "us," or the "Company," refer to Starwood Property Trust, Inc.

General

Starwood Property Trust, Inc. ("the Trust" together with its subsidiaries, "we" or the "Company") is a Maryland corporation that commenced operations on August 17, 2009 upon the completion of its initial public offering ("IPO"). From our inception in 2009 through the end of the first quarter of 2013, we had been focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities, and other commercial real estate-related debt investments in both the U.S. and Europe. We have traditionally referred to the following as our target assets:

- Commercial real estate mortgage loans;
- Commercial real estate mortgage-backed securities ("CMBS");
- Other commercial real estate-related debt investments;
- Residential mortgage-backed securities ("RMBS"); and
- Residential real estate owned and residential non-performing mortgage loans.

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

On January 31, 2014, we completed the spin-off of our single family residential ("SFR") segment to our stockholders. The newly-formed real estate investment trust ("REIT"), Starwood Waypoint Residential Trust ("SWAY"), is listed on the New York Stock Exchange ("NYSE") and trades under the ticker symbol "SWAY." Our stockholders received one common share of SWAY for every five shares of Starwood Property Trust common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed $100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of December 31, 2013, our consolidated financial statements reflect SFR segment net assets of $1.0 billion, representing approximately 13% of the Company's total assets at December 31, 2013. The net assets of the SFR segment consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans. Refer to Note 24 to our consolidated financial statements included under Item 8 herein for additional SFR segment financial information. In connection with the spin-off, 40.1 million common shares of SWAY were issued, which had a closing market price on the NYSE of $28.18 per share as of February 21, 2014.

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. Our objective is to provide attractive risk-adjusted total returns to our investors over the long term, primarily through dividends and secondarily through capital appreciation. In order to achieve these objectives, we focus on asset selection and the relative value of various sectors within the debt market to construct a diversified investment portfolio designed to produce attractive returns across a variety of market conditions and economic cycles. We employ leverage, to the extent available, to fund the acquisition of our target assets, increase potential returns to our stockholders and meet our return objectives. Leverage can either be direct by utilizing private third-party financing, or indirect through originating, acquiring, or retaining subordinated mortgages, B-Notes, subordinated loan participations or mezzanine loans. Under our current repurchase agreements and bank credit facility, our total leverage may not exceed 75%, excluding the impact of bona-fide loan sales that must be accounted for as financings and consolidating any variable interest entities ("VIEs") pursuant to accounting principles generally accepted in the United States of America ("GAAP"). We are organized as a holding company and conduct our business primarily through our various 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. Since its inception in 1991, Starwood Capital Group (including Starwood Capital-named affiliates controlled by Mr. Sternlicht) has sponsored numerous opportunistic funds, including dedicated debt funds, dedicated hotel funds and standalone and co-investment partnerships.

We elected to be taxed as a REIT for U.S. federal income tax purposes, commencing with our initial taxable year ended December 31, 2009. We also operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940 as amended (the "Investment Company Act" or "1940 Act").

Our corporate headquarters office is located at 591 West Putnam Avenue, Greenwich, Connecticut, and our telephone number is (203) 422-8100.

Investment Strategy

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

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

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

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

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

utilizing the skills, expertise, and contacts developed by our Manager over the past twenty plus years as one of the premier global real estate investment managers to correctly anticipate trends

- and identify attractive risk-adjusted investment opportunities in U.S. and European real estate debt capital markets; and

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

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

  - investment in CMBS; and

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

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

Financing Strategy

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

- sources of private financing, including long and short-term repurchase agreements and warehouse and bank credit facilities;

- loan sales, syndications, and/or securitizations; and

- public or private offerings of our equity and/or debt securities.

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

Our Target Assets

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

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

- *Bridge loans:* whole mortgage loans secured by a first mortgage lien on a commercial property that provide interim or bridge financing to borrowers seeking short-term capital typically for the acquisition of real estate;

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

Mezzanine loans: loans made to commercial property owners that are secured by pledges of the borrower's ownership interests in the property and/or the property owner, subordinate to whole mortgage loans secured by first or second mortgage liens on the property and senior to the borrower's equity in the property;

Construction or rehabilitation loans: mortgage loans and mezzanine loans to finance the cost of construction or rehabilitation of a commercial property;

CMBS: securities that are collateralized by commercial mortgage loans, including:

senior and subordinated investment grade CMBS,

below investment grade CMBS, and

unrated CMBS;

Corporate bank debt: term loans and revolving credit facilities of commercial real estate operating or finance companies, each of which are generally secured by such companies' assets;

Corporate bonds: debt securities issued by commercial real estate operating or finance companies that may or may not be secured by such companies' assets, including:

investment grade corporate bonds,

below investment grade corporate bonds, and

unrated corporate bonds.

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

Non-Agency RMBS: securities collateralized by residential mortgage loans that are not guaranteed by any U.S. Government agency or federally chartered corporation;

Real estate owned (REO): residential real estate that is primarily comprised of single family homes; and

Residential mortgage loans: loans secured by a first mortgage lien on residential property;

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

Net leases: commercial properties subject to net leases, which leases typically have longer terms than gross leases, require tenants to pay substantially all of the operating costs associated with the properties and often have contractually specified rent increases throughout their terms;

Agency RMBS: RMBS for which a U.S. Government agency or a federally chartered corporation guarantees payments of principal and interest on the securities; and

Commercial REO: commercial properties purchased from CMBS trusts.

Commercial non-performing loans ("NPLs"): as part of our efforts to attain additional servicing rights in Europe, we may acquire a minority interest in portfolios of NPLs, alongside other majority investors.

Our Portfolio

Investment Activities

We operate our business in three reportable segments: real estate investment lending (the "Lending Segment"), SFR, and LNR.

The following table sets forth the amount of each category of investments we owned across various property types (refer to Schedule IV of the consolidated financial statement for further details of these property types) within our Lending Segment as of December 31, 2013 (amounts in thousands):

Investment	Carrying Value	Face Amount	% Owned	Asset Specific Financing	Net Investment	Weighted Average Rating	Vintage
First mortgages:							
Loan acquisitions	$ 538,777	$ 565,405	100%	$ 264,855	$ 273,922	N/A	1989 - 2013
Loan originations	2,245,297	2,264,809	100%	1,185,115	1,060,182	N/A	2009 - 2013
Total first mortgages	2,784,074	2,830,214		1,449,970	1,334,104		
Subordinated mortgage loans and mezzanine loans:							
Loan acquisitions	351,773	391,899	100%	2,000	349,773	N/A	1999 - 2012
Loan originations	1,399,489	1,396,759	100%	2,000	1,397,489	N/A	2009 - 2013
Total subordinated debt	1,751,262	1,788,658		4,000	1,747,262		
Loan loss allowance	(3,984)				(3,984)	N/A	N/A
RMBS AFS(1)	296,236	414,020	100%	127,943	168,293	B-	2003 - 2007
CMBS AFS(1)	114,346	100,648	100%		114,346	BB+	2012 - 2013
HTM securities(2)	368,318	371,700	100%	58,467	309,851	N/A	2013
Equity security	15,247	15,133	100%		15,247	N/A	N/A
Investments in unconsolidated entities	50,167	50,167	100%		50,167	N/A	N/A
	$ 5,375,666	$ 5,570,540		$ 1,640,380	$ 3,735,286		

(1) RMBS and CMBS available-for-sale ("AFS") securities.

(2) Mandatorily redeemable preferred equity interests in commercial real estate entities and CMBS held-to-maturity ("HTM").

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

Collateral Property Type		Geographic Location	
Office	27.2%	West	25.7%

Hospitality	25.6%	North East	20.8%
Mixed Use	16.9%	South East	17.7%
Retail	11.7%	International	15.4%
Residential	9.6%	Mid Atlantic	9.1%
Industrial	1.8%	South West	6.0%
Multi-family	1.3%	Midwest	5.3%
Other	5.9%		
	100.0%		100.0%

The following table sets forth the amount of each category of investments we owned across various property types within our Lending Segment as of December 31, 2012 (amounts in thousands):

Investment	Carrying Value	Face Amount	% Owned	Asset Specific Financing	Net Investment	Weighted Average Rating	Vintage
First mortgages							
Loan acquisitions	$ 520,219	$ 551,912	100%	$ 321,976	$ 198,243	N/A	1989 - 2012
Loan originations	1,027,349	1,036,808	100%	405,628	621,721	N/A	2009 - 2012
Total first mortgages	1,547,568	1,588,720		727,604	819,964		
Subordinated mortgage loans and mezzanine loans							
Loan acquisitions	620,700	673,421	100%	209,975	410,725	N/A	1999 - 2012
Loan originations	834,128	836,919	100%	2,000	832,128	N/A	2009 - 2013
Total subordinated debt	1,454,828	1,510,340		211,975	1,242,853		
Loan loss allowance	(2,061)				(2,061)	N/A	N/A
CMBS AFS	529,434	519,575	100%	291,004	238,430	BB+(1)	2010 - 2012
RMBS AFS	333,153	489,220	100%	163,122	170,031	B-	2003 - 2007
Other investments	221,983	221,983	100%		221,983	N/A	N/A
	$ 4,084,905	$ 4,329,838		$ 1,393,705	$ 2,691,200		

(1) This rating, which was provided by Standard & Poor's Ratings Services, Inc. ("S&P"), relates to one position that represents 20.4% of the CMBS carrying value. The remaining 79.6% were securities where the obligors are certain special purpose entities ("SPEs") that were formed to hold substantially all of the assets of a worldwide operator of hotels, resorts and timeshare properties; the securities are not rated but the loan-to-value ratio was estimated to be in the range of 39%-44% at December 31, 2012.

As of December 31, 2012, our Lending Segment's investment portfolio, excluding other investments, had the following characteristics based on carrying values:

Collateral Property Type		Geographic Location	
Hospitality	45.3%	West	23.9%
Office	17.6%	North East	22.8%
Retail	15.7%	South East	16.5%
Residential	8.6%	Mid Atlantic	12.7%
Industrial	2.5%	Midwest	9.2%
Mixed Use	3.5%	International	9.2%
Multi-family	2.1%	South West	5.7%
Other	4.7%		
	100.0%		100.0%

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

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

Loans

Our primary focus has been to build a portfolio of commercial mortgage and mezzanine loans at attractive risk-adjusted returns by focusing on the underlying real estate fundamentals and credit analysis of the borrowers. During the year ended December 31, 2013, our Lending Segment originated or acquired 76 held-for-investment loans, excluding approximately $1.0 billion of future funding commitments associated with these loans. The current year originations of the Lending Segment are summarized below (amounts in thousands):

Investment	Funded Amounts	Principal Balance	Weighted Average Coupon at Closing
First mortgages held for investment	$ 1,953,833	$ 1,992,341	4.01%
Subordinated mortgages held for investment	176,030	178,842	6.92%
Mezzanine loans held for investment	463,826	466,772	11.14%
Total loans originated or acquired in current year	$ 2,593,689	$ 2,637,955	

We continually monitor borrower performance and complete a detailed, loan-by-loan formal credit review on a quarterly basis. The results of this review are incorporated into our quarterly assessment of the adequacy of the allowance for loan losses.

Investment Securities

Investment securities in our Lending Segment and LNR are comprised of the following as of December 31, 2013 and 2012 (amounts in thousands):

	Carrying Value as of December 31,	
	2013	2012
RMBS, AFS	$ 296,236	$ 333,153
CMBS, AFS	114,346	529,434
CMBS, fair value option(1)	550,282	
HTM securities	368,318	
Equity security, fair value option	15,247	21,667
Total	$ 1,344,429	$ 884,254

[1] As of December 31, 2013, balance includes $409.3 million of fair value option CMBS that are eliminated pursuant to Accounting Standards Codification ("ASC") Topic 810.

For further discussion of our investment securities, refer to Note 6 of our consolidated financial statements included in Item 8.

Summary of Interest Characteristics

As described in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 7A "Quantitative and Qualitative Disclosures about Market Risk," we utilize certain interest rate risk management techniques, including both asset/liability matching and certain other hedging transactions, in order to mitigate our exposure to interest rate risk.

As of December 31, 2013, 36.8% of our investments were comprised of fixed rate loans and securities with a weighted-average coupon of 7.4% and weighted-average life of 4.7 years, whereas 62.1% of our investments were comprised of variable rate loans and securities with a LIBOR based index with a weighted-average spread of 5.7% and weighted-average life of 4.4 years, and 1.1% of our investments represented other investments.

As of December 31, 2012, 30.1% of our investments were comprised of fixed rate loans and securities with a weighted-average coupon of 9.4% and weighted-average life of 3.9 years, whereas 64.8% of our investments were comprised of variable rate loans and securities with a LIBOR based index with a weighted-average spread of 4.8% and weighted-average life of 4.1 years, and 5.1% of our investments represented other investments.

Summary of Maturities

Real Estate Investing Lending Segment

As of December 31, 2013, the Lending Segment's loans held-for-investment, HTM securities, loans transferred as secured borrowings and CMBS had a weighted-average maturity of 4.07 years, inclusive of extension options that management believes are probable of exercise. The table below shows the carrying value expected to mature annually over the next ten years for our loans held-for-investment, HTM securities, loans transferred as secured borrowings and CMBS (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing(1)	Carrying Value	% of Total
2014	17	$ 204,391	4.1%
2015	13	177,721	3.5%
2016	31	1,031,784	20.6%
2017	56	1,144,434	22.8%
2018	42	1,514,042	30.1%
2019	22	519,798	10.4%
2020	4	266,941	5.3%
2021	2	5,811	0.1%
2022			0.0%
2023 and thereafter	15	153,962	3.1%
Total	202	5,018,884	100.0%

(1) Excludes RMBS.

LNR Segment

As of December 31, 2013, LNR's CMBS and loans held-for-investment had a weighted-average maturity of 28.1 years. The table below shows the carrying value expected to mature annually over the next ten years (amounts in thousands, except number of investments maturing).

Year of Maturity	Number of Investments Maturing(1)	Carrying Value	% of Total
2014	99	$ 15,181	2.7%
2015	48	14,876	2.7%
2016	33	22,724	4.0%
2017	12	39,227	7.0%
2018	24	41,684	7.4%
2019	14	23,045	4.1%
2020	7	9,746	1.7%
2021	7	11,309	2.0%
2022	19	69,352	12.4%
2023 and thereafter	69	314,364	56.0%
Total	332	561,508	100.0%

(1) Excludes loans held-for-sale.

Regulation

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

In the judgment of management, existing statutes and regulations have not had a material adverse effect on our business. In the wake of the recent financial crisis, legislators in the U.S. and in other countries have said that greater regulation of financial services firms is needed, particularly in areas such as risk management, leverage and disclosure. While we expect that new regulations in these areas will be adopted in the future, it is not possible at this time to forecast the exact nature of any future legislation, regulations, judicial decisions, orders or interpretations, nor their impact upon our future business, financial condition or results of operations or prospects.

Competition

We are engaged in a competitive business. In our investment activities, we compete for opportunities with numerous public and private investment vehicles, including financial institutions, specialty finance companies, mortgage banks, pension funds, opportunity funds, hedge funds, insurance companies, REITs and other institutional investors, as well as individuals. Many competitors are significantly larger than we are, have well established operating histories and may have greater access

to capital, more resources and other advantages over us. These competitors may be willing to accept lower returns on their investments or to compromise underwriting standards and, as a result, our origination volume and profit margins could be adversely affected.

Our Manager

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

Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht. Starwood Capital Group has invested in most major classes of real estate, directly and indirectly, through operating companies, portfolios of properties and single assets, including multifamily, office, retail, hotel, residential entitled land and communities, senior housing, mixed-use and golf courses. Starwood Capital Group invests at different levels of the capital structure, including equity, preferred equity, mezzanine debt and senior debt, depending on the asset risk profile and return expectation.

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

Taxation of the Company

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), for federal income tax purposes. We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under federal tax laws. Our qualification as a REIT also depends on our ability to meet various other requirements imposed by the Code, which relate to organizational structure, diversity of stock ownership and certain restrictions with regard to owned assets and categories of income. If we qualify for taxation as a REIT, we will generally not be subject to U.S. federal corporate income tax on our taxable income that is currently distributed to stockholders.

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

We formed several taxable REIT subsidiaries ("TRS") since 2010 to reduce the impact of the prohibited transaction tax and to avoid penalty for the holding of assets not qualifying as real estate assets for purposes of the REIT asset tests. Any income associated with a TRS is fully taxable because a TRS is subject to federal and state income taxes as a domestic C corporation based upon its net income.

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

Leverage Policies

We employ leverage, to the extent available, to fund the acquisition of our target assets, increase potential returns to our stockholders and meet our return objectives. Although we are not required to maintain any particular minimum leverage ratio, the amount of leverage we deploy for particular investments in our target assets depends upon our Manager's assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and commercial and residential mortgage markets, our outlook for the level, slope, and volatility of interest rates, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve. Under our current repurchase agreements and bank credit facility, our total leverage may not exceed 75%, excluding the impact of bona-fide loan sales that must be accounted for as financings and consolidating any VIEs pursuant to GAAP. As of December 31, 2013, our ratio of total debt to assets was 40.2%.

Investment Guidelines

Our board of directors has adopted the following investment guidelines:

- our investments will be in our target assets unless otherwise approved by the board of directors;
- no investment shall be made that would cause us to fail to qualify as a REIT for federal income tax purposes;
- no investment shall be made that would cause us or any of our subsidiaries to be required to be registered as an investment company under the 1940 Act;
- not more than 25% of our equity will be invested in any individual asset without the consent of a majority of our independent directors; and
- any investment of up to $25 million requires the approval of our Chief Executive Officer; any investment in excess of $25 million also requires the approval of our Manager's Investment Committee; any investment from $150 million to $250 million requires the approval of the Investment Committee of our board of directors and our Manager's Investment Committee; and any investment in excess of $250 million requires the approval of our board of directors.

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

Available Information

Our website address is www.starwoodpropertytrust.com. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on

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

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

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

We have included as exhibits to this report the Sarbanes-Oxley Act of 2002 Section 302 certifications of our Chief Executive Officer and Chief Financial Officer regarding the quality of our public disclosure.

Information regarding our revenue, profit and losses and assets is set forth under Item 8 of this Annual Report on Form 10-K.

Item 1A. Risk Factors.

Risks Related to Our Relationship with Our Manager

We are dependent on Starwood Capital Group, including our Manager, and their key personnel, who provide services to us through the management agreement, and we may not find a suitable replacement for our Manager and Starwood Capital Group if the management agreement is terminated, or for these key personnel if they leave Starwood Capital Group or otherwise become unavailable to us.

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

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

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

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

Our Manager and executive officers may have conflicts between their duties to us and their duties to, and interests in, Starwood Capital Group and its other investment funds. Currently, Starwood Global Opportunity Fund VIII, Starwood Global Opportunity Fund IX and Starwood Capital Hospitality Fund II Global (collectively, the "Starwood Private Real Estate Funds") collectively have the right to invest 25% of the equity capital proposed to be invested by any investment vehicle managed by an entity controlled by Starwood Capital Group in debt interests relating to real estate. Our co-investment rights are subject to, among other things, (i) the determination by our Manager that the proposed investment is suitable for us, and (ii) our Manager's sole discretion as to whether or not to exclude from our investment portfolio at any time any "medium-term loan to own" investment, which our Manager considers to be mortgage loans or other real estate-related loan or debt investments where the proposed originator or acquirer of any such investment has the intent and/or expectation of foreclosing on, or otherwise acquiring the real property securing the loan or investment at any time between 18 and 48 months of its origination or acquisition of the loan or investment. In addition, in the case of opportunities to invest in a portfolio of assets including both equity and debt real estate related investments, we would not have the co-investment rights described above if our Manager determines that less than 50% of the aggregate anticipated investment returns from the portfolio is expected to come from our target assets. Since we are subject to the judgment of our Manager in the application of our co-investment rights, we may not always be allocated 75% of each co-investment opportunity in our target asset classes. Our independent directors periodically review our Manager's and Starwood Capital Group's compliance with the co-investment provisions described above, but they do not approve each co-investment by the Starwood Private Real Estate Funds and us unless the amount of capital we invest in the proposed co-investment otherwise requires the review and approval of our independent directors pursuant to our investment guidelines. Pursuant to the exclusivity provisions of the Starwood Private Real Estate Funds, our investment strategy may not include either (i) equity interests in real estate or (ii) "near-term loan to own" investments, in each case (of both (i) and (ii)) if such investments are expected, at the time such investment is made, to produce an internal rate of return ("IRR") in excess of 14%. Therefore, our board of directors does not have the flexibility to expand our investment strategy to include equity interests in real estate or "near-term loan to own" investments with such an IRR expectation.

Our Manager, Starwood Capital Group and their respective affiliates may sponsor or manage a U.S. publicly traded investment vehicle that invests generally in real estate assets but not primarily in our target assets, or a potential competing vehicle. Our Manager and Starwood Capital Group have also agreed that for so long as the management agreement is in effect and our Manager and Starwood Capital Group are under common control, no entity controlled by Starwood Capital Group will sponsor or manage a potential competing vehicle or private or foreign competing vehicle, unless Starwood Capital Group adopts a policy that either (i) provides for the fair and equitable allocation of investment opportunities among all such vehicles and us, or (ii) provides us the right to co-invest with such vehicles, in each case subject to the suitability of each investment opportunity for the particular vehicle and us and each such vehicle's and our availability of cash for investment. To the extent that we have co-investment rights with these vehicles in the future, there can be no assurance that these future rights will entitle us to a similar percentage allocation as we currently have with respect to the Starwood Private Real Estate Funds.

In addition, as described above on January 31, 2014, we distributed all of the common shares of SWAY, our former wholly-owned subsidiary, to our stockholders of record on January 24, 2014, which completed the spin-off of our portfolio of single-family rental homes and distressed and non-performing residential mortgage loans. Pursuant to a co-investment and allocation agreement dated January 31, 2014 among SWAY's external manager, SWAY and Starwood Capital Group (the "Co-Investment Agreement"), Starwood Capital Group has agreed that neither it nor any entity controlled by it (including us) will sponsor or manage any U.S. publicly traded entity (other than SWAY) that invests primarily in single-family residential rental homes or distressed and non-performing single-family residential mortgage loans for so long as the management agreement between SWAYand SWAY's external manager is in effect and SWAY's external manager and Starwood Capital Group are under common control. However, SWAY's external manager and Starwood Capital Group and their respective affiliates, including our Manager, may sponsor or manage (1) a U.S. publicly traded entity (including us) that invests generally in real estate assets, including rental homes or distressed and non-performing single-family residential mortgage loans, so long as any such entity does not invest primarily in single-family residential rental homes or distressed and non-performing single-family residential mortgage loans, or (2) a private or foreign entity that invests primarily in single-family residential rental homes or distressed and non-performing single-family residential mortgage loans; provided that, in each case, Starwood Capital Group will adopt a policy that either (a) provides for the fair and equitable allocation of investment opportunities between any such entity and SWAY or (b) provides SWAY the right to co-invest with any such entity, in each case subject to the suitability of each investment opportunity for any such entity and SWAY and any such entity's and SWAY's availability of cash for investment.

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

Pursuant to the Co-Investment Agreement, if an investment proposed to be made by any entity controlled by Starwood Capital Group (including us) or Starwood Waypoint consists of single-family rental homes and/or distressed and non-performing single-family residential mortgage loans (or a portfolio that contains equity interests relating to real estate, if Starwood Waypoint's external manager determines that more than 50% of the aggregate anticipated investment returns from the portfolio are expected to come from single-family rental homes and/or distressed and non-performing single-family residential mortgage loans), Starwood Waypoint will have the right to invest at least 75% of the equity capital proposed to be invested in such investment. Whether any entity controlled by Starwood Capital Group (including us) or SWAY exercises all or any part of its co-investment right will be subject to, among other things, the determination by the sponsor, manager (including our Manager) or general partner, as the case may be, of each entity controlled by Starwood Capital Group (including us) that the investment is suitable for such entity and the determination by SWAY's external manager (also an affiliate of Starwood Capital Group) that the investment is suitable for SWAY.

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

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

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

See also "Certain agreements with SWAY may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties" and "The ownership by certain of our officers and directors of common shares or other equity awards of SWAY creates, or may create the appearance of, conflicts of interest" for a discussion of additional conflicts of interest related to the spin-off of SWAY.

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

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

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

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

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

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

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

Core earnings is a non-GAAP measure and is defined as GAAP net income (loss) excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization of real estate (to the extent that we own properties), any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in other comprehensive income or loss, or in net income. The amount will be adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash charges after discussions between our Manager and our independent directors and after approval by a majority of our independent directors.

Certain agreements with SWAY may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties.

The terms of the agreements related to SWAY's separation from us, including a separation and distribution agreement between us and SWAY, dated January 16, 2014 (the "Separation Agreement"), and the Co-Investment Agreement, were negotiated in the context of the separation while SWAY was still a part of us and, accordingly, may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties.

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

See "There are various conflicts of interest in our relationship with Starwood Capital Group, including our Manager, which could result in decisions that are not in the best interests of our stockholders" for additional information regarding the SWAY Co-Investment Agreement.

The ownership by certain of our officers and directors of common shares or other equity awards of SWAY creates, or may create the appearance of, conflicts of interest.

Mr. Sternlicht, our Chairman and Chief Executive Officer, Andrew Sossen, our Chief Operating Officer, Executive Vice President, General Counsel and Chief Compliance Officer, Richard D. Bronson, one of our directors, [and certain other employees of our Manager] currently also hold positions with SWAY, and, as a result, such individuals own common shares or other equity awards of SWAY. Ownership by these individuals of common shares or other equity awards of SWAY creates, or, may create the appearance of, conflicts of interest when these officers, directors and other employees are faced with decisions that could have different implications for SWAY than they do for us.

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

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

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

Our Manager is authorized to follow very broad investment guideline which enables our Manager to make investments on our behalf in a wide array of assets. Our board of directors will periodically review our investment guidelines and our investment portfolio but will not, and will not be required to, review all of our proposed investments, except if the investment requires us to commit either at least $150 million of capital or 25% of our equity in any individual asset. In addition, in conducting periodic reviews, our board of directors may rely and may make investments through affiliates primarily on information provided to them by our Manager. Furthermore, our Manager may use complex strategies, and transactions entered into by our Manager may be costly, difficult or impossible to unwind by the time they are reviewed by our board of directors. Our Manager (or such affiliates) has great latitude within the broad parameters of our investment guidelines in determining the types and amounts of target assets it decides are attractive investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect our business operations and results. Further, decisions made and investments and financing arrangements entered into by our Manager may not fully reflect the best interests of our stockholders.

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

Risks Related to Our Company

Our board of directors may change any of our investment strategy or guidelines, financing strategy or leverage policies without stockholder consent.

Our investment strategy underwent a change in connection with our spin-off of SWAY. We were not required to, and did not, obtain stockholder consent for the spin-off of SWAY. Our board of directors may further change any of our investment strategy or guidelines, financing strategy or leverage policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions at any time without the consent of our stockholders, which could result in an investment portfolio with a different risk profile. Any change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations. These changes could adversely affect our financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

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

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

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

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

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

In addition, the events of September 11, 2011 created significant uncertainty regarding the ability of real estate owners of high profile assets to obtain insurance coverage protecting against terrorist attacks at commercially reasonable rates, if at all. With the enactment of the Terrorism Risk Insurance Act of 2002 (the "TRIA") and the subsequent enactment of the Terrorism Risk Insurance Program Reauthorization Act of 2007, which extended the TRIA through the end of 2014, insurers must make terrorism insurance available under their property and casualty insurance policies, but this legislation does not regulate the pricing of such insurance. The absence of affordable insurance coverage may adversely affect the general real estate lending market, lending volume and the market's overall liquidity and may reduce the number of suitable investment opportunities available to us and the pace at which we are able to make investments. If the properties underlying our interests are unable to obtain affordable insurance coverage, the value of our interests could decline, and in the event of an uninsured loss, we could lose all or a portion of our investment.

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

We are generally required to distribute to our stockholders at least 90% of our taxable income each year for us to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, which requirement we currently intend to satisfy through quarterly distributions of all or substantially all of our REIT taxable income in such year, subject to certain adjustments. We have not established a minimum distribution payment level, and our ability to pay distributions may be adversely affected by a number of factors, including the risk factors contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. Although we have made, and anticipate continuing to make, quarterly distributions to our stockholders, our board of directors has the sole discretion to determine the timing, form and amount of any future distributions to our stockholders, and such determination will depend on our earnings, our financial condition, debt covenants, maintenance of our REIT qualification and other factors as our board of directors may deem relevant from time to time. We believe that a change in any one of the following factors could adversely affect our results of operations and impair our ability to continue to pay distributions to our stockholders:

- the profitability of the investment of the net proceeds from our equity offerings;

- our ability to make profitable investments;

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- margin calls or other expenses that reduce our cash flow;
- defaults in our asset portfolio or decreases in the value of our portfolio; and
- the fact that anticipated operating expense levels may not prove accurate, as actual results may vary from estimates.

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

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

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

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

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

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

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The spin-off of SWAY may not have the benefits that we anticipated.

The spin-off of SWAY may not have the full or any of the strategic and financial benefits that we anticipated, or such benefits may be delayed or may not materialize at all. The anticipated benefits of a spin-off of our single-family rental homes and distressed and non-performing residential mortgage loans were based on a number of assumptions, which may prove incorrect. In the event that the spin-off does not have these anticipated benefits, the costs associated with the transaction could have a negative effect on our ability to make distributions to our stockholders.

Risks Related to Sources of Financing

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

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

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

general market conditions;

the market's view of the quality of our assets;

the market's perception of our growth potential;

our current and potential future earnings and cash distributions; and

the market price of the shares of our common stock.

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

To the extent structured financing arrangements are unavailable, we may have to rely more heavily on additional equity issuances, which may be dilutive to our stockholders, or on less efficient forms of debt financing that require a larger portion of our cash flow from operations, thereby reducing funds available for our operations, future business opportunities, cash distributions to our stockholders and other purposes. We cannot assure you that we will have access to such equity or debt capital on favorable terms (including, without limitation, cost and term) at the desired times, or at all, which may cause us to curtail our asset acquisition activities and/or dispose of assets, which could negatively affect our results of operations.

We may incur significant debt, which will subject us to increased risk of loss and may reduce cash available for distributions to our stockholders.

Our outstanding indebtedness currently includes our credit agreement, our repurchase agreements and our convertible notes. Subject to market conditions and availability, we may incur additional debt through bank credit facilities (including term loans and revolving facilities), repurchase agreements, warehouse facilities and structured financing arrangements, public and private debt issuances and derivative instruments, in addition to transaction or asset specific funding arrangements. The percentage of leverage we employ will vary depending on our available capital, our ability to obtain and access financing arrangements with lenders and the lenders' and rating agencies' estimate of the stability of our investment portfolio's cash flow. Our governing documents contain no limitation on the amount of debt we may incur. We may significantly increase the amount of leverage we utilize at any time without approval of our board of directors. However, under our current repurchase agreements and bank credit facility, our total leverage may not exceed 75% of total assets (as defined therein), as adjusted to remove the impact of bona-fide loan sales that are accounted for as financings and the consolidation of VIEs pursuant to GAAP. In addition, we may leverage individual assets at substantially higher levels. Incurring substantial debt could subject us to many risks that, if realized, would materially and adversely affect us, including the risk that:

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

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

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

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

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

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

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

Our primary interest rate exposures relate to the following:

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

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

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

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

increases in the level of interest rates may increase the credit risk of our assets by negatively impacting the ability of our borrowers to pay debt service on our floating rate loan assets, refinance our assets upon maturity, and can negatively impact the value of the real estate

collateral supporting our investments through the impact increases in interest rates can have on property valuation capitalization rates; and

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

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

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

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

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

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

We are subject to various restrictive covenants contained in our existing financing arrangements and may become subject to additional covenants in connection with future financings. Our credit agreement contains covenants that restrict our ability to incur additional debt or liens, make certain investments or acquisitions, merge, consolidate or transfer or dispose of substantially all assets or otherwise dispose of property and assets, pay dividends and make certain other restricted payments, change the nature of our business, and enter into transactions with affiliates. The credit agreement, as well as our master repurchase agreements, each requires us to maintain compliance with various financial covenants, including a minimum tangible net worth and cash liquidity, and specified financial ratios, such as total debt to total assets and EBITDA to fixed charges. These covenants may limit our flexibility to pursue certain investments or incur additional debt. If we fail to meet or satisfy any of these covenants, we would be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, terminate their commitments, require the posting of additional collateral and enforce their interests against existing collateral. We may also be subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. Further, this could also make it difficult for us to satisfy the distribution requirements necessary to maintain our status as a REIT for U.S. federal income tax purposes.

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

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

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

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

We utilize non-recourse securitizations of our investments in mortgage loans to the extent consistent with the maintenance of our REIT qualification and exemption from the Investment Company Act, in order to generate cash for funding new investments and/or to leverage existing assets. In most instances, this involves us transferring our loans to a special purpose securitization entity in exchange for cash. In some sale transactions, we also retain a subordinated interest in the loans sold. The securitization of our portfolio investments might magnify our exposure to losses on those portfolio investments because the subordinated interest we retain in the loans sold would be subordinate to the senior interest in the loans sold, and we would, therefore, absorb all of the losses sustained with respect to a loan sold before the owners of the senior interest experience any losses. Moreover, we cannot be assured that we will be able to access the securitization market in the future, or be able to do so at favorable rates. The inability to consummate securitizations of our portfolio to finance our investments on a long-term basis could require us to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price, which could adversely affect our performance and our ability to grow our business.

Risks Related to Hedging

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

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

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

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

- interest rate, currency and/or credit hedging can be expensive and may result in us receiving less interest income;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- due to a credit loss, prepayment or asset sale, the duration of the hedge may not match the duration of the related asset or liability;
- the amount of income that a REIT may earn from hedging transactions (other than hedging transactions that satisfy certain requirements of the Code or that are done through a TRS) to offset losses is limited by U.S. federal tax provisions governing REITs;
- the credit quality of the hedging counterparty owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the hedging counterparty owing money in the hedging transaction may default on its obligation to pay.

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

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

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

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

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

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

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

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

Risks Related to Our Investments

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

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

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

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

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

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

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

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

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

We make preferred equity investments. These investments involve a higher degree of risk than conventional debt financing due to a variety of factors, including their non-collateralized nature and subordinated ranking to other loans and liabilities of the entity in which such preferred equity is held. Accordingly, if the issuer defaults on our investment, we would only be able to proceed against such entity in accordance with the terms of the preferred security, and not against any property owned by such entity. Furthermore, in the event of bankruptcy or foreclosure, we would only be able to recoup our investment after all lenders to, and other creditors of, such entity are paid in full. As a result, we may lose all or a significant part of our investment, which could result in significant losses.

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

Our increased emphasis on commercial construction lending may expose us to increased lending risks. At December 31, 2013, our loan portfolio consisted of $763.2 million of commercial real estate construction loans. Construction loans generally expose a lender to greater risk of non-payment and loss than permanent commercial mortgage loans because repayment of the loans often depends on the borrower's ability to secure permanent "take-out" financing which requires the successful completion of construction and stabilization of the project, or operation of the property with an income stream sufficient to meet operating expenses, including debt service on such replacement financing. For construction loans, increased risks include the accuracy of the estimate of the property's value at completion of construction and the estimated cost of construction all of which may be affected by unanticipated construction delays and cost over-runs. Such loans typically involve an expectation that the borrower's sponsors will contribute sufficient equity funds in order to keep the loan "in balance" and the sponsors' failure or inability to meet this obligation could result in delays in construction or an inability to complete construction. Commercial construction loans also expose the lender to additional risks of contractor non-performance, or borrower disputes with contractors resulting in mechanic's or material men's liens on the property and possible further delay in construction. In addition, since such loans generally entail greater risk than mortgage loans on income producing property, we may need to increase our allowance for loan losses in the future to account for the likely increase in probable incurred credit losses associated with such loans. Further, as the lender under a construction loan, we may be obligated to fund all or a significant portion of the loan at one or more future dates. We may not have the funds available at such future date(s) to meet our funding obligations under the loan. In that event, we would likely be in breach of the loan unless we are able to raise the funds from alternative sources, which we may not be able to achieve on favorable terms or at all. In addition, many of our construction loans have multiple lenders and if another lender fails to fund we could be faced with the choice of either funding for that defaulting lender or suffering a delay or protracted interruption in the progress of construction.

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

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

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

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

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

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

Our investments in CMBS are generally subject to losses.

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

Recent dislocations, illiquidity and volatility in the market for commercial real estate as well as the broader financial markets have and may continue to adversely affect the performance and value of commercial mortgage loans, the demand for CMBS and the value of CMBS investments.

In recent years, the real estate and securitization markets, as well as global financial markets and the economy generally, have experienced significant dislocations, illiquidity and volatility. While the United States economy may technically be out of the recession, any recovery could be fragile and may not be sustainable for any specific period of time. In particular, the pace of progress, or the lack of progress, of federal deficit reduction talks in the United States may cause continued volatility. Furthermore, many state and local governments in the United States are experiencing, and are expected to continue to experience, severe budgetary constraints. Recently enacted financial reform legislation in the United States could also adversely affect the availability of credit for commercial real estate. Further, the global financial markets have recently experienced increased volatility due to uncertainty surrounding the level and sustainability of the sovereign debt of various countries. We cannot assure you that dislocations in the commercial mortgage loan market will in the future occur.

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

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

In addition to credit factors directly affecting CMBS, the continuing fallout from a downturn in the RMBS market and markets for other asset-backed and structured products has also affected the CMBS market by contributing to a decline in the market value and liquidity of securitized investments such as CMBS, even if such CMBS are performing as expected. All of these factors may impact the demand for CMBS and the value of CMBS investments, especially subordinated classes of CMBS.

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

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

Real estate valuation is inherently subjective and uncertain

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

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

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

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

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

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

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

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

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

Some of our investments are rated by Moody's Investors Service, Inc., Fitch Ratings Inc., S&P, DBRS, Inc., Morningstar Credit Ratings, LLC or Realpoint LLC. Any credit ratings on our investments are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any such ratings will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. If rating agencies assign a lower-than-expected rating or reduce or withdraw, or indicate that they may reduce or withdraw, their ratings of our investments in the future, the value of these investments could significantly decline, which would adversely affect the value of our investment portfolio and could result in losses upon disposition or the failure of borrowers to satisfy their debt service obligations to us.

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

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

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

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

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

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

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

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

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

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

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

changes in the borrowers income or assets;

acts of God, which may result in uninsured losses;

acts of war or terrorism, including the consequences of events;

adverse changes in national and local economic and market conditions;

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

costs of remediation and liabilities associated with environmental conditions; and

the potential for uninsured or under-insured property losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liability relating to environmental matters may impact the value of properties that we may acquire upon foreclosure of the properties underlying our investments.

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

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

If we foreclose on any properties underlying our investments, the presence of hazardous substances on a property may adversely affect our ability to sell the property and we may incur substantial remediation costs, thus harming our financial condition. The discovery of material environmental liabilities attached to such properties could have a material adverse effect on our results of operations and financial condition and our ability to make distributions to our stockholders.

We invest in triple net leases. Negative market conditions or adverse events affecting tenants, or the industries in which they operate, could have an adverse impact on any triple net lease in which we invest.

When we enter into triple net leases, cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which we have limited or no control, such as:

- lack of demand in areas where our properties are located;

- inability to retain existing tenants and attract new tenants;

- oversupply of space and changes in market rental rates;

- our tenants' creditworthiness and ability to pay rent, which may be affected by their operations, the current economic situation and competition within their industries from other operators;

- defaults by and bankruptcies of tenants, failure of tenants to pay rent on a timely basis, or failure of tenants to comply with their contractual obligations; and

- economic or physical decline of the areas where the properties are located.

At any time, any tenant may experience a downturn in its business that may weaken its operating results or overall financial condition. As a result, a tenant may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. Any tenant bankruptcy or insolvency, leasing delay or failure to make rental payments when due could result in the termination of the tenant's lease and material losses to us.

If tenants do not renew their leases as they expire, we may not be able to rent or sell the properties. Furthermore, leases that are renewed, and some new leases for properties that are re-leased, may have terms that are less economically favorable than expiring lease terms, or may require us to incur significant costs, such as renovations, tenant improvements or lease transaction costs. Negative market conditions may cause us to sell vacant properties for less than their carrying value, which could result in impairments. Any of these events could adversely affect cash flow from operations and our ability to make distributions to stockholders and service indebtedness. A significant portion of the costs of owning property, such as real estate taxes, insurance and maintenance, are not

necessarily reduced when circumstances cause a decrease in rental revenue from the properties. In a weakened financial condition, tenants may not be able to pay these costs of ownership and we may be unable to recover these operating expenses from them.

Further, the occurrence of a tenant bankruptcy or insolvency could diminish the income we receive from the tenant's lease or leases. In addition, a bankruptcy court might authorize the tenant to terminate its leases with us. If that happens, our claim against the bankrupt tenant for unpaid future rent would be subject to statutory limitations that most likely would be substantially less than the remaining rent we are owed under the leases. In addition, any claim we have for unpaid past rent, if any, may not be paid in full. As a result, tenant bankruptcies may have a material adverse effect on our results of operations.

Past or future actions of the U.S. government for the purpose of reforming and/or stabilizing the financial markets may adversely affect our business.

In the aftermath of the financial crisis, the U.S. government, through the Federal Reserve, the U.S. Treasury, the SEC, the Federal Housing Administration, the Federal Deposit Insurance Corporation, and other governmental and regulatory bodies have taken or are considering taking various actions to address the financial crisis. Many aspects of these actions are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on us and, more generally, the financial services and mortgage industries. Additionally, we cannot predict whether there will be additional proposed laws or reforms that would affect us, whether or when such changes may be adopted, how such changes may be interpreted and enforced or how such changes may affect us. However, the costs of complying with any additional laws or regulations could have a material adverse effect on our financial condition and results of operations.

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

Our investments outside the U.S. denominated in foreign currencies subject us to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. As a result, changes in exchange rates of any such foreign currency to U.S. dollars may affect our income and distributions and may also affect the book value of our assets and the amount of stockholders' equity.

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

The ongoing Eurozone crisis may have an adverse effect on investments in Europe and the break up of the Eurozone, or the exit of any member state, would create uncertainty and could affect our investments directly.

A portion of our investments consists of target assets secured by European collateral. The ongoing situation relating to the sovereign debt of several countries, including Greece, Ireland, Italy, Spain and Portugal, together with the risk of contagion to other, more financially stable countries, has exacerbated the difficult global financial situation. The situation has also raised a number of uncertainties regarding the stability and overall standing of the European Monetary Union. Any further deterioration in the global or Eurozone economy could have a significant adverse effect on our activities and the value of our European collateral.

In addition, we currently hold, and may acquire additional assets that are denominated in Euros (including loans secured on such assets), such as assets in continental Europe. Any further deterioration in the Eurozone economy could have a material adverse effect on the value of our investment in such assets and amplify the currency risks faced by us.

If any country were to leave the Eurozone, or if the Eurozone were to break up entirely, the treatment of debt obligations previously denominated in Euros is uncertain. A number of issues would be raised, such as whether obligations which are expressed to be payable in Euros would be re-denominated into a new currency. The answer to this and other questions is uncertain and would depend on the way in which the break-up occurred and also on the nature of the transaction; the law governing it; which courts have jurisdiction in relation to it; the place of payment; and the place of incorporation of the payor. If we were to hold any investments in Euros at the time of any Eurozone exits or break-up, this uncertainty and potential re-denomination could have a material adverse effect on the value of our investments and the income from them.

Risks Related to Our Organization and Structure

Certain provisions of Maryland law could inhibit changes in control.

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

The "control share" provisions of the MGCL provide that "control shares" of a Maryland corporation (defined as shares which, when aggregated with other shares controlled by the stockholder (except solely by virtue of a revocable proxy), entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and our personnel who are also our directors. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock.

There can be no assurance that this provision will not be amended or eliminated at any time in the future.

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

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

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

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

We intend to continue to conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Because we are a holding company that conducts our businesses primarily through wholly-owned subsidiaries, the securities issued by these subsidiaries that are excepted from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act, together with any other investment securities we own, may not have a combined value in excess of 40% of the value of our adjusted total assets on an unconsolidated basis. This requirement limits the types of businesses in which we may engage through our subsidiaries. In addition, the assets we and our subsidiaries may acquire are limited by the provisions of the Investment Company Act and the rules and regulations promulgated under the Investment Company Act, which may adversely affect our performance.

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

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

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

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

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

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

- actual receipt of an improper benefit or profit in money, property or services; or

- active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

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

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

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

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

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

Risks Related to Our Taxation as a REIT

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

We intend to continue to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes. We have not requested nor obtained a ruling from the Internal Revenue Service, or the IRS, as to our REIT qualification. Our qualification as a REIT depends on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. Moreover, the proper classification of an instrument as debt or equity for federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT qualification requirements as described below. Accordingly, there can be no assurance that the IRS will not contend that our interests in subsidiaries or in securities of other issuers will not cause a violation of the REIT requirements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our failure to qualify as a REIT would potentially give rise to a claim for damages from SWAY.

In connection with the spin-off of SWAY, we represented in the Separation Agreement that we have no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT. We also covenanted in the Separation Agreement to use our reasonable best efforts to maintain our REIT status for each of our taxable years ending on or before December 31, 2014 (unless we obtain an opinion from a nationally recognized tax counsel or a private letter ruling from the IRS, on which SWAY can rely, substantially to the effect that our failure to maintain our REIT status will not prevent SWAY from making a valid REIT election for any taxable year, or otherwise cause SWAY to fail to qualify for taxation as a REIT for any taxable year). In the event of a breach of this representation or covenant, SWAY may be able to seek damages from us, which could have a significantly negative effect on our liquidity and results of operations.

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

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

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

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

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

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

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

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

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

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

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

We may invest in construction loans, the interest from which will be qualifying income for purposes of the REIT income tests, provided that the loan value of the real property securing the construction loan is equal to or greater than the highest outstanding principal amount of the construction loan during any taxable year. For purposes of construction loans, the loan value of the real property is the fair value of the land plus the reasonably estimated cost of the improvements or developments (other than personal property) that will secure the loan and that are to be constructed from the proceeds of the loan. There can be no assurance that the IRS would not challenge our estimate of the loan value of the real property.

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

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

Liquidation of assets may jeopardize our REIT qualification.

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

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

The REIT provisions of the Code substantially limit our ability to hedge our liabilities. Any income from a hedging transaction we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we intend to limit our use of advantageous hedging techniques or implement those hedges through a domestic TRS. This could increase the cost of our hedging activities because our TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify as a REIT depends in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

Risks Related to Our Common Stock

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

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

our actual or projected operating results, financial condition, cash flows and liquidity, or changes in business strategy or prospects;

actual or perceived conflicts of interest with our Manager or Starwood Capital Group and individuals, including our executives;

equity issuances by us, or share resales by our stockholders, or the perception that such issuances or resales may occur;

actual or anticipated accounting problems;

publication of research reports about us or the real estate industry;

changes in market valuations of similar companies;

adverse market reaction to the level of leverage we employ;

additions to or departures of our Manager's or Starwood Capital Group's key personnel;

speculation in the press or investment community;

our failure to meet, or the lowering of, our earnings estimates or those of any securities analysts;

- increases in market interest rates, which may lead investors to demand a higher distribution yield for our common stock and would result in increased interest expenses on our debt;

- failure to maintain our REIT qualification;

- uncertainty regarding our exemption from the Investment Company Act;

- price and volume fluctuations in the stock market generally; and

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

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

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

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

Risks Related to LNR's Business and the Company's Acquisition of LNR

The acquisition of LNR, and particularly its special servicing business, exposes us to risks that we did not face prior to the acquisition.

LNR derives a substantial portion of its cash flows from the special servicing of pools of commercial mortgage loans. As special servicer, LNR typically receives fees based upon the outstanding balance of the loans which are being specially serviced by LNR. We anticipate that the balance of loans in special servicing where LNR acts as special servicer will decline significantly over the next several years and that LNR's servicing fees will likewise decline materially. The special servicing industry is highly competitive, and LNR's inability to compete successfully with other firms to maintain its existing servicing portfolio and obtain future servicing opportunities could have a material and adverse impact on LNR's future cash flows and results of operations, which, in turn, could adversely affect our results of operations if the special servicing portfolio declines more than we projected in our underwriting of the acquisition. Because the right to appoint the special servicer for securitized mortgage loans generally resides with the holder of the "controlling class" position in the relevant trust and may migrate to holders of different classes of securities as additional losses are realized, LNR's ability to maintain its existing servicing rights and obtain future servicing opportunities may require, in many cases, the acquisition of additional CMBS securities. Accordingly, LNR's ability to compete effectively may depend, in part, on the availability of additional debt or equity capital to fund these purchases. Additionally, LNR's existing servicing portfolio is subject to "run off," meaning that mortgage loans serviced by it may be prepaid prior to maturity, refinanced with a mortgage not serviced by LNR or liquidated through foreclosure, deed-in-lieu of foreclosure or other liquidation processes or repaid through standard amortization of principal, resulting in lower servicing fees and/or lower returns on the subordinated securities owned by LNR. Improving economic conditions and property prices, and declines in interest rates and greater availability of mortgage financing, can reduce the incidence of assets going into special servicing and reduce LNR's revenues from special servicing, including as a result of lower fees under new arrangements. The fair value of LNR's servicing rights may decrease under the foregoing circumstances, resulting in losses.

LNR's conduit operations are subject to volatile market conditions and significant competition. In addition, the conduit business may suffer losses as a result of ineffective or inadequate hedges and credit issues.

LNR's businesses outside of the United States subject it to currency risks. Most of LNR Europe's investments and liabilities are denominated in currencies other than U.S. dollars. LNR generally does not hedge currency risk. As a result, unfavorable changes in exchange rates could result in losses independent of the performance of the underlying business.

LNR operates a special servicer business which has certain unique risks.

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

We may not realize all of the anticipated benefits of the LNR acquisition or such benefits may take longer to realize than expected.

The success of the LNR acquisition depends, in part, on our ability to realize the anticipated benefits from successfully integrating LNR's business with ours. The combination of two independent companies is a complex, costly and time-consuming process. As a result, we are and will continue to be required to devote significant management attention and resources to integrating the business practices and operations of LNR. The integration process may disrupt our business and, if implemented ineffectively, could preclude us from realizing all of the potential benefits we expect to realize with respect to the acquisition. Our failure to meet the challenges involved in integrating successfully our operations and LNR's operations or otherwise to realize the anticipated benefits of the transaction could cause an interruption of, or a loss of momentum in, our business and could seriously harm our results of operations. In addition, the overall integration of the two companies may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of business relationships and diversion of management's attention, and may cause our stock price to decline.

In addition, even once our operations and LNR's are fully integrated, we may not realize the full benefits of the acquisition within the anticipated time frame, or at all.

LNR's business is subject to an evolving regulatory environment that may affect certain aspects of its current business.

The pools of commercial loans in which LNR acquires subordinated securities and for which it acts as special servicer are structures commonly referred to as securitizations. As a result of the dislocation of the credit markets, the securitization industry is becoming subject to additional regulation. In particular, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), various federal agencies have promulgated a rule that generally requires issuers in securitizations to retain 5% of the risk associated with the securities. While the rule as adopted will generally allow the purchase of the CMBS "B-Piece" by a party not affiliated with the issuer to satisfy the risk retention requirement, current CMBS B-Pieces are generally not large enough to fully satisfy the 5% requirement. The CMBS industry is currently in negotiations with those federal agencies to allow additional third parties to partner with traditional B-Piece buyers and purchase the securities immediately senior to the B-Piece in order to satisfy the 5% requirement in the rule. No assurance can be given that the agencies will permit such an arrangement. Accordingly, when the rule takes effect in 2015, buyers of B-Pieces such as LNR may be required to purchase larger B-Pieces, potentially reducing returns on such investments. Additionally, the SEC is in the process of promulgating additional regulations with respect to securitizations, which regulations are generally expected to include additional disclosure and reporting requirements. The additional regulations are expected to take effect over the next year or two. Certain of the regulations could pose additional risks to our participation in future securitizations or could reduce the economic incentives of participating in future securitizations.

Many of the assets that we acquired in the acquisition of LNR were acquired by, or are ownership interests in, entities subject to entity level or foreign taxes, which cannot be passed through to, or used by, our stockholders to reduce taxes they owe.

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

We may bear the costs of certain pre-closing taxes.

The acquisition of LNR involved the purchase of the LNR companies, a significant portion of which were historically C corporations for federal income tax purposes, some of which are currently under audit by the IRS. While the sellers of LNR have generally agreed to pay (or indemnify us) for any pre-closing tax liabilities, such indemnity obligations are generally limited to the amount of the purchase price for LNR and, in certain situations, limited to certain maximum amounts with respect to certain LNR entities, as agreed upon by the sellers and us. Furthermore, because any such pre-existing tax liabilities may not be assessed by the federal or state taxing authorities, or may not be settled with such taxing authorities, prior to the release of the escrowed funds to the sellers, there can be no assurance that we will be able to enforce payment or indemnification by the sellers of or with respect to any such pre-closing tax liabilities. While the sponsors of the sellers are providing a limited guarantee on certain pre-closing tax liabilities, such guarantee is limited to certain specified entities and certain specified amounts, as agreed to between us, the sellers and such sponsors. Accordingly, such LNR companies may become liable for pre-closing taxes, which pre-closing taxes may, in the event of an inability to enforce the indemnity or in the event of a tax liability in excess of the agreed upon caps on such liabilities, be borne by us.

Our consolidated financial statements changed materially as a result of our acquisition of LNR as we now consolidate the assets and liabilities of CMBS pools in which LNR owns the controlling class of subordinated securities and is considered the "primary beneficiary."

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

LNR's business includes investment in subordinated CMBS. The risks of investment in CMBS are magnified in LNR's case, where the principal payments received by the CMBS trust are made in priority to the higher rated securities.

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's headquarters are located in Greenwich, Connecticut at 591 West Putnam Avenue in office space leased by our Manager.

Item 3. Legal Proceedings.

Currently, no material legal proceedings are pending, threatened or, to our knowledge, contemplated against us.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information and Dividends

The Company's common stock has been listed on the NYSE and is traded under the symbol "STWD" since its IPO in August 2009. The table below sets forth the quarterly high and low prices for our common stock as reported by the NYSE, and dividends made by the Company to holders of the Company's common stock for each quarter for the years ended December 31, 2013 and 2012.

2013	High	Low	Dividend
First quarter	$ 28.94	$ 23.28	$ 0.44
Second quarter	$ 28.72	$ 22.75	$ 0.46
Third quarter	$ 26.14	$ 23.75	$ 0.46
Fourth quarter	$ 28.31	$ 23.75	$ 0.46

2012	High	Low	Dividend
First quarter	$ 21.79	$ 18.46	$ 0.44
Second quarter	$ 21.42	$ 19.40	$ 0.44
Third quarter	$ 24.56	$ 21.09	$ 0.44
Fourth quarter	$ 23.96	$ 21.09	$ 0.54

On February 24, 2014, our board of directors declared a dividend of $0.48 per share for the period ended March 31, 2014, which dividend is payable on April 15, 2014 to common stockholders of record as of March 31, 2014.

As described in Item 1, on January 31, 2014, we completed the spin-off of our SFR segment and our stockholders received one common share of SWAY for every five shares of our common stock held at the close of business on January 24, 2014. On the date of the spin-off, the book value of SWAY's assets was estimated to be $1.1 billion. SWAY's shares closed at $28.18 per share on February 21, 2014.

On February 21, 2014, the closing price of our common stock, as reported by the NYSE, was $23.93 per share.

We intend to make regular quarterly distributions to holders of our common stock and distribution equivalents to holders of restricted stock units which are settled in shares of common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We generally intend over time to pay quarterly distributions in an amount equal to our taxable income.

Holders

As of February 21, 2014, there were 19 holders of record of the Company's 195,513,195 shares of common stock outstanding. Fourteen holders of record include Cede & Co., which holds shares as nominee for The Depository Trust Company which itself holds shares on behalf of the beneficial owners of our common stock.

Securities Authorized for Issuance Under Equity Compensation Plans

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

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Stock Performance Graph

CUMULATIVE TOTAL RETURN
Based upon initial investment of $100 on August 11, 2009(1)

	Starwood Property Trust	S&P © 500	Bloomberg REIT Mortgage Index
8/11/09	100.00	100.00	100.00
12/31/09	95.00	112.14	101.07
12/31/10	114.80	126.48	110.27
12/31/11	108.80	126.47	94.39
12/31/12	145.66	143.43	98.52
12/31/13	181.97	185.89	85.93

[1] Dividend reinvestment is assumed at quarter end.

Sales of Unregistered Securities

There were no unregistered sales of securities during the year ended December 31, 2013.

Issuer Purchases of Equity Securities

As of December 31, 2013, the Company does not have an authorized share repurchase program in place, and the Company did not purchase any shares of its commons stock during the year ended December 31, 2013.

Item 6. Selected Financial Data.

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

	For the Year Ended December 31,				For the Period from Inception through December 31,
	2013	2012	2011	2010	2009
Operating Data(1):					
Revenues(2)(3)	$ 565,695	$ 307,737	$ 206,452	$ 94,792	$ 8,610
Costs and expenses(2)	422,847	124,557	80,420	45,845	11,190
Other income (loss)(3)	191,535	21,525	(4,634)	10,321	
Income tax provision	(24,053)	(1,023)	(790)	(426)	
Net income	310,330	203,682	120,608	58,842	(2,580)
Net income attributable to Starwood Property Trust, Inc.	305,030	201,195	119,377	57,046	(3,017)
Net income per share of common stock:					
Basic	$ 1.82	$ 1.76	$ 1.38	$ 1.16	(0.06)
Diluted	$ 1.82	$ 1.76	$ 1.38	$ 1.14	(0.06)
Dividends declared per share of common stock	$ 1.82	$ 1.86	$ 1.74	$ 1.20	0.11
Weighted-average shares of common stock outstanding:					
Basic	166,355,599	113,721,070	84,974,604	49,138,720	47,575,634
Diluted	167,322,602	114,663,183	86,409,327	50,021,824	47,575,634
Balance Sheet Data:					
Investments in loans	$ 4,750,804	$ 3,000,335	$ 2,447,508	$ 1,425,243	$ 214,521
Investments in securities(4)	935,107	884,254	353,003	397,680	245,896
Total assets(5)	110,770,575	4,324,373	2,997,447	2,101,405	1,108,786
Total financing arrangements	3,436,649	1,393,705	1,156,716	633,745	171,394
Total liabilities(5)	106,443,442	1,527,168	1,232,300	764,176	212,751
Total Starwood Property Trust, Inc. Stockholders' Equity	4,282,528	2,719,346	1,759,488	1,327,560	887,967
Total Equity	4,327,133	2,797,205	1,765,147	1,337,229	896,035

(1) Given the nature and significance of LNR's operations, which were included in our results effective April 19, 2013, we reclassified our statement of operations into a presentation which better reflects our business segments. All prior periods were reclassified to conform to this presentation.

(2) In adjusting our presentation, we removed the previous net interest margin subtotal. Interest income is now reflected within revenues and interest expense is reflected within costs and expenses.

(3) During the year ended December 31, 2013, servicing fees and interest income of $92.7 million are eliminated in consolidation pursuant to ASC 810.

(4) December 31, 2013 balance excludes $409.3 million of CMBS that are eliminated in consolidation pursuant to ASC 810.

(5) December 31, 2013 balance includes $103.1 billion of VIE assets and $102.6 billion of VIE liabilities consolidated pursuant to ASC 810.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Starwood Property Trust, Inc. ("the Trust" together with its subsidiaries, "we" or the "Company") should be read in conjunction with Item 6, "Selected Financial Data," and our accompanying consolidated financial statements and related notes (the "Consolidated Financial Statements") referred to in Item 8 of this Annual Report on Form 10-K (this "Form 10-K"). Certain statements we make under this Item 7 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Special Note Regarding Forward-Looking Statements" at the beginning of Part I of this Form 10-K. You should consider our forward-looking statements in light of our Consolidated Financial Statements and other financial information appearing elsewhere in this Form 10-K and our other filings with the Securities and Exchange Commission (the "SEC").

Overview

Starwood Property Trust, Inc. is a Maryland corporation that commenced operations on August 17, 2009 upon the completion of its initial public offering ("IPO"). From our inception in 2009 through the end of the first quarter of 2013, we have been focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities, and other commercial real estate-related debt investments. We have traditionally referred to the following as our target assets:

- Commercial real estate mortgage loans;
- Commercial real estate mortgage-backed securities ("CMBS");
- Other commercial real estate-related debt investments;
- Residential mortgage-backed securities ("RMBS"); and
- Residential real estate owned ("REO") and residential non-performing mortgage loans.

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

On January 31, 2014, we completed the spin-off of our single family residential ("SFR") segment to our stockholders. The newly-formed real estate investment trust, Starwood Waypoint Residential Trust ("SWAY"), is listed on the NYSE and trades under the ticker symbol "SWAY." Our stockholders received one common share of SWAY for every five shares of Starwood Property Trust common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed $100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of December 31, 2013, our consolidated financial statements reflect SFR segment net assets of $1.0 billion, representing approximately 13% of the Company's total assets at December 31, 2013. The net assets of the SFR segment consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans. Refer to Note 24 to our Consolidated Financial Statements for additional SFR segment financial information. In connection with the spin-off, 40.1 million shares of SWAY were issued, which had a closing market price of $28.18 per share as of February 21, 2014.

Our objective is to provide attractive risk-adjusted global returns to our investors over the long term, primarily through dividends and secondarily through capital appreciation. We employ leverage, to the extent available, to fund the acquisition of our target assets and to increase potential returns to our stockholders. In order to achieve these objectives, we are focusing on asset selection and the relative value of various sectors within the debt market to construct a diversified investment portfolio designed to produce attractive returns across a variety of market conditions and economic cycles. We are organized as a holding company that conducts its business primarily through its various subsidiaries.

We are organized and conduct our operations to qualify as a 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.

In connection with the LNR acquisition, we established additional 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.

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 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.

Business Objectives and Outlook

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

In the initial 18 months following our IPO in August 2009, we capitalized on the dislocation in the credit markets and depressed levels of available capital by acquiring real estate debt assets from distressed sellers at historically high risk-adjusted returns, and to a lesser extent by originating new loans in a marketplace with lower levels of competition. As the real estate and capital markets have recovered, we have evolved from a company focused on opportunistic acquisitions to that of a full-service commercial real estate finance platform that is primarily focused on the origination of real estate debt investments across the capital structure, in both the U.S. and Europe. With the Starwood brand, market presence, and lending/asset management platform that we have developed, along with the capabilities, business lines, and additional infrastructure acquired through our acquisition of LNR, we intend to focus primarily on the following opportunities:

1) Expand our investment activities in subordinate CMBS and revenues from special servicing through LNR;

2) Expand our presence in the medium-sized commercial real estate lending market (loans in the $10 million to $40 million range) by leveraging LNR's sourcing and credit underwriting capabilities. This will significantly expand our overall footprint in the commercial real estate debt markets;

3) Continue to expand our market presence as a leading provider of acquisition, refinance, development and expansion capital to large real estate projects (greater than $75 million) in infill locations, and other attractive market niches where our size and scale give us an advantage to provide a "one-stop" lending solution for real estate developers, owners and operators;

4) Continue to expand our capabilities in syndication and securitization, which serve as a source of attractively priced, matched-term financing.

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

Recent Developments

Three months ended March 31, 2013

Originated an $86 million first mortgage construction financing for the development of a proposed 31-story tower containing 30 luxury condominium residences and a ground floor retail space. The first mortgage has an interest rate of one-month LIBOR plus a spread of 8.75% with a LIBOR floor of 1.5%.

Issued $600 million of 4.55% Convertible Senior Notes due 2018. The notes were sold to the underwriters at a discount of 2.05%, resulting in net proceeds to us of $587.7 million.

Originated a $43.1 million first mortgage and mezzanine loan for the financing of a Class B+ office building located in San Francisco, California. The first mortgage was sold on May 1, 2013. The first mortgage has an interest rate of one-month LIBOR plus a spread of 2.0% with a LIBOR floor of 0.2%. The mezzanine loan has an interest rate of one-month LIBOR plus a spread of 8.6% with a LIBOR floor of 0.2%.

Acquired a portfolio of 833 non-performing residential loans at an aggregate cost of $104.1 million. At the time of the acquisition, the unpaid principal balance on the loans was $213.1 million.

Entered into an agreement to sell, and on April 2, 2013, we closed on the sale of, a CMBS position with aggregate gross proceeds of $206.4 million ($66.5 million after repaying the related financing), which generated a gain of approximately $11.0 million.

Invested $106.7 million in 873 residential real estate owned properties throughout the first quarter of 2013.

Three months ended June 30, 2013

Acquired LNR as described in the Overview section above.

Originated a $350 million first mortgage and mezzanine loan for The South Tower Related Companies and Oxford Properties Groups' Hudson Yards Project, located on the west side of Manhattan, NY.

Originated a $158.5 million first mortgage and mezzanine loan on The Brill Building 180,925 square feet 11-story Class B office/retail building located at 1619 Broadway, New York, NY.

Originated a $31 million first mortgage and mezzanine loan for the acquisition of the 336-key Ritz Carlton in San Francisco, CA.

Originated a $44.8 million partial recourse loan for the acquisition of a matured senior loan collateralized by a 95,005 square feet development site originally planned as the Chicago Spire, located in Chicago, IL.

Named special servicer on three new issue CMBS deals.

Purchased $84.1 million of CMBS, including $76.9 million in new issue B-pieces.

Originated new conduit loans of $390.7 million.

Received proceeds of $476.5 million from sales of conduit loans.

Invested $130 million and $15 million in the acquisition and renovation of residential properties, respectively.

Purchased $28.8 million ($65.2 million of current face) pool of non-performing loans in April 2013.

Three months ended September 30, 2013

Originated a $275 million first mortgage loan with $225 million initially funded and $50 million of future funding commitments, on the Four Seasons Resort Hualalai in Hawaii. The loan bears interest at 4.45%.

Issued $460 million of 4.00% Convertible Senior Notes due 2019. The notes were sold to the underwriters at a discount of 2.125%, resulting in net proceeds to us of $450.2 million.

Refinanced a previously outstanding loan. The recapitalization includes a $140 million first mortgage loan with an initial funding of $115 million and future funding commitments of $25 million. The loan bears interest at 4.45% and is collateralized by an office/retail building in San Francisco, CA. The loan is split between a $95 million A-Note, with an initial funding of $78 million and future funding commitments of $17 million, and a $45 million B-Note, with an initial funding of $37 million and future funding commitments of $8 million. On July 22, 2013, we sold the A-Note to another lender for proceeds that approximated our carrying amount, thereby effectively creating leverage on the B-Note that we intend to hold for investment.

Refinanced an existing loan collateralized by a portfolio of hotel properties located throughout the United States. We co-originated the $285 million new loan with a strategic partner, with each of us holding a 50% pari-passu interest. As a result, our portion of the loan was $142.5 million. As the outstanding balance on our previous loan was approximately $161 million, the refinancing resulted in a net cash inflow to us. The new loan is comprised of a $200 million A-Note that bears interest at LIBOR plus 3.75%, and an $85 million B-Note that bears interest at LIBOR plus 7.522%. On August 6, 2013, the A-Note was sold into a securitization trust, thereby effectively creating leverage on the B-Note that we intend to hold for investment. The gross proceeds from the sale of our 50% interest approximated our carrying amount, and our share of the offering costs were approximately $2.2 million.

Sold the A-Note on an office/retail building located in Manhattan, NY, to another lender for proceeds of $83.3 million, which approximated our carrying amount. Through the sale we effectively created leverage on the B-Note that we intend to hold for investment.

Originated a $67 million first mortgage and a $78.6 million mezzanine loan, of which $115.0 million was funded at close, secured by a media campus located in Burbank Studios. The first mortgage and mezzanine loans bear interest at LIBOR plus 3.25% and 10.08%, respectively.

Co-originated a EUR-denominated first mortgage loan with Starfin Lux S.a.r.l. ("Starfin"), an affiliate of our Manager. The loan had an initial funding of $102.3 million ($53.8 million for us and $48.5 million for Starfin), and future funding commitments totaling $24.6 million. The loan bears interest at three-month EURIBOR plus 7.0% and is secured by a portfolio of retail properties in Finland.

Originated a $102.6 million first mortgage loan and a $34.2 million mezzanine loan collateralized by eight, two-story office/research and development buildings located on a campus in San Jose, CA. The first mortgage and mezzanine loans bear interest at LIBOR plus 2.25% and 9.45%, respectively. The combined initial funding on the loans was $112.0 million with $24.8 million in future funding commitments.

Sold a CMBS position for proceeds of $206.9 million, resulting in a gain of $6.4 million. These securities had been pledged under a repurchase agreement, and although we incurred a $5.1 million prepayment penalty on the early extinguishment of this debt, the security provided a double digit return based upon the price at which we sold relative to our initial acquisition price, and the structure of the financing.

Originated a $112.0 million first mortgage loan secured by 844,820 square feet of land, which currently consists of 15 parking lots totaling 2,509 spaces, located in Boston's Seaport District. The sponsors have gained full entitlement and approval for a 22-building master planned development, known as Seaport Square, that includes retail, office, multifamily, hotel and parking components. The loan is divided into a $67.0 million A-Note and a $45.0 million B-Note, which bear interest at LIBOR plus 3.25% and 8.83%, respectively.

Named special servicer on two new issue CMBS deals.

Purchased $33.4 million of CMBS, including $20.6 million in new issue B-pieces.

Originated new conduit loans of $457.5 million.

Received proceeds of $375.2 million from sales of conduit loans.

Purchased a pool of 143 residential non-performing loans for $20.2 million, which represents a 49.4% discount to the aggregate unpaid principal balance. The underlying single-family homes are located in Florida.

Invested $183.9 million and $9.7 million in the acquisition and renovation of single family homes, respectively.

Three months ended December 31, 2013

Co-originated, with Starwood European Real Estate Finance, a £288 million first mortgage loan collateralized by the Heron Tower in London. In conjunction with the loan closing, we obtained a LIBOR-based £210 million collateralized term financing facility, and retained a £60 million junior investment.

Originated a $106.0 million mezzanine loan secured by the Hyatt Regency in New Orleans, which was funded in two stages.

Originated an $86.0 million first mortgage secured by 432 multifamily units and 23 ground floor retail units in San Francisco, CA.

Originated a $150 million first mortgage loan and an $8 million mezzanine loan collateralized by five multifamily condo buildings in the Las Vegas market. The loans bear interest at LIBOR plus spreads of 4.25% and 9.25%, respectively.

Received repayment of a $203.8 million participation balance in a mezzanine loan that was secured by indirect equity interests in subsidiaries that own substantially all of the assets of a worldwide operator of hotels, resorts, and timeshare properties, resulting in net proceeds to us of $63.6 million, after the repayment of a $140.2 million financing facility secured by this investment.

Originated a $250.0 million preferred equity investment on a 41 property portfolio of single tenant office and industrial buildings comprised of approximately 9.1 million square feet located across the United States.

Named special servicer on two new issue CMBS deals.

Purchased $152.1 million of CMBS, including $92.1 million in new issue B-pieces.

Originated new conduit loans of $385.4 million.

Received proceeds of $475.1 million from sales of conduit loans.

Invested $127.6 million and $67.2 million in the acquisition and renovation of single family homes, respectively.

Subsequent Events

Refer to Note 26 to the consolidated financial statements for disclosure regarding significant transactions that occurred subsequent to December 31, 2013, including the spin-off of the SFR segment on January 31, 2014 and upsize of the Wells Fargo II repurchase agreement.

Results of Operations

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

The discussion below is on a GAAP basis and therefore reflects the elimination of certain key financial statement line items, particularly within revenues and other income, pursuant to ASC 810. For a discussion of our Results of Operations excluding the impact of ASC 810, refer to the Non-GAAP Financial Measures section herein.

Revenues

For the year ended December 31, 2013, total revenues increased $258.0 million to $565.7 million compared to $307.7 million for the year ended December 31, 2012. The increase is primarily due to $156.0 million of revenues attributable to LNR since its acquisition on April 19, 2013 (after consolidated VIE eliminations of $92.7 million), an $83.5 million increase in interest income from loans of our Lending Segment and a $15.5 million increase in rental income of our SFR segment. Revenues of LNR primarily consisted of $124.7 million of servicing fees and $26.1 million of interest income from loans and investment securities (after consolidated VIE eliminations of $54.3 million and $37.5 million, respectively). The $83.5 million increase in interest income from loans reflects a $1.5 billion increase in loan investments of our Lending Segment from December 31, 2012 to December 31, 2013 mainly resulting from new loan originations. The $15.5 million increase in rental income of our SFR segment reflects the growth in income producing residential homes owned by that segment. As discussed under Item 1, we completed the spin-off of our SFR segment to our stockholders on January 31, 2014. Therefore, our future results will not reflect any revenues or expenses of this segment following the spin-off.

Costs and Expenses

For the year ended December 31, 2013, total costs and expenses increased $298.3 million to $422.8 million compared to $124.6 million for the year ended December 31, 2012. The year over year increase was primarily due to $171.3 million of costs and expenses attributable to LNR, $18.0 million of business combination costs related to the LNR acquisition, and increases in our Lending and SFR segments of $58.9 million for interest expense, $26.4 million for depreciation and other operating costs of the SFR segment, $16.6 million for management fees and $6.7 million for general and administrative expenses. Costs and expenses of LNR primarily reflect general and administrative expenses of $133.2 million, allocated management fees of $13.9 million, direct and allocated interest expense of $12.3 million and depreciation and amortization of $9.7 million. The increase in interest expense reflects our issuance of $1.1 billion total principal amount of 4.6% and 4.0% convertible senior notes in February and July of 2013 and a new term loan facility that we used to replace LNR's previous senior credit facility in April 2013. The new term loan facility had an initial principal balance of $300 million, which was increased to $673 million in December 2013.

Other Income

For the year ended December 31, 2013, total other income increased $170.0 million to $191.5 million from $21.5 million for the year ended December 31, 2012. The year over year increase was primarily due to $151.7 million of other income attributable to LNR (after VIE consolidations of $93.6 million) and an $11.3 million increase in gains on loans and investments in our other segments. Other income of LNR primarily consisted of $116.4 million of income of consolidated VIEs and a $45.9 million increase in the fair value of mortgage loans held-for-sale, which includes both realized and unrealized net gains after hedging activity on loans originated by LNR's conduit platform since we elected to apply the fair value option. Income of consolidated VIEs of $116.4 million reflects the fees paid to LNR in its capacity as special servicer for the VIEs, interest income, and changes in fair value related to LNR's direct investments in the VIEs (including CMBS and servicing rights).

Income Tax Provision

For the year ended December 31, 2013, our income tax provision increased $23.1 million to $24.1 million from $1.0 million for the year ended December 31, 2012. The increase is due to the taxable nature of LNR's loan servicing and loan conduit businesses which are housed in TRSs.

Net Income

Net income attributable to Starwood Property Trust, Inc. for the year ended December 31, 2013 was $305.0 million or $1.82 per share (basic and diluted), compared to net income of $201.2 million or $1.76 per share (basic and diluted) for the year ended December 31, 2012, reflecting an increase of $103.8 million or $0.06 per share.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues

For the year ended December 31, 2012, total revenues increased $101.3 million compared to the year ended December 31, 2011, primarily resulting from increases in interest income from loans of $71.2 million and interest income from investment securities of $29.8 million. From December 31, 2011 to December 31, 2012, the carrying value of our investments in loans increased $552.8 million and our investments in CMBS and RMBS securities increased by $520.9 million.

Costs and Expenses

For the year ended December 31, 2012, total costs and expenses increased by $44.1 million compared to the year ended December 31, 2011. The year over year increase was primarily due to increases in management fees of $18.3 million, interest expense of $18.3 million, general and administrative costs of $2.9 million, acquisition and investment pursuit costs of $1.4 million and loan loss allowance of $2.1 million.

The increase in interest expense resulted primarily from five new financing facilities entered into during 2012, with a resulting increase in the total secured financing balance outstanding of $202.3 million. The weighted-average cost of the secured financings was 3.6%, including the impact of interest rate hedges. The increase in management fees was primarily due to our supplemental equity raises in April 2012 and October 2012 with net proceeds of $873.3 million. In connection with the October 2012 supplemental equity raise, our Manager was granted an additional 875,000 restricted stock units, resulting in higher stock compensation expense in the subsequent periods. The increase in general and administrative expenses and acquisition and investment pursuit costs were primarily attributed to the Company's increased size, as well as the volume of transactions and the increase in professional fees such as legal, audit and consulting, resulting from the growing investment portfolio. Although we have not incurred impairment charges on any individual loans, we established a general loan loss allowance for higher risk loans during 2012.

Other Income

For the year ended December 31, 2012, total other income increased by $26.2 million compared to the year ended December 31, 2011. The year over year increase was primarily due to a $22.5 million improvement in foreign currency gains, a $6.1 million decrease in loss on derivatives, a $4.5 million increase in gain on sale of investments and a $1.6 million decrease in other-than-temporary impairment ("OTTI") charges, all partially offset by an $11.5 million decrease due to the reversal of unrealized gains on loans held for sale accounted for under the fair value option which were sold in 2012.

The improvement in foreign currency gains consisted of a $13.0 million increase in net unrealized remeasurment gains and a $9.5 million increase in net realized transaction gains. The lower loss on derivatives was due to a $28.1 million favorable swing on interest rate hedges partially offset by a $19.7 million unfavorable swing on currency hedges and a $2.3 million gain on credit spread hedges in 2011 that did not recur in 2012. For the year ended December 31, 2012, we had net losses on currency hedges of $15.2 million compared to net gains on currency hedges of $4.5 million in the prior year. For the year ended December 31, 2012, we had net gains on interest rate hedges of $1.0 million compared to net losses on interest rate hedges of $27.1 million for the year ended December 31, 2011. The losses on interest rate hedges stem from declines in the value of our held-for-sale conduit loans and related derivatives that resulted from the extreme disruption experienced by the CMBS market since late June 2011 and had suspended our conduit platform as a result. As of December 31, 2012, we had sold all remaining loans originated on the conduit platform. For the year ended December 31, 2012, we had realized gains from the sale of investments of $25.5 million, of which $17.3 million related to the sale of CMBS and RMBS securities and other investments and $8.2 million related to the sale of loans. For the year ended December 31, 2011, we had realized gains from the sale of investments of $21.0 million, of which $10.7 million related to the sale of CMBS, RMBS and other investments and $10.3 million related to the sale of loans. In 2012, we sold nine loans and in 2011we sold seven loans into two separate securitization vehicles, and sold two loans in private sale, respectively. We have historically used the securitization markets as a source of advantageously priced, non-recourse, matched term financing for many of the fixed rate first mortgage loans we originate. Our business model is to originate the whole loan and either securitize or sell a senior portion of the loan, leaving us with a higher yielding subordinated loan component. Refer to Note 12 to the Consolidated Financial Statements for more information on loan securitization and sale activities. OTTI charges related to our

RMBS securities were $4.4 million for the year ended December 31, 2012 compared to $6.0 million in the prior year.

Net Income

Net income attributable to Starwood Property Trust, Inc. for the year ended December 31, 2012 was $201.2 million or $1.76 per share (basic and diluted), compared to net income of $119.4 million or $1.38 per share (basic and diluted) for the year ended December 31, 2011, reflecting an increase of $81.8 million or $0.38 per share.

Non-GAAP Financial Measures

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

We believe that Core Earnings provides an additional measure of our core operating performance by eliminating the impact of certain non-cash expenses and facilitating a comparison of our financial results to those of other comparable REITs with fewer or no non-cash charges and comparison of our own operating results from period to period. Our management uses Core Earnings in this way, and also uses Core Earnings to compute the incentive fee due under our management agreement. The Company believes that its investors also use Core Earnings or a comparable supplemental performance measure to evaluate and compare the performance of the Company and its peers, and as such, the Company believes that the disclosure of Core Earnings is useful to (and expected by) its investors.

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

The definition of Core Earnings allows management to make adjustments, subject to the approval of a majority of the independent directors, in non-standard situations where such adjustments are considered appropriate in order for Core Earnings to be calculated in a manner consistent with its definition and objective. We encountered this type of situation in connection with the LNR acquisition, which closed on April 19, 2013. The LNR acquisition triggered certain cash bonus obligations under the LNR Property LLC Change in Control Bonus Plan (the "Change in Control Plan"). The purpose of the Change in Control Plan was to provide an incentive to certain key employees of LNR in connection with a change in control of the company. Pursuant to the Change in Control Plan, cash bonus awards were payable to participants as follows: 50% upon a change in control (which occurred April 19, 2013), and the remaining 50% on the nine-month anniversary of a change in control (in this case, January 19, 2014), assuming the participants have not voluntarily terminated their employment or been terminated for cause prior to that date. On the acquisition date, 50% of the cash bonus obligation was paid to the employees and the remaining 50% was funded into an escrow account as required under the Change in Control Plan. While the sellers did not fund these obligations directly, 100% of the bonus amounts were deducted from our purchase price (as specified in the purchase and sale agreement), thereby reducing the cash we paid to the sellers at closing. GAAP requires that we expense the pre-funded 50% portion over the nine-month service period or sooner if any of the employees is terminated without cause. As a result, we recorded expense related to the Change in Control Plan of $22.4 million for the period from April 19, 2013 to December 31, 2013 in our consolidated income statement for the year ended December 31, 2013. However, we did not incur these obligations as they were effectively paid by the sellers through the reduction in their sale proceeds. Since we did not pay for these costs, it is appropriate for them to be excluded from the calculation of our Core Earnings.

Year ended December 31, 2013 Compared to Years ended December 31, 2012 and 2011

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

	Real Estate Investment Lending	Single Family Residential	LNR	Total
Revenues	$ 393,478	$ 16,200	$ 248,708	$ 658,386
Costs and expenses	(201,889)	(49,681)	(170,632)	(422,202)
Other income	25,911	13,882	58,171	97,964
Income (loss) before income taxes	217,500	(19,599)	136,247	334,148
Income tax benefit (provision)	1,722	(195)	(25,580)	(24,053)
Income attributable to non-controlling interests	(5,065)			(5,065)
Net income (loss) attributable to Starwood Property Trust, Inc.	**214,157**	**(19,794)**	**110,667**	**305,030**
Add / (Deduct):				
Non-cash equity compensation expense	16,273			16,273
Management incentive fee	7,070		4,503	11,573
Change in Control Plan			22,382	22,382
Depreciation and amortization		6,106	763	6,869
Loan loss allowance	1,923		447	2,370
Interest income adjustment for securities	(1,227)		11,253	10,026
(Gains) / losses on:				
Loans held-for-sale			2,427	2,427
Securities	(303)		(21,639)	(21,942)
Derivatives	12,290		(1,966)	10,324
Foreign currency	(10,663)			(10,663)
Earnings from unconsolidated entities			(2,053)	(2,053)
Core Earnings (Loss)	**$ 239,520**	**$ (13,688)**	**$ 126,784**	**$ 352,616**
Core Earnings (Loss) per Weighted Average Diluted Share	**$ 1.43**	**$ (0.08)**	**$ 0.76**	**$ 2.11**

The following table presents our summarized results of operations and reconciliation to Core Earnings for the years ended December 31, 2012 and 2011, by business segment (amounts in thousands):

	For the Year Ended December 31,			
	2012			2011
	Real Estate Investment Lending	Single Family Residential	Total	Real Estate Investment Lending
Revenues	$ 307,294	$ 443	$ 307,737	$ 206,452
Costs and expenses	(121,761)	(2,796)	(124,557)	(80,420)
Other income (loss)	21,025	500	21,525	(4,634)
Income (loss) before income taxes	206,558	(1,853)	204,705	121,398
Income tax provision	(871)	(152)	(1,023)	(790)
Income attributable to non-controlling interests	(2,487)		(2,487)	(1,231)
Net income (loss) attributable to Starwood Property Trust, Inc.	**203,200**	**(2,005)**	**201,195**	**119,377**
Add (Deduct):				
Non-cash equity compensation expense	16,163		16,163	13,743
Management incentive fee	7,870		7,870	1,178
Depreciation and amortization		213	213	
Loan loss allowance	2,061		2,061	
Interest income adjustment for securities				
(Gains) losses on:				
Loans	5,760		5,760	(5,760)
Securities	3,970		3,970	6,001
Impairment of real estate				
Derivatives	(2,377)		(2,377)	5,532
Foreign currency	(6,549)		(6,549)	6,518
Core Earnings(Loss)	**$ 230,098**	**$ (1,792)**	**$ 228,306**	**$ 146,589**
Core Earnings per Weighted Average Diluted Share	**$ 2.01**	**$ (0.02)**	**$ 1.99**	**$ 1.70**

Real Estate Investment Lending Segment

This segment generated Core Earnings of $239.5 million during the year ended December 31, 2013 compared to $230.1 million and $146.6 million for the years ended December 31, 2012 and 2011, respectively. The significant matters to note in comparison to the results of the prior years are as follows:

Total investments were significantly higher during the year ended December 31, 2013 than in prior years. Total investments were $5.4 billion, $3.9 billion and $2.8 billion as of December 31, 2013, 2012 and 2011, respectively. We financed this increase primarily through a combination of new equity issuances as well as debt financing. As a result, interest income, management fees, interest expense, and general and administrative expense all increased.

Business combination costs of $18.0 million were incurred in connection with the LNR acquisition, and acquisition and investment pursuit costs were $2.8 million during the year ended December 31, 2013 compared to $3.5 million and $3.7 million during the years ended December 31, 2012 and 2011, respectively. These costs will fluctuate between periods depending on the nature and significance of loan and other investment acquisitions being pursued at the time.

Gains on sales of investments were $25.1 million, $24.8 million and $21.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. While this segment generally does not acquire and originate investments with the intent of generating returns solely from trading activities, it periodically sells its investments. The nature and timing of investment sales will depend upon a variety of factors, including our current outlook and strategy with respect to an investment, other investment opportunities available at the time, and market pricing. As a result, gains (or losses) from sales of our investments have fluctuated over time, and we would expect this variability to continue for the foreseeable future.

Single Family Residential Segment

Since it commenced operations in the second quarter of 2012, the SFR segment was focused primarily on acquiring residential real estate and non-performing residential loans, preparing these investments for their intended use, establishing various investment management agreements with third parties and the partnership agreement that owns and operates the non-performing loans. The main components of the $13.7 million Core Loss during the year ended December 31, 2013, which compares to a Core Loss of $1.8 million for the portion of 2012 since it commenced operations, were as follows:

In connection with the operation of our portfolio, we earned rental income and other revenue of $16.2 million, and incurred management fees of $6.2 million, which includes the fees and reimbursable expenses incurred with regard to our third party managers. The SFR segment incurred other property operating costs of approximately $21.4 million.

Additionally, the segment results include an allocation of management fees paid to our Manager and corporate-level interest expense of $5.2 million and $6.6 million, respectively.

The segment incurred acquisition and investment pursuit expenses of $2.8 million, which represent the costs incurred in connection with acquiring loans, engaging third party investment managers and forming a partnership, as well as certain costs related to property acquisitions.

The segment realized approximately $5.8 million in net gains from the liquidation of investments.

The segment also realized $8.6 million of gains on NPL foreclosures and $1.1 million of impairments of real estate. These amounts were considered realized due to the successful spin-off and resulting disposition of these assets.

Depreciation expense of $6.1 million has been added back to GAAP net loss in arriving at Core Loss as this amount does not represent an economic deterioration of the real estate asset.

LNR Segment

The LNR segment contributed Core Earnings of $126.8 million for the year. After making adjustments for the calculation of Core Earnings, revenues were $260.0 million, costs and expenses were $142.5 million, other income was $34.9 million and income taxes were $25.6 million.

Core revenues benefited from strong servicing fees of $179.0 million, CMBS interest income of $65.3 million, interest income on our conduit loans of $9.6 million, and other revenues of $6.1 million. Our U.S. servicing operation earned $154.7 million in fees during the year while our European servicer earned $24.3 million. The treatment of CMBS interest income on a GAAP basis is complicated by our application of the ASC 810 consolidation rules. In an attempt to treat these securities similar to the trust's other investment securities, we compute core interest income pursuant to an effective yield methodology. In doing so, we segregate the portfolio into various categories based on the components of the bonds' cash flows and the volatility related to each of these components. We then accrete interest income on an effective yield basis using the components of cash flows that are reliably estimable. Other minor adjustments are made to reflect management's expectations for other components of the projected cash flow stream.

Included in core costs and expenses were general and administrative expenses ("G&A") of $110.8 million, allocated segment management fees of $9.4 million, direct interest expense of $3.1 million, allocated interest expense of $9.2 million and amortization expense of $8.1 million. G&A was adjusted to exclude the Change in Control Plan expenses of $22.4 million (see related discussion above under "Non-GAAP Financial Measures"). Amortization expense principally represents the amortization of the European special servicing intangible, which reflects the deterioration of this asset as fees are earned.

Core other income includes profit realized upon securitization of loans by our conduit business, gains on sales of CMBS, gains on derivatives that were either effectively terminated or novated, and earnings from unconsolidated entities. Derivatives include instruments which hedge interest rate risk and credit risk on our conduit loans. For GAAP purposes, the loans, CMBS and derivatives are accounted for at fair value, with all changes in fair value (realized or unrealized) recognized in earnings. The adjustments to Core Earnings outlined above are also applied to the GAAP earnings of our unconsolidated entities.

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

Liquidity and Capital Resources

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

Cash Generated from Operating the Business, Including Repayments

Cash from operations is generally comprised of interest income from our investments, net of any associated financing expense, principal repayments from our investments, net of associated financing repayments, proceeds from the sale of investments, servicing fees and changes in working capital balances.

Cash and Cash Equivalents

As of December 31, 2013, we had cash and cash equivalents of $317.6 million.

Cash Flows for the Year Ended December 31, 2013

	GAAP	VIE Adjustments	Excluding LNR VIEs
Net cash provided by operating activities	**$ 326,314**	**$ 90**	**326,404**
Cash Flows from Investing Activities:			
Purchase of LNR, net of cash acquired	(586,383)	(366)	(586,749)
Purchase of investment securities	(479,843)	(180,652)	(660,495)
Proceeds from sales and collections of investment securities	533,845	43,404	577,249
Origination and purchase of loans held-for-investment	(2,663,267)		(2,663,267)
Proceeds from principal collections and sale of loans	1,205,468		1,205,468
Acquisition and improvement of single family homes and acquisition of non-performing loans, net of sales proceeds	(788,792)		(788,792)
Net cash flows from other investments and assets	(31,355)		(31,355)
Increase in restricted cash, net	(17,275)		(17,275)
Net cash used in investing activities	**(2,827,602)**	**(137,614)**	**(2,965,216)**
Net borrowings under financing agreements	574,833		574,833
Proceeds from issuance of convertible senior notes	1,037,926		1,037,926
Proceeds from common stock offerings	1,512,129		1,512,129
Payment of dividends	(300,973)		(300,973)
Net distributions to non-controlling interests	(46,505)		(46,505)
Issuance of debt of consolidated VIEs	13,993	(13,993)	
Repayment of debt of consolidated VIEs	(180,652)	180,652	
Distributions of cash from consolidated VIEs	29,411	(29,411)	
Net cash provided by financing activities	**2,640,162**	**137,248**	**2,777,410**
Net increase in cash and cash equivalents	138,874	(276)	138,598
Cash and cash equivalents, beginning of year	177,671		177,671
Effect of exchange rate changes on cash	1,082		1,082
Cash and cash equivalents, end of year	$ 317,627	$ (276)	$ 317,351

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

Cash and cash equivalents increased by $138.9 million during the year ended December 31, 2013. The increase resulted from cash provided by operating activities of $326.4 million, which was partially offset by the cash used in investing activities of $3.0 billion being $187.4 million in excess of the cash raised by financing activities of $2.8 billion as the Company raises cash strictly to fund new investments.

Net cash provided by operating activities for the year ended December 31, 2013 totaled $326.4 million and related primarily to interest income of $362.7 million from our loan origination and conduit programs, plus interest income on investment securities of $77.4 million. Servicing fees provided $179.0 million with the change in working capital providing $52.4 million and other revenues of $10.9 million.

Offsetting these revenues were general and administrative expenses of $150.4 million, interest expense of $79.2 million, management fees of $53.6 million, plus business combination and investment pursuit costs of $24.4 million and income taxes of $43.1 million.

Net cash used in investing activities for the year ended December 31, 2013 totaled $3.0 billion and related primarily to the acquisition and origination of new loans of $2.7 billion, acquisition and improvement of real estate and non-performing residential loans of $788.8 million, the purchase of investment securities for $660.5 million and the acquisition of LNR, net of cash, for $586.4 million. Offsetting the new investment purchases were proceeds received from principal repayments and sales of loans of $1.2 billion and proceeds from sales and collections on investment securities of $577.2 million.

Net cash provided by financing activities for the year ended December 31, 2013 totaled $2.8 billion and related primarily to proceeds from our common stock offering of $1.5 billion, proceeds from the issuance of our convertible debt of $1.0 billion and net borrowings after repayments on our secured debt of $574.8 million, partially offset by dividend distributions of $301.0 million and distributions to non-controlling entities of $46.5 million.

Cash Flows for the Year Ended December 31, 2012

Cash and cash equivalents increased by $63.6 million during the year ended December 31, 2012. The increase resulted from cash provided by operating activities of $265.6 million and cash provided by financing activities of $986.7 million, both partially offset by cash used in investing activities of $1.2 billion.

Net cash provided by operating activities for the year ended December 31, 2012 of $265.6 million reflects primarily net income of $203.7 million, reduced by $54.2 million of non-cash adjustments, and $132.0 million in proceeds from the sale of loans held for sale.

Net cash provided by financing activities for the year ended December 31, 2012 related primarily to $1.8 billion of borrowings from our secured financing facilities, gross proceeds from our common stock offering of $875.7 million and contributions from non-controlling interests of $94.3 million, offset by dividend payments to our stockholders of $186.1 million, repayments on borrowings of $1.6 billion, payment of underwriting costs of $2.0 million, distributions to non-controlling interests of $24.5 million, and the payment of deferred financing costs of $8.6 million.

Net cash used in investing activities for the year ended December 31, 2012 totaled $1.2 billion and related primarily to the acquisition and origination of new loans held-for-investment of $1.8 billion, new MBS of $626.3 million, acquisition and improvement of real estate of $172.3 million and other investments of $14.8 million, offset by proceeds received from the sale of MBS of $261.3 million, principal repayments on loans and MBS of $55.2 million and $89.1 million, respectively, loan maturities of $615.2 million, proceeds from the sale of loans held for investment of $344.4 million, and proceeds from the sale of other investments of $8.3 million.

Potential Liquidation of Certain RMBS and CMBS Positions

We regularly make certain investments in RMBS. We have restricted these RMBS investments to an amount that at all times is no greater than 10% of our total assets, excluding VIE assets. Expected durations are generally 5 years or less and we have engaged a third party manager who specializes in RMBS to assist us in managing this portfolio. As of December 31, 2013, our investments in RMBS and CMBS that are classified as available-for-sale had a fair value of $296.2 million and $114.3 million, respectively.

New Credit Facilities

On July 3, 2013, we issued $460 million in aggregate principal amount of 4.00% Convertible Senior Notes due 2019 for total gross proceeds of $460 million. The underwriters' discount and other offering costs aggregated $10.7 million, resulting in net proceeds to us of $450.2 million.

In connection with the LNR acquisition on April 19, 2013, we entered into a $300 million term loan facility that has a seven-year term. The term loan bears interest at a rate of 3.5%, and has an overall borrowing cost of 3.84% per annum. In addition, the fees to obtain the facility were approximately $7.1 million. On December 13, 2013, the facility was amended and the balance was increased to $673.5 million. The total fees to obtain and amend the facility were $13.8 million.

On February 15, 2013, we issued $600.0 million of 4.55% Convertible Senior Notes due 2018. The notes were sold to the underwriters at a discount of 2.05%, resulting in net proceeds to us of $587.7 million.

Borrowings under Various Financing Arrangements

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

1) *Repurchase Agreements:* Repurchase agreements effectively allow us to borrow against loans and securities that we own. Under these agreements, we sell our loans and securities to a counterparty and agree to repurchase the same loans and securities from the counterparty at a price equal to the original sales price plus an interest factor. The counterparty retains the sole discretion over both whether to purchase the loan and security from us and, subject to certain conditions, the market value of such loan or security for purposes of determining whether we are required to pay margin to the counterparty. Generally, if the lender determines (subject to certain conditions) that the market value of the collateral in a repurchase transaction has decreased by more than a defined minimum amount, we would be required to repay any amounts borrowed in excess of the product of (i) the revised market value multiplied by (ii) the applicable advance rate. During the term of a repurchase agreement, we receive the principal and interest on the related loans and securities and pay interest to the counterparty. As of December 31, 2013, we have various repurchase agreements, with details referenced in the table provided below.

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

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

The following table is a summary of our financing facilities as of December 31, 2013 (dollar amounts in thousands):

	Facility Type	Revolver	Eligible Assets	Current Maturity	Extended Maturity(a)	Pricing	Pledged Asset Carrying Value	Maximum Facility Size	Outstanding balance	Approved but Undrawn Capacity(b)	Unallocated Financing Amount(c)
Wells Fargo II(d)	Repurchase	Yes	Identified Loans	Aug 2014	Aug 2015	LIBOR + 1.75% to 6%	$ 918,452	$ 550,000	$ 449,323	$ 100,677	
Wells Fargo III	Repurchase	Yes	Identified RMBS	(e)	N/A	LIBOR + 1.90%	272,580	175,000	127,943	36,396	10,661
Wells Fargo IV	Repurchase	No	Identified Loans	Dec 2014	Dec 2016	LIBOR + 2.75%	210,807	154,133	154,133		
Citibank	Repurchase	Yes	Identified Loans	Oct 2015	Oct 2018	LIBOR + 2.00% to 2.75%	157,970	225,000	100,886		124,114
OneWest Bank	Repurchase	No	Identified Loans	Jul 2015	Jul 2017	LIBOR + 3.00%	78,280	50,871	50,871		
Goldman Sachs Conduit I	Repurchase	Yes	Identified Loans	Sep 2014	Sep 2014	LIBOR + 2.20%	170,665	250,000	129,843		120,157
Barclays Conduit II	Repurchase	Yes	Identified Loans	Nov 2014	Nov 2014	LIBOR + 2.10%		150,000			150,000
J.P. Morgan	Repurchase	No	Identified Loans	Oct 2015	Oct 2017	LIBOR + 2.60%	441,608	347,697	347,697		
RBS	Repurchase	No	Identified CMBS	Dec 2014	Dec 2014	LIBOR + 2.00%	84,231	58,467	58,467		
Borrowing Base	Bank Credit Facility	Yes	Identified Loans	Sep 2015	Sep 2017	LIBOR + 3.25%(f)	892,439	250,000	169,104		80,896
Term Loan	Syndicated Facility	No	Specifically Identified Assets	Apr 2020	Apr 2020	LIBOR + 2.75%(f)	2,574,912	671,808	669,293(g)		
							$ 5,801,944	$ 2,882,976	$ 2,257,560	$ 137,073	$ 485,828

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

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

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

(d) On January 27, 2014, we amended the terms of the facility to increase available borrowings under the facility by $450.0 million to $1.0 billion and extend the maturity. Refer to Note 26 of the consolidated financial statements for further discussion.

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

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

(g)

Term loan outstanding balance is net of $2.5 million of unamortized discount.

Variance between Average and Quarter-End Credit Facility Borrowings Outstanding

The following table compares the average amount of repurchase transactions outstanding during each quarter and the amount of repurchase transactions outstanding as of the end of each quarter, together with an explanation of significant variances:

Quarter Ended	Quarter-End Balance (in 000's)	Weighted-Average Balance During Quarter (in 000's)	Variance (in 000's)	Explanations for Significant Variances
March 31, 2013	$ 1,027,820	$ 1,124,392	$ (96,572)	(a)
June 30, 2013	1,707,366	1,492,792	214,574	(b)
September 30, 2013	1,312,044	1,523,634	(211,590)	(c)
December 31, 2013	2,257,560	1,850,572	406,988	(d)

(a) Variance primarily due to the following: (i) payoff of the last remaining loan under the Wells Fargo I facility in February, (ii) paydown of $315 million in financing under the Wells Fargo II facility using proceeds from the convertible debt offering on February 15 offset by a draw of $173.9 million on March 27 to fund the origination of Hudson Yards, and (iii) paydown of $57 million in financing under the Citibank facility using proceeds from the convertible debt offering on February 15.

(b) Variance primarily due to the following: (i) $93.5 million in draws during June on the Wells Fargo III facility; and (ii) $285.1 million draw under the Wells Fargo II facility in June.

(c) Variance primarily due to the following transactions: (i) paydown of $105.9 million under the Wells Fargo II facility using proceeds from the equity offering in late September 2013; (ii) payoff and termination of the Goldman facility in late September due to the sale of remaining CMBS pledged to the facility. Approximately $144.9 million was paid off in conjunction with the sale; and (iii) the drawdown of the conduit loan repurchase facilities at the end of the quarter to fund the origination of additional conduit loans.

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

Quarter Ended	Quarter-End Balance (in 000's)	Weighted-Average Balance During Quarter (in 000's)	Variance (in 000's)	Explanations for Significant Variances
March 31, 2012	$ 1,308,860	$ 1,270,300	$ 38,560	(a)
June 30, 2012	1,065,388	1,074,612	(9,224)	(b)
September 30, 2012	1,309,450	1,280,953	28,497	(c)
December 31, 2012	1,305,812	1,215,948	89,864	(d)

(a) Variance is primarily due to the following transactions: (i) paydown of $92.1 million under the Goldman facility on March 29, 2012 using proceeds from the sale of six conduit loans; (ii) $81.0 million draw under the BAML Credit Agreement in mid-March 2012 in conjunction with the closing of a $125.0 million participation in a senior loan; (iii) $70.0 million was repaid under the Second Deutsche Repurchase Agreement in March 2012; (iv) $88.0 million additional draw on Wells Fargo IV facility; and (v) $155.4 million draw under the Second Goldman Repurchase Agreement in the beginning of February in conjunction with the acquisition of $222.8 million of CMBS.

(b) Variance is primarily due to the following transactions: (i) paydown of $38.5 million under the Wells Fargo I facility in early June 2012; (ii) various draws and repayments during the

quarter under the Wells Fargo II facility in anticipation of multiple loan closings; (iii) additional draw of $55.1 million under the Wells Fargo III to lever the RMBS acquired during the quarter; (iv) paydown of $92.0 million in under the Second Deustche Repurchase Agreement using proceeds from the equity offering in April 2012, subsequent draw of $45.0 million in early May 2012 in anticipation of the REO pool acquisition, and repayment of $50.3 million in conjunction with the payoff of the loan pledged under the facility in early May 2012; and (v) paydown of $24.5 million under the Wells Fargo IV facility in conjunction with the prepayment of three loans during May and June of 2012.

(c) Variance is primarily due to the following transactions: (i) paydown of $98.7 million under the Bank of America Merrill Lynch Hilton line in late August 2012 using the proceeds from the sale of three securities; (ii) various draws and repayments during the quarter, including a draw of $132.3 million, under the Wells Fargo II facility in anticipation of multiple loan closings; (iii) additional draw of $30 million under the Wells Fargo III facility to lever the RMBS acquired during the quarter; (iv) a draw of $32.2 million under the Citi Repurchase Agreement in late September 2012; and (v) an initial draw of $158.8 million on a newly created financing line.

(d) Variance is primarily due to the following transactions: (i) paydown of $19.5 million on the Wells Fargo I facility in early October using proceeds from the maturity of one loan, (ii) various draws in December totaling $148.0 million from additional assets pledged to the Wells Fargo II facility, offset by a prepayment of $51.6 million in mid-December, and (iii) draws totaling $158.9 million on various dates throughout the quarter on the Wells Fargo III facility.

Scheduled Principal Repayments on Investments and Overhang on Financing Facilities

The following scheduled and/or projected principal repayments on our investments were based upon the amounts outstanding and contractual terms of the financing facilities in effect as of December 31, 2013 (amounts in thousands):

	Scheduled Principal Repayments on Loans	Scheduled/Projected Principal Repayments on RMBS and CMBS	Projected Required Repayments of Financing	Scheduled Principal Inflows Net of Financing Outflows
First Quarter 2014	$ 217,715	$ 14,170	$ (133,718)(1)	$ 98,167
Second Quarter 2014	5,319	30,045	(131,795)(2)	(96,431)
Third Quarter 2014	19,907	18,919	(484,551)(3)	(445,725)
Fourth Quarter 2014	66,389	28,812	(188,803)(4)	(93,602)
Total	$ 309,330	$ 91,946	$ (938,867)(5)	$ (537,591)

[1] Approximately $129.8 million of the projected required repayments on financing in the first quarter of 2014 relates to Conduit I facility. We expect to repay these maturities through asset sales.

[2] Approximately $127.9 million of the projected required repayments in the second quarter of 2014 relates to our Wells Fargo III facility which has evergreen options we can use to extend the line as long as we meet certain criteria.

[3] Approximately $448.8 million of the projected required repayments in the third quarter of 2014 relates to our Wells Fargo II facility. We subsequently extended this facility as discussed in Note 26 to the Consolidated Financial Statements.

(4) Approximately $126.8 million of the projected required repayments in the fourth quarter of 2014 relates to our Wells Fargo IV facility. We expect to extend this facility since we have extension options available to us by meeting certain criteria.

(5) Total projected required repayments of financing are $490.1 million after considering the extension of the Wells Fargo II facility which we subsequently extended as discussed in Note 26 to the Consolidated Financial Statements.

Issuances of Equity Securities

We may raise funds through capital market transactions by issuing capital stock. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have authorized 100,000,000 shares of preferred stock and 500,000,000 shares of common stock. At December 31, 2013, we had 100,000,000 shares of preferred stock available for issuance and 303,860,955 shares of common stock available for issuance.

In April 2013, we sold 30,475,000 shares of common stock at a price of $26.985 per share, resulting in gross proceeds of $822.4 million. In addition, in September 2013, we sold 25,000,000 shares of common stock for total proceeds (net of underwriter discount) of approximately $601.0 million. In connection with the September offering, the underwriters had a 30-day option to purchase an additional 3,750,000 shares of common stock, which they exercised, resulting in additional proceeds of $90.2 million in late September.

We maintain an ATM equity offering program with Merrill Lynch, Pierce, Fenner & Smith Incorporated, as agents, relating to our shares of common stock. In accordance with the terms of the agreement, we may offer and sell shares of our common stock having an aggregate gross sales price of up to $250 million from time to time through the agent. Any sales of the shares will be made by means of ordinary brokers' transactions at prices related to prevailing market prices or at negotiated prices.

Other Potential Sources of Financing

In the future, we may also use other sources of financing to fund the acquisition of our target assets, including other secured as well as unsecured forms of borrowing. We may also seek to raise further equity capital or issue debt securities in order to fund our future investments.

Off-Balance Sheet Arrangements

In connection with our purchase of LNR, we now have relationships with unconsolidated entities and/or financial partnerships, such as entities often referred to as SPEs or VIEs. We are not obligated to provide, nor have we provided, any financial support for any SPEs or VIEs. As such, the risk associated with our involvement is limited to the carrying value of our investment in the entity. Refer to Note 15 to the Consolidated Financial Statements for further discussion.

Dividends

We intend to continue to make regular quarterly distributions to holders of our common stock. U.S. federal income tax law generally requires that a REIT distribute annually at least 90% of its REIT taxable income, without regard to the deduction for dividends paid and excluding net capital gains, and that it pay tax at regular corporate rates to the extent that it annually distributes less than 100% of its net taxable income. We intend to continue to pay regular quarterly dividends to our stockholders in an amount approximating our net taxable income, if and to the extent authorized by our board of directors. Before we pay any dividend, whether for U.S. federal income tax purposes or otherwise, we must first meet both our operating and debt service requirements. If our cash available for distribution is less than our net taxable income, we could be required to sell assets or borrow funds to make cash distributions or we may make a portion of the required distribution in the form of a taxable stock distribution or distribution of debt securities. Refer to Item 5 of this Form 10 for disclosure of our dividend history.

The tax treatment for our aggregate distributions per share of common stock paid with respect to 2013 is as follows:

Record Date	Payment Date	Per Share Dividend Paid	Per Share Dividend Attributed to 2013	Ordinary Taxable Dividends	Taxable Qualified Dividends	Capital Gain Distribution	Unrecaptured 1250 Gain	Nondividend Distributions
12/31/2012	1/15/2013	$ 0.5400	$ 0.2102	$ 0.1963	$ 0.0389	$ 0.0118	$	$ 0.0021
3/28/2013	4/15/2013	0.4400	0.4400	0.4108	0.0814	0.0248		0.0044
6/28/2013	7/15/2013	0.4600	0.4600	0.4295	0.0851	0.0259		0.0046
9/30/2013	10/15/2013	0.4600	0.4600	0.4295	0.0851	0.0259		0.0046
12/31/2013	1/15/2014	0.4600	0.3844	0.3589	0.0711	0.0217		0.0038
		$ 2.3600	$ 1.9546	$ 1.8249	$ 0.3616	$ 0.1101	$	$ 0.0195

As the Company's aggregate distributions exceeded its earnings and profits, a portion of the January 2014 distribution declared in the fourth quarter of 2014 and payable to stockholders of record as of December 31, 2013 will be treated as a 2014 distribution for federal tax purposes.

On February 24, 2014, our board of directors declared a dividend of $0.48 per share for the first quarter of 2014, which is payable on April 15, 2014 to common stockholders of record as of March 31, 2014.

Leverage Policies

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

The amount of leverage we deploy for particular investments in our target assets depends upon our Manager's assessment of a variety of factors, which may include the anticipated liquidity and price volatility of the assets in our investment portfolio, the potential for losses and extension risk in our portfolio, the gap between the duration of our assets and liabilities, including hedges, the availability and cost of financing the assets, our opinion of the creditworthiness of our financing counterparties, the health of the U.S. economy and commercial and residential mortgage markets, our outlook for the level, slope, and volatility of interest rates, the credit quality of our assets, the collateral underlying our assets, and our outlook for asset spreads relative to the LIBOR curve. Under our current repurchase agreements and bank credit facility, our total leverage may not exceed 75% of total assets (as defined), as adjusted to remove the impact of bona-fide loan sales that are accounted for as financings and the consolidation of VIEs pursuant to GAAP. As of December 31, 2013, our total debt to assets ratio was 40.2%.

Contractual Obligations and Commitments

Contractual obligations as of December 31, 2013 are as follows (amounts in thousands):

	Total	Less than 1 Year	1 to 3 years	3 to 5 years	More than 5 years
Secured financings	$ 2,260,074	$ 938,867(b)	$ 669,706	$ 13,539(b)	$ 637,962
Convertible senior notes, including interest payable	1,060,000			600,000	460,000
Secured borrowings on transferred loans(a)	181,238	1,058	51,272	128,908	
Loan funding obligations	962,325	510,542	430,978	20,805	
Future lease commitments	43,439	6,604	12,502	11,423	12,910
Total	$ 4,507,076	$ 1,457,071	$ 1,164,458	$ 774,675	$ 1,110,872

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

(b) We subsequently extended the maturity of the Wells Fargo II facility, which had an outstanding balance of $449.3 million at December 31, 2013, as discussed in Note 26 to the Consolidated Financial Statements.

The table above does not include amounts due under our management agreement or derivative agreements as those contracts do not have fixed and determinable payments. In addition, the table above does not give effect to the subsequent events described in Note 26 to the Consolidated Financial Statements.

Critical Accounting Estimates

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

Loan Impairment

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

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

Significant judgment is required when evaluating loans for impairment, therefore, actual results over time could be materially different. As of December 31, 2013, the Lending Segment had $4.4 billion of loans held-for-investment, none of which were delinquent or in default. Historically, this segment has not had any impairment charges on individual loans. However, we have established a general loan loss allowance based on our risk classification of the loans in our portfolio, as discussed in Note 5 to our Consolidated Financial Statements. The general loan loss allowance was $4.0 million as of December 31, 2013.

As of December 31, 2013, the LNR segment has $12.8 million of loans held-for-investment. Of this amount, approximately $8 million are in default, all of which had been originally acquired as NPLs prior to our April 19, 2013 acquisition of LNR.

Classification and Impairment Evaluation of Investment Securities

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

When the estimated fair value of a security for which we have not elected to apply the fair value option is less than its amortized cost, we consider whether there is an OTTI in the value of the security. An impairment is deemed an OTTI if (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovering our cost basis, or (iii) we do not expect to recover our cost basis even if we do not intend to sell the security or believe it is more likely than not that we will be required to sell the security before recovering our cost basis. If the impairment is deemed to be an OTTI, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) our intention to sell the security or (ii) our judgment that it is more likely than not that we will be required to sell the security before recovering our cost basis, an impairment loss is recognized in earnings equal to the difference between our amortized cost basis and fair value. Whereas, if the OTTI has resulted from our conclusion that we will not recover our cost basis even if we do not intend to sell the security or believe it is more likely than not that we will be required to sell the security before recovering our cost basis, only the credit loss portion of the impairment is recorded in earnings and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in accumulated other comprehensive income. Determining whether there is an OTTI may require us to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. As a result, actual OTTI losses could differ from reported amounts. Such judgments and assumptions are based upon a number of factors, including (i) credit of the issuer or the borrowers, (ii) credit rating of the security, (iii) key terms of the security, (iv) performance of the loan or underlying loans, including debt service coverage and loan-to-value ratios, (v) the value of the collateral for the loan or underlying loans, (vi) the effect of local, industry, and broader economic factors, and (vii) the historical and anticipated trends in defaults and loss severities for similar securities. As of December 31, 2013, we held $411 million of available-for-sale RMBS and CMBS which had gross unrealized gains of $69 million and gross unrealized losses of only $2 million. We also had $368 million of held-to-maturity securities which had no unrealized losses as of December 31, 2013. We recognized OTTI charges against earnings of $1 million, $4 million and $6 million in the years ended December 31, 2013, 2012 and 2011, respectively.

Valuation of Financial Assets and Liabilities Carried at Fair Value

We measure our VIE assets and liabilities, mortgage-backed securities, derivative assets and liabilities, domestic servicing rights intangible asset and any assets or liabilities where we have elected the fair value option at fair value. When actively quoted observable prices are not available, we either use implied pricing from similar assets and liabilities or valuation models based on net present values of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors. See Note 21 to our consolidated financial statements for details regarding the various methods and inputs we use in measuring the fair value of our financial assets and liabilities. As of December 31, 2013, we have $104.1 billion and $102.6 billion of financial assets and liabilities, respectively, that are measured at fair value, including $103.2 billion of VIE assets and $102.6 billion of VIE liabilities we consolidate pursuant to ASC 810.

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

Derivative Instruments and Hedging Activities

We record all derivatives on our consolidated balance sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and have satisfied the criteria necessary to apply hedge accounting under GAAP. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We regularly enter into derivative contracts that are intended to economically hedge certain of our risks, even though the transactions may not qualify for, or we may not elect to pursue, hedge accounting. In such cases, changes in the fair value of the derivatives are recorded in earnings. The designation of derivative contracts as hedges, the measurement of their effectiveness, and the estimate of the fair value of the contracts all may involve significant judgments by our management, and changes to those judgments could significantly impact our reported results of operations. As of December 31, 2013, we had $8 million of derivative assets and $24 million of derivative liabilities. We recognized net losses on derivatives of $11 million, $14 million and $20 million for the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, we had less than $1 million of net unrecognized losses on derivatives designated as hedges.

Goodwill Impairment

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

Based on our qualitative assessment during the 2013 fourth quarter, we believe that the LNR reporting unit to which all of our goodwill was attributed is not currently at risk of failing Step One of the impairment test. This qualitative assessment required judgment to be applied in evaluating the effects of multiple factors, including actual and projected financial performance of the reporting unit, macroeconomic conditions, industry and market conditions, and relevant entity specific events in determining whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill.

Recent Accounting Developments

On July 19, 2013, the Financial Accounting Standards Board ("FASB") issued an exposure draft ("ED") related to Emerging Issues Task Force ("EITF") Issue No. 12-G, *Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity*. The ED attempts to address diversity in practice related to the measurement of a collateralized financing entity's ("CFE") assets and liabilities at fair value. In doing so, the ED, as revised by consensus of the EITF at its November 14, 2013 meeting, indicates that the fair value of a CFE's financial assets and liabilities should be consistent with the more observable of the assets or liabilities driving the valuation. This is consistent with our current accounting treatment as described above.

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

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

Credit Risk

We are subject to varying degrees of credit risk in connection with our investments. While we do not expect to encounter significant credit risk in our agency RMBS assets, we have exposure to credit risk on the mortgage assets and underlying mortgage loans in our non-agency RMBS and CMBS portfolios as well as other assets. Our Manager seeks to manage credit risk by performing deep credit fundamental analysis of potential assets. Credit risk is also addressed through our Manager's on-going surveillance, and investments are monitored for variance from expected prepayments, defaults, severities, losses and cash flow on a monthly basis.

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Our investment guidelines do not limit the amount of our equity that may be invested in any type of our target assets; however, not more than 25% of our equity may be invested in any individual asset, without the consent of a majority of our independent directors. Our investment decisions depend on prevailing market conditions and may change over time in response to opportunities available in different interest rate, economic and credit environments. As a result, we cannot predict the percentage of our equity that will be invested in any of our target assets at any given time.

The S&P ratings of our RMBS portfolio were as follows (amounts in thousands):

	December 31, 2013		December 31, 2012	
S&P Rating	**Carrying Value**	**Percentage**	**Carrying Value**	**Percentage**
A+	$	%	$ 28	%
BBB+	5,316	1.8%	103	%
BB+	8,464	2.9%	16,071	4.8%
BB	670	0.2%	1,549	0.5%
BB-	816	0.3%	5,862	1.8%
B+	3,208	1.1%	9,338	2.8%
B		%	3	%
B-	26,086	8.8%	29,597	8.9%
CCC	205,614	69.4%	234,429	70.4%
CC	654	0.2%	5,235	1.6%
D	20,434	6.9%	23,280	6.9%
NR	24,974	8.4%	7,658	2.3%
Total RMBS	$ 296,236	100.0%	$ 333,153	100.0%

The S&P ratings of our CMBS fair value option portfolio were as follows (amounts in thousands):

	December 31, 2013	
S&P Rating	**Carrying Value(1)**	**Percentage**
AAA	$ 1,417	0.3%
BBB	10	
BB+	16,423	3.0%
BB	60,336	11.0%
B+	202	
B	44,239	8.0%
CCC	16,912	3.1%
CC	39,255	7.1%
C	23,950	4.4%
D	63,370	11.5%
NR	284,168	51.6%
Total CMBS	$ 550,282	100%

(1)

Includes $409.3 million of CMBS eliminated in consolidation pursuant to ASC 810.

As of December 31, 2013, we had not elected the fair value option for the following CMBS (1) $113.0 million of an available-for-sale CMBS rated BB+, (2) $84.2 million of a held-to-maturity CMBS rated BB-, and (3) a $1.3 million interest-only debt security rated BBB-.

As of December 31, 2012, 20.4% of the CMBS securities are rated BB+. The remaining 79.6% are securities where the obligors are certain special purpose entities that were formed to hold substantially all of the assets of a worldwide operator of hotels, resorts and timeshare properties; the securities are not rated but the loan-to-value ratio was estimated to be in the range of 39%- 44% at December 31, 2012.

We are also subject to credit risk with respect to our loan portfolio, which has a carrying value of $4.8 billion as of December 31, 2013. Historically, we have not had impairment charges on any individual loans. We categorize our loans using an internally developed risk rating system, which assists us in determining if a particular loan is impaired. Refer to Note 5 to our Consolidated Financial Statements for a detail discussion of our risk rating system and the resulting categorization of our loans as of December 31, 2013 and 2012.

Interest Rate Risk

Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political considerations, as well as other factors beyond our control. We are subject to interest rate risk in connection with our investments and the related financing obligations. In general, we finance the acquisition and/or origination of our target assets through financings in the form of warehouse facilities, bank credit facilities (including term loans and revolving facilities), securitizations and repurchase agreements. We mitigate interest rate risk through utilization of hedging instruments, primarily interest rate swap agreements. Interest rate swap agreements are utilized to hedge against future interest rate increases on our borrowings and potential adverse changes in the value of certain assets that result from interest rate changes.

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

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

Interest Rate Mismatch Risk

We have funded a portion of our acquisition of mortgage loans and MBS with borrowings that are based on LIBOR, while the interest rates on these assets may be indexed to LIBOR or another index rate, such as the one-year Constant Maturity Treasury ("CMT") index, the Monthly Treasury Average ("MTA") index or the 11th District Cost of Funds Index ("COFI"). Accordingly, any increase in LIBOR relative to one-year CMT rates, MTA or COFI may result in an increase in our borrowing costs that may not be matched by a corresponding increase in the interest earnings on these assets. Any such interest rate index mismatch could adversely affect our profitability, which may negatively impact distributions to our stockholders. To mitigate interest rate mismatches, we may utilize the hedging strategies discussed above.

Our analysis of risks is based on our Manager's experience, estimates, models and assumptions. These analyses rely on models which utilize estimates of fair value and interest rate sensitivity. Actual economic conditions or implementation of decisions by our Manager may produce results that differ significantly from the estimates and assumptions used in our models and the projected results.

Prepayment Risk

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

Extension Risk

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

Fair Value Risk

The estimated fair value of our investments fluctuates primarily due to changes in interest rates and other factors. Generally, in a rising interest rate environment, the estimated fair value of the fixed-rate investments would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of the fixed-rate investments would be expected to increase. As market volatility increases or liquidity decreases, the fair value of our assets may be adversely impacted. If we are unable to readily obtain independent pricing to validate our estimated fair value of the securities in our portfolio, the fair value gains or losses recorded and/or disclosed may be adversely affected.

Foreign Currency Risk

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

Consistent with our strategy of hedging foreign currency exposure on certain investments, we typically enter into a series of forwards to fix the USD amount of GBP and EUR-denominated cash flows (interest and principal payments) we expect to receive from our GBP and EUR-denominated loan and CMBS investments. The following table represents our current currency hedge exposure as it relates to our loan investments and a CMBS investment denominated in foreign currencies, along with the aggregate notional amount of the hedges in place (amounts in thousands except for number of contracts, using the December 31, 2013 GBP spot rate of 1.6557 and EUR spot rate of 1.3742):

Carrying Value of Investment	Local Currency	Number of foreign exchange contracts	Aggregate Notional Value of Hedges Applied	Expiration Range of Contracts
$ 9,235	GBP	14	$ 11,669	January 2014 - March 2016
113,002	GBP	5	128,213	March 2014 - March 2016
24,476	GBP	12	30,775	January 2014 - August 2016
31,232	EUR	3	33,954	February 2014 - June 2014
98,157	GBP	14	132,058	January 2014 - April 2017
49,496	GBP	9	63,298	January 2014 - January 2016
68,188	EUR	24	77,426	January 2014 - October 2016
1,953	GBP	1	4,143	March 2015
81,023	EUR	4	82,925	January 2014
15,247	GBP	18	19,484	January 2014 - January 2018

Real Estate

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

Inflation Risk

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

Risk Management

To the extent consistent with maintaining our REIT qualification, we seek to manage risk exposure to protect our portfolio of financial assets against the effects of major interest rate changes. We generally seek to manage this risk by:

attempting to structure our financing agreements to have a range of different maturities, terms, amortizations and interest rate adjustment periods;

using hedging instruments, primarily interest rate swap agreements but also financial futures, options, interest rate cap agreements, floors and forward sales to adjust the interest rate sensitivity of our investment portfolio and our borrowings; and

using loan sales, syndications, and securitization financing to better match the maturity of our financing with the duration of our assets.

The following table summarizes the change in net loan investment income for a 12 month period and the change in fair value of our investments and indebtedness assuming an increase or decrease of

100 basis points in the LIBOR interest rate, both adjusted for the effects of our interest rate hedging activities (amounts in thousands):

Income (Expense) **Subject to Interest Rate Sensitivity**	**Variable-rate investments and indebtedness**	**100 Basis Point Increase**	**100 Basis Point Decrease**
Investment income from variable-rate investments(1)	$ 3,826,295	$ 44,913	$ (14,321)
Investment expense from variable-rate indebtedness(1)	$ (2,130,231)	$ (52,794)	$ 48,648
Net investment income from variable rate instruments	$ 1,696,064	$ (7,881)	$ 34,327

Assets (Liabilities) Subject to **Interest Rate Sensitivity (Par Amount)**	**Fixed-Rate investments and indebtedness**	**100 Basis Point Increase**	**100 Basis Point Decrease**
Fair value of fixed-rate investments	$ 1,924,577	$ (37,341)	$ 88,563
Net fair value of fixed-rate instruments	$ 1,924,577	$ (37,341)	$ 88,563

[1] Assumes LIBOR rate decrease does not go below 0%.

Item 8. Financial Statements and Supplementary Data.

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Starwood Property Trust, Inc. and subsidiaries (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Starwood Property Trust, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31,2013, based on the criteria established in Internal *Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

New York, NY
February 26, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Starwood Properly Trust, Inc. and subsidiaries (the "Company") as of December 31,2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at LNR Property LLC, which was acquired on April 19, 2013 and whose financial statements constitute 26% of net assets, 28% of revenues, and 36% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2013. Accordingly, our audit did not include the internal control over financial reporting at LNR Properly LLC. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting,included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2013 of the Company and our report dated February 26, 2014 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP

New York, NY
February 26, 2014

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except share data)

	As of December 31,	
	2013	**2012**
Assets:		
Cash and cash equivalents	$ 317,627	$ 177,671
Restricted cash	69,052	3,429
Loans held-for-investment, net	4,363,718	2,914,434
Loans held-for-sale, at fair value	206,672	
Loans transferred as secured borrowings	180,414	85,901
Investment securities ($566,789 and $884,254 held at fair value)	935,107	884,254
Intangible assets servicing rights ($150,149 and $0 held at fair value)	177,173	
Residential real estate, net	749,214	99,115
Non-performing residential loans	215,371	68,883
Investment in unconsolidated entities	122,954	32,318
Goodwill	140,437	
Derivative assets	7,769	9,227
Accrued interest receivable	37,630	24,120
Other assets	95,813	25,021
Variable interest entity ("VIE") assets, at fair value	103,151,624	
Total Assets	**$ 110,770,575**	**$ 4,324,373**
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 225,374	$ 30,094
Related-party payable	17,793	1,803
Dividends payable	90,171	73,796
Derivative liabilities	24,192	27,770
Secured financing agreements, net	2,257,560	1,305,812
Convertible senior notes, net	997,851	
Secured borrowings on transferred loans	181,238	87,893
VIE liabilities, at fair value	102,649,263	
Total Liabilities	**106,443,442**	**1,527,168**
Commitments and contingencies (Note 23)		
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, 196,139,045 issued and 195,513,195 outstanding as of December 31, 2013 and 136,125,356 issued and 135,499,506 outstanding as of December 31, 2012	1,961	1,361
Additional paid-in capital	4,300,479	2,721,353

Treasury stock (625,850 shares)	(10,642)	(10,642)
Accumulated other comprehensive income	75,449	79,675
Accumulated deficit	(84,719)	(72,401)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,282,528	2,719,346
Non-controlling interests in consolidated subsidiaries	44,605	77,859
Total Equity	4,327,133	2,797,205
Total Liabilities and Equity	**$ 110,770,575**	**$ 4,324,373**

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

(Amounts in thousands, except per share data)

	For the Year Ended December 31,		
	2013	**2012**	**2011**
Revenues:			
Interest income from loans	$ 344,640	$ 251,615	$ 180,445
Interest income from investment securities	74,312	55,419	25,618
Servicing fees	124,726		
Other revenues	6,128	272	389
Rental income	15,889	431	
Total revenues	**565,695**	**307,737**	**206,452**
Costs and expenses:			
Management fees	88,145	57,491	39,182
Interest expense	118,349	47,125	28,782
General and administrative	151,583	11,663	8,795
Business combination costs	17,958		
Acquisition and investment pursuit costs	6,400	5,097	3,661
Residential properties and non-performing loans other operating costs	21,383	757	
Depreciation and amortization	15,808	213	
Loan loss allowance	1,923	2,061	
Other expense	1,298	150	
Total costs and expenses	**422,847**	**124,557**	**80,420**
Income before other income (loss), income taxes and non-controlling interests	**142,848**	**183,180**	**126,032**
Other income (loss):			
Income of consolidated VIEs, net	116,377		
Change in fair value of servicing rights	(6,844)		
Change in fair value of investment securities, net	(8,884)	295	
Change in fair value of mortgage loans held-for-sale, net	43,849	(5,760)	5,760
Earnings from unconsolidated entities	8,841	5,086	2,987
Gain on sale of investments, net	30,881	25,532	21,000
Loss on derivative financial instruments, net	(11,170)	(14,157)	(20,280)
Foreign currency gain (loss), net	10,383	15,120	(7,420)
Total other-than-temporary impairment ("OTTI")	(2,636)	(7,256)	(7,311)
Noncredit portion of OTTI recognized in other comprehensive income (loss)	1,062	2,854	1,310
Net impairment losses recognized in earnings	(1,574)	(4,402)	(6,001)
Other income (expense), net	9,676	(189)	(680)
Total other income (loss)	**191,535**	**21,525**	**(4,634)**

Income before income taxes and non-controlling interests	**334,383**	**204,705**	**121,398**
Income tax provision	(24,053)	(1,023)	(790)
Net income	**310,330**	**203,682**	**120,608**
Net income attributable to non-controlling interests	(5,300)	(2,487)	(1,231)
Net income attributable to Starwood Property Trust, Inc.	**$ 305,030**	**$ 201,195**	**$ 119,377**
Net income per share of common stock:			
Basic	$ 1.82	$ 1.76	$ 1.38
Diluted	$ 1.82	$ 1.76	$ 1.38

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Amounts in thousands)

	For the Year Ended December 31,		
	2013	2012	2011
Net income	**$ 310,330**	**$ 203,682**	**$ 120,608**
Other comprehensive income (loss) (net change by component):			
Cash flow hedges	1,967	(1,152)	205
Available-for-sale securities	(15,680)	84,825	(13,545)
Foreign currency remeasurement	9,487		
Other comprehensive (loss) income	(4,226)	83,673	(13,340)
Comprehensive income	**306,104**	**287,355**	**107,268**
Less: Comprehensive income attributable to non-controlling interests	(5,300)	(2,487)	(92)
Comprehensive income attributable to Starwood Property Trust, Inc.	**$ 300,804**	**$ 284,868**	**$ 107,176**

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Equity

(Amounts in thousands, except share data)

	Common stock			Treasury Stock						
	Shares	Par Value	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Starwood Property Trust, Inc. Stockholders' Equity	Non-Controlling Interests	Total Equity
Balance, January 1, 2011	**71,021,342**	**$ 706**	**$ 1,337,953**		**$**	**$ (19,302)**	**$ 8,203**	**$ 1,327,560**	**$ 9,669**	**$ 1,337,229**
Proceeds from public offering of common stock	22,000,000	220	476,508					476,728		476,728
Equity offering costs			(1,091)					(1,091)		(1,091)
Stock-based compensation	726,754	11	13,743					13,754		13,754
Manager incentive fee paid in stock	63,255	1	1,206					1,207		1,207
Treasury stock purchased				625,850	(10,642)			(10,642)		(10,642)
Net income						119,377		119,377	1,231	120,608
Dividends declared, $1.74 per share						(155,204)		(155,204)		(155,204)
Other comprehensive income, net							(12,201)	(12,201)	(1,139)	(13,340)
Contribution from non-controlling interests									5,239	5,239
Distribution to non-controlling interests									(9,341)	(9,341)
Balance, December 31, 2011	**93,811,351**	**938**	**1,828,319**	**625,850**	**(10,642)**	**(55,129)**	**(3,998)**	**1,759,488**	**5,659**	**1,765,147**
Proceeds from public offering of common stock	41,400,000	414	875,323					875,737		875,737
Equity offering costs			(2,034)					(2,034)		(2,034)
Stock-based compensation	746,929	7	16,156					16,163		16,163
Manager incentive fee paid in stock	167,076	2	3,589					3,591		3,591
Net income						201,195		201,195	2,487	203,682
Dividends declared, $1.86 per share						(218,467)		(218,467)		(218,467)
Other comprehensive income, net							83,673	83,673		83,673
Contribution from non-controlling interests									94,250	94,250
Distribution to non-controlling interests									(24,537)	(24,537)
Balance, December 31, 2012	**136,125,356**	**1,361**	**2,721,353**	**625,850**	**(10,642)**	**(72,401)**	**79,675**	**2,719,346**	**77,859**	**2,797,205**
Proceeds from public offering of common stock	59,225,000	592	1,512,925					1,513,517		1,513,517
Equity offering costs			(1,390)					(1,390)		(1,390)
Convertible senior notes			48,502					48,502		48,502
Stock-based compensation	686,232	7	16,337					16,344		16,344
Manager incentive fee paid in stock	102,457	1	2,752					2,753		2,753
Net income						305,030		305,030	5,300	310,330
						(317,348)		(317,348)		(317,348)

Dividends declared, $1.82 per share										
Other comprehensive loss, net							(4,226)	(4,226)		(4,226)
VIE non-controlling interests									(753)	(753)
Non-controlling interests assumed through LNR acquisition									8,705	8,705
Contributions from non-controlling interests									1,599	1,599
Distributions to non-controlling interests									(48,105)	(48,105)
Balance, December 31, 2013	**196,139,045**	**$ 1,961**	**$ 4,300,479**	**625,850**	**$ (10,642)**	**$ (84,719)**	**$ 75,449**	**$ 4,282,528**	**$ 44,605**	**$ 4,327,133**

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

	For the Year ended December 31,		
	2013	**2012**	**2011**
Cash Flows from Operating Activities:			
Net income	$ 310,330	$ 203,682	$ 120,608
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred financing costs	9,727	5,669	3,780
Amortization of convertible debt discount and deferred fees	8,538		
Accretion of net discount on investment securities	(30,235)	(33,964)	(18,071)
Accretion of net deferred loan fees and discounts	(44,643)	(44,653)	(26,966)
Amortization of premium from secured borrowings on transferred loans	(1,655)	(1,044)	(887)
Share-based compensation	16,344	16,163	13,743
Share-based component of incentive fees	2,752	3,592	1,206
Change in fair value of fair value option investment securities	8,884	(295)	
Change in fair value of consolidated VIEs	(23,687)		
Change in fair value of servicing rights	6,844		
Change in fair value of loans held-for-sale	(43,849)	5,760	(5,760)
Change in fair value of derivatives	7,836	7,219	5,532
Foreign currency (gain) loss, net	(10,375)	(15,359)	6,518
Gain on non-performing loans and sale of investments	(40,315)	(25,272)	(20,994)
Impairment of real estate	1,095		
Other-than-temporary impairment of investment securities	1,015	4,402	6,001
Loan loss allowance	1,923	2,061	
Depreciation and amortization	14,925		
Earnings from unconsolidated entities	(8,841)		
Distributions of earnings from unconsolidated entities	6,808		
Capitalized costs written off	1,517		
Changes in operating assets and liabilities:			
Related party payable, net	15,997	(6,545)	3,298
Accrued interest receivable, less purchased interest	(32,387)	(11,393)	(10,982)
Other assets	18,686	(394)	(15,308)
Accounts payable, accrued expenses and other liabilities	35,398	23,941	(6,374)
Originations of loans held-for-sale, net of principal collections	(1,232,920)		(270,066)
Proceeds from sale of loans held-for-sale	1,326,602	132,012	294,126
Net cash provided by operating activities	**326,314**	**265,582**	**79,404**
Cash Flows from Investing Activities:			
Purchase of LNR, net of cash acquired	(586,383)		
Purchase of investment securities	(479,843)	(626,287)	(208,382)
Proceeds from sales of investment securities	463,428	261,291	287,356
Proceeds from principal collections on investment securities	70,417	89,134	141,041
Origination and purchase of loans held-for-investment	(2,663,267)	(1,754,388)	(1,560,801)
Proceeds from principal collections on loans	769,650	670,450	332,249
Proceeds from loans sold	435,818	344,431	47,500
Acquisition and improvement of single family homes	(642,099)	(172,326)	
Proceeds from sale of single family homes	13,617	4,714	
Purchase of other assets	(2,157)	(14,824)	(11,575)
Purchase of non-performing loans	(186,263)		
Proceeds from sale of non-performing loans	25,954		
Investment in unconsolidated entities	(30,562)		(25,513)
Proceeds from sale of interest in unconsolidated entities		8,341	2,844
Distribution of capital from unconsolidated entities	6,515	892	655
Payments for purchase or termination of derivatives	(17,389)		(7,554)

Proceeds from termination of derivatives	10,289		
Return of investment basis in purchased derivative asset	1,948	3,336	
Increase in restricted cash, net	(17,275)	(3,429)	
Other, net			122
Net cash used in investing activities	**(2,827,602)**	**(1,188,665)**	**(1,002,058)**

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

(Amounts in thousands)

	For the Year ended December 31,		
	2013	**2012**	**2011**
Cash Flows from Financing Activities:			
Borrowings under financing agreements	$ 4,391,114	$ 1,777,480	$ 1,604,029
Proceeds from issuance of convertible senior notes	1,037,926		
Principal repayments on borrowings	(3,884,972)	(1,575,185)	(1,080,171)
Payment of deferred financing costs	(26,309)	(8,620)	(4,887)
Proceeds from secured borrowings	95,000	35,738	
Proceeds from common stock offerings	1,513,519	875,737	476,740
Payment of equity offering costs	(1,390)	(2,034)	(28,286)
Payment of dividends	(300,973)	(186,102)	(142,854)
Contributions from non-controlling interests	1,599	94,250	5,239
Distributions to non-controlling interests	(48,104)	(24,537)	(9,341)
Purchase of treasury stock			(10,642)
Issuance of debt of consolidated VIEs	13,993		
Repayment of debt of consolidated VIEs	(180,652)		
Distributions of cash from consolidated VIEs	29,411		
Net cash provided by financing activities	**2,640,162**	**986,727**	**809,827**
Net increase (decrease) in cash and cash equivalents	138,874	63,644	(112,827)
Cash and cash equivalents, beginning of year	177,671	114,027	226,854
Effect of exchange rate changes on cash	1,082		
Cash and cash equivalents, end of year	$ 317,627	$ 177,671	$ 114,027

Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 79,190	$ 42,272	$ 25,193
Income taxes paid	$ 43,080	$ 1,036	$ 1,074
Supplemental disclosure of non-cash investing and financing activities:			
Fair value of assets acquired	$ 1,152,360	$	$
Fair value of liabilities assumed	$ 562,279	$	$
Dividends declared, but not yet paid	$ 90,171	$ 73,796	$ 41,431
Unsettled trade receivable	$	$ 2,752	$
Consolidation of VIEs (VIE asset/liability additions)	$ 25,165,354	$	$
Deconsolidation of VIEs (VIE asset/liability reductions)	$ 1,218,514	$	$
Interest only security received in connection with securitization	$ 1,889	$	$
Conversion of non-performing residential loans to residential real estate	$ 18,867	$	$

See notes to consolidated financial statements.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2013

1. Business and Organization

Starwood Property Trust, Inc. ("the Trust" together with its subsidiaries, "we" or the "Company") is a Maryland corporation that commenced operations on August 17, 2009 upon the completion of its initial public offering ("IPO"). From our inception in 2009 through the end of the first quarter of 2013, we have been focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities, and other commercial real estate-related debt investments. We have traditionally referred to the following as our target assets:

- Commercial real estate mortgage loans;
- Commercial real estate mortgage-backed securities ("CMBS");
- Other commercial real estate-related debt investments;
- Residential mortgage-backed securities ("RMBS"); and
- Residential real estate owned ("REO") and residential non-performing mortgage loans.

On April 19, 2013, we acquired the equity of LNR Property LLC ("LNR") and certain of its subsidiaries for an initial agreed upon purchase price of approximately $859 million, which was reduced for transaction expenses and distributions occurring after September 30, 2012, resulting in cash consideration of approximately $730 million. Immediately prior to the acquisition, an affiliate acquired the remaining equity comprising LNR's commercial property division for a purchase price of $194 million. The portion of the LNR business acquired by us includes the following: (i) a servicing business that manages and works out problem assets, (ii) a finance business that is focused on selectively acquiring and managing real estate finance investments, including unrated, investment grade and non-investment grade rated CMBS, including subordinated interests of securitization and resecuritization transactions, and high yielding real estate loans; and (iii) a mortgage loan business which originates conduit loans for the primary purpose of selling these loans into securitization transactions. Refer to Note 3 for further discussion.

On January 31, 2014, we completed the spin-off of our single family residential ("SFR") segment to our stockholders. The newly-formed real estate investment trust, Starwood Waypoint Residential Trust ("SWAY"), is listed on the New York Stock Exchange ("NYSE") and trades under the ticker symbol "SWAY." Our stockholders received one common share of SWAY for every five shares of Starwood Property Trust common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed $100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of December 31, 2013, our consolidated financial statements reflect SFR segment net assets of $1.0 billion, representing approximately 13% of the Company's total assets at December 31, 2013. The net assets of the SFR segment consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans. Refer to Note 24 for additional SFR segment financial information. In connection with the spin-off, 40.1 million shares of SWAY were issued.

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

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

1. Business and Organization (Continued)

stockholders if we distribute at least 90% of our taxable income to our stockholders by prescribed dates and comply with various other requirements.

In connection with the LNR acquisition, we established additional 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.

The newly established 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 December 31, 2013, $873 million of the LNR assets were owned by TRS entities. Our TRSs are not consolidated for federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

We are organized as a holding company and conduct our business primarily through our various wholly-owned subsidiaries. We are externally managed and advised by SPT Management, LLC (our "Manager") pursuant to the terms of a management agreement. Our Manager is controlled by Barry Sternlicht, our Chairman and Chief Executive Officer. Our Manager is an affiliate of Starwood Capital Group, a privately-held private equity firm founded and controlled by Mr. Sternlicht.

2. Summary of Significant Accounting Policies

Balance Sheet Presentation of LNR Variable Interest Entities

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

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

2. Summary of Significant Accounting Policies (Continued)

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

Please refer to the segment presentation in Note 24 for a presentation of the LNR business without consolidation of these VIEs.

Basis of Accounting and Principles of Consolidation

The accompanying consolidated financial statements include our accounts and those of our consolidated subsidiaries. Our results include those of LNR for the period from April 19, 2013 through December 31, 2013 (the "LNR Stub Period"). Intercompany amounts have been eliminated in consolidation.

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

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

As noted above, the most common type of VIE is an SPE. SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. SPEs are an important part of the financial markets, including the mortgage- and asset-backed securities and commercial paper markets, as they provide market liquidity by facilitating investors' access to specific portfolios of assets and risks. SPEs may be organized as trusts, partnerships or corporations and are typically established for a single, discrete purpose. SPEs are not typically operating entities and usually have a limited life and no employees. The basic SPE structure involves a company selling assets to the SPE; the SPE funds the purchase of those assets by issuing securities to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE's investors and other parties that have rights to those cash flows. SPEs are generally structured to insulate investors from claims on the SPE's assets by creditors of other entities, including the creditors of the seller of the assets.

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

When we consolidate SPEs, beneficial interests payable to third parties are reflected as liabilities when the interests are legally issued in the form of debt. Investments in entities which are not consolidated are accounted for by the equity method or by the cost method if either our investment is considered to be minor or we lack significant influence over the investee.

Fair Value Option

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

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

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.

2. Summary of Significant Accounting Policies (Continued)

As discussed above, we measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. The VIEs in which we invest are "static"; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets and liabilities of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a collateralized debt obligation ("CDO"). This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. Refer to Note 21 for further discussion regarding our fair value measurements.

Variable Interest Entities

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

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

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

Our purchased investment securities include CMBS which are unrated and non-investment grade rated securities issued by CMBS trusts. In certain cases, we may contract to provide special servicing activities for these CMBS trusts, or, as holder of the controlling class, we may have the right to name and remove the special servicer for these trusts. In our role as special servicer, we provide services on defaulted loans within the trusts, such as foreclosure or work-out procedures, as permitted by the underlying contractual agreements. In exchange for these services, we receive a fee. These rights give us

2. Summary of Significant Accounting Policies (Continued)

the ability to direct activities that could significantly impact the trust's economic performance. However, in those instances where an unrelated third party has the right to unilaterally remove us as special servicer, we do not have the power to direct activities that most significantly impact the trust's economic performance. We evaluated all of our positions in such investments for consolidation.

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

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

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

Segment Reporting

Prior to the acquisition of LNR, we focused primarily on originating and acquiring real estate-related debt investments and operated in one reportable segment. As a result of the acquisition of LNR, as well as the increased significance of our single family home business, we currently have the following three reportable segments: real estate investment lending, SFR, and LNR. Refer to Note 24 for further discussion of our reportable segments.

On October 31, 2013, our board of directors unanimously approved a spin-off of the SFR segment to our stockholders, which was completed on January 31, 2014. In accordance with GAAP, we will retrospectively reclassify the SFR segment as a discontinued operation in our future comparative consolidated statements of operations. Refer to Note 24 for the SFR segment balance sheet and results of operations and Note 26 for further discussion of the spin-off.

Business Combinations

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

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Loans Held-for-Investment

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

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

Loans Held-For-Sale

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

Investment Securities

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

When the estimated fair value of a security for which we have not elected the fair value option is less than its amortized cost, we consider whether there is an other-than-temporary impairment ("OTTI") in the value of the security. An impairment is deemed an OTTI if (i) we intend to sell the security, (ii) it is more likely than not that we will be required to sell the security before recovering our cost basis, or (iii) we do not expect to recover the entire amortized cost basis of the security even if we do not intend to sell the security or believe it is more likely than not that we will be required to sell the security before recovering our cost basis. If the impairment is deemed to be an OTTI, the resulting accounting treatment depends on the factors causing the OTTI. If the OTTI has resulted from (i) our intention to sell the security, or (ii) our judgment that it is more likely than not that we will be required to sell the security before recovering our cost basis, an impairment loss is recognized in earnings equal to the entire difference between our amortized cost basis and fair value. Whereas, if the OTTI has resulted from our conclusion that we will not recover our cost basis even if we do not intend to sell the security or believe it is more likely than not that we will be required to sell the security before recovering our cost basis, only the credit loss portion of the impairment is recorded in earnings, and the portion of the loss related to other factors, such as changes in interest rates, continues to be recognized in AOCI. Following the recognition of an OTTI through earnings, a new cost basis is established for the security. Determining whether there is an OTTI may require us to exercise significant judgment and make significant assumptions, including, but not limited to, estimated cash flows, estimated prepayments, loss assumptions, and assumptions regarding changes in interest rates. As a result, actual OTTI losses could differ from reported amounts. Such judgments and assumptions are based upon a number of factors, including (i) credit of the issuer or the underlying borrowers, (ii) credit rating of the security, (iii) key terms of the security, (iv) performance of the underlying loans, including debt service coverage and loan-to-value ratios, (v) the value of the collateral for the underlying loans, (vi) the effect of local, industry, and broader economic factors, and (vii) the historical and anticipated trends in defaults and loss severities for similar securities.

Goodwill and Intangible Assets

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

2. Summary of Significant Accounting Policies (Continued)

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

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

For purposes of testing our European servicing intangible for impairment, we first determine whether facts and circumstances exist that would suggest the carrying value of the intangible is not recoverable. If so, we then compare the fair value of the servicing intangible with its carrying value. The estimated fair value of the intangible is determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, taking into consideration historical and forecasted loan defeasance rates, delinquency rates and anticipated maturity defaults. If the carrying value of the intangible exceeds its fair value, the intangible is considered impaired and an impairment loss is recognized for the amount by which carrying value exceeds fair value.

Residential Real Estate & Non-Performing Residential Loans

As discussed above, the SFR segment was subject to a spin-off on January 31, 2014.

Residential Real Estate

Acquired residential real estate is evaluated to determine whether it meets the definition of a business or of an asset under GAAP. For asset acquisitions, we capitalize (1) pre-acquisition costs to the extent such costs would have been capitalized had we owned the asset when the cost was incurred, and (2) closing and other direct acquisition costs. We then allocate the total asset acquisitions cost among land, building and furniture and fixtures, based on their relative fair values, generally utilizing the relative allocation that was contained in the property tax assessment of the same or a similar property, adjusted as deemed necessary.

If, at acquisition, a property needs to be renovated before it is ready for its intended use, we commence the necessary development activities. During this development period, we capitalize all direct and indirect costs incurred in renovating the property. Once a property is ready for its intended

2. Summary of Significant Accounting Policies (Continued)

use, expenditures for ordinary maintenance and repairs thereafter are expensed as incurred, and we capitalize expenditures that improve or extend the life of a home and for furniture, fixtures and equipment.

We begin depreciating properties to be held and used when they are ready for their intended use. We compute depreciation using the straight-line method over the estimated useful lives of the respective assets. We depreciate buildings over 30 years, and we depreciate furniture and fixtures over five years. Land is not depreciated.

Properties are classified as held-for-sale when they meet the applicable GAAP criteria, including that the property is being listed for sale and that it is ready to be sold in its current condition. Held-for-sale properties are reported at the lower of their carrying amount or estimated fair value less costs to sell.

We evaluate our properties to be held and used for indications of impairment at least quarterly, typically in connection with preparing the quarter-end financial statements. We assess impairment at the lowest level for which cash flows are available, which is on a per-property basis. If an impairment indicator exists, we compare the property's expected future undiscounted cash flows to the carrying amount of the property. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the property, we record an impairment charge equal to the excess of the property's carrying amount over the estimated fair value. In estimating fair value, we primarily consider the local broker price opinion, but also consider any other comparable home sales or other market data, as necessary.

Non-Performing Residential Loans

We have purchased pools of distressed and non-performing residential mortgage loans, which we generally seek to (1) convert into homes through the foreclosure or other resolution process that can then either be contributed to our rental portfolio or sold or, to a lesser extent, (2) modify and hold or resell at higher prices if circumstances warrant. In situations where property foreclosure is subject to an auction process and a third party submits the winning bid, we recognize the resulting gain as a gain on the sale of loans held-for-investment.

Our distressed and non-performing residential mortgage loans are on nonaccrual status at the time of purchase as it is probable that principal or interest is not fully collectible. Any payments received thereafter are applied as a reduction to the remaining principal balance as long as concern exists as to the ultimate collection of amounts contractually due.

We evaluate our non-performing residential mortgage loans for impairment at least quarterly, typically in connection with preparing the quarter-end financial statements. As our loans held-for-investment were non-performing when acquired, we generally look to the estimated fair value of the underlying property collateral to assess the recoverability of our investments. As described in our real estate accounting policy above, we primarily utilize the local broker price opinion, but also consider any other comparable home sales or other market data as considered necessary, in estimating a property's fair value. If the carrying amount of a loan exceeds the estimated fair value of the underlying collateral, we will record an impairment loss for the difference between the estimated fair value of the property collateral and the carrying amount of the loan.

2. Summary of Significant Accounting Policies (Continued)

Investment in Unconsolidated Entities

We own non-controlling equity interests in various privately-held partnerships and limited liability companies. Unless we elect the fair value option under ASC 825, we use the cost method to account for investments in which we own less than 20% and do not have significant influence over the underlying investees. We use the equity method to account for all other non-controlling interests in partnerships and limited liability companies. Cost method investments are initially recorded at cost and income is generally recorded when distributions are received. Equity method investments are initially recorded at cost and subsequently adjusted for our share of income or loss, as well as contributions made or distributions received.

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

For investments in publicly traded companies where we have virtually no influence over the activities of these companies and minimal ownership percentages, such investments are classified as available-for-sale and reported at fair value on the balance sheet, with unrealized gains and losses reported as a component of other comprehensive income (loss) ("OCI"). For investments in publicly traded securities where we have the ability to exercise significant influence, but not control, over underlying investees, we have elected the fair value option and report the assets at fair value on the balance sheet with unrealized gains and losses reported in earnings. Dividends on our available-for-sale equity securities are recorded in our consolidated statements of operations on the record date.

Derivative Instruments and Hedging Activities

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

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Interest Income

Interest income on performing loans and financial instruments is accrued based on the outstanding principal amount and contractual terms of the instrument. Discounts or premiums associated with the purchase of non-performing loans and investment securities are amortized or accreted into interest income as a yield adjustment on the effective interest method, based on expected cash flows through the expected maturity date of the investment. On at least a quarterly basis, we review and, if appropriate, make adjustments to our cash flow projections. For loans and CMBS in which we expect to collect all contractual amounts due, we do not adjust the projected cash flows to reflect anticipated credit losses.

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

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

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

Servicing Fees

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

Transfers

Transfers of investment securities, mortgage loans, and investments in unconsolidated entities are accounted for as sales pursuant to the accounting guidance governing transfers and servicing of financial assets, providing that we have surrendered control over the assets and to the extent that we

2. Summary of Significant Accounting Policies (Continued)

received consideration other than beneficial interests in the assets. The cost of assets sold is based on the specific identification method.

We recognize sales of residential real estate when the sale has closed, title has passed, adequate initial and continuing investment by the buyer is received, possession and other attributes of ownership have been transferred to the buyer, and we are not obligated to perform significant additional activities after closing. All these conditions are typically met at or shortly after closing.

Rental Income

Rental income attributable to residential leases within our SFR segment is recorded when due from tenants, which approximates the amount that would result from straight-lining rents over the lease term. The initial term of our residential leases is generally one year, with renewals upon consent of both parties on an annual or monthly basis.

Securitization/Sale and Financing Arrangements

We periodically sell our financial assets, such as commercial mortgage loans, CMBS and other assets. In connection with these transactions, we may retain or acquire senior or subordinated interests in the related assets. Gains and losses on such transactions are recognized using the guidance in ASC Topic 860, *Transfers and Servicing*, which is based on a financial components approach that focuses on control. Under this approach, after a transfer of financial assets that meets the criteria for treatment as a sale legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transferred control an entity recognizes the financial assets it retains and any liabilities it has incurred, derecognizes the financial assets it has sold, and derecognizes liabilities when extinguished. We determine the gain or loss on sale of the assets by allocating the carrying value of the sold asset between the sold asset and the interests retained based on their relative fair values, as applicable. The gain or loss on sale is the difference between the cash proceeds from the sale and the amount allocated to the sold asset. If the sold asset is being accounted for pursuant to the fair value option, there is no gain or loss.

Deferred Financing Costs

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

Acquisition and Investment Pursuit Costs

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

Share-based Payments

The fair value of the restricted stock or restricted stock units granted is recorded as expense on a straight-line basis over the vesting period for the award, with an offsetting increase in stockholders' equity. For grants to employees and directors, the fair value is determined based upon the stock price on the grant date. For non-employee grants, the fair value is based on the stock price when the shares

2. Summary of Significant Accounting Policies (Continued)

vest, which requires the amount to be adjusted in each subsequent reporting period based on the fair value of the award at the end of the reporting period until the award has vested.

Foreign Currency Translation

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

Income Taxes

The Company has elected to be qualified and taxed as a REIT under the Code. The Company is subject to federal income taxation at corporate rates on its REIT taxable income, however, the Company is allowed a deduction for the amount of dividends paid to its stockholders, thereby subjecting the distributed net income of the Company to taxation at the stockholder level only. In addition, the Company is allowed several other deductions in computing its REIT taxable income, including non-cash items such as depreciation expense and certain specific reserve amounts that the Company deems to be uncollectable. The Company intends to continue to operate in a manner consistent with and to elect to be treated as a REIT for tax purposes.

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

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

2. Summary of Significant Accounting Policies (Continued)

Earnings Per Share

We calculate basic earnings per share by dividing net income attributable to the Company for the period by the weighted-average of shares of common stock outstanding for that period after consideration of the earnings allocated to our restricted stock units, which are participating securities as defined in GAAP. Diluted earnings per share reflects the potential dilution that that could occur from shares issuable in connection with the incentive fee paid to our Manager under the management agreement and conversion of the convertible senior notes into shares of common stock, except when doing so would be anti-dilutive.

Concentration of Credit Risk

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

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 are significantly impacted by the rates at which we estimate market participants would discount the expected cash flows.

Reclassifications

As a result of the LNR acquisition as well as the increased significance of our SFR segment as discussed above, certain items in our consolidated balance sheet as of December 31, 2012 and our consolidated statements of operations and cash flows for the years ended December 31, 2012 and 2011 have been reclassified or combined to conform to the current year's presentation. In that regard, given the nature and significance of the LNR operations, we removed the "Net interest margin" subtotal from our consolidated statements of operations, with interest income now included in a new "Revenues" subtotal, and interest expense now included within the new "Costs and expenses" subtotal. The reclassifications and combinations related to our prior years' consolidated balance sheet and statements of cash flows had no effect on previously reported totals or subtotals.

2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Developments

As noted above, the consolidation of securitization VIEs has a significant impact on our balance sheet and statement of operations presentation on a GAAP basis. Also as noted above, we measure the assets and liabilities of consolidated VIEs at fair value pursuant to our election of the fair value option. In doing so, we maximize the use of observable inputs over unobservable inputs, which results in the fair value of the assets of a static CMBS trust, or collateralized financing entity ("CFE"), being equal to the fair value of its liabilities.

On July 19, 2013, the FASB issued an exposure draft ("ED") related to Emerging Issues Task Force ("EITF") Issue No. 12-G, *Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity*. The ED attempts to address diversity in practice related to the measurement of a collateralized financing entity's ("CFE") assets and liabilities at fair value. In doing so, the ED, as revised by consensus of the EITF at its November 14, 2013 meeting, indicates that the fair value of a CFE's financial assets and liabilities should be consistent with the more observable of the assets or liabilities driving the valuation. This is consistent with our current accounting treatment as described above.

3. Acquisition of LNR Property LLC

As described in Note 1, on April 19, 2013, we acquired the equity of LNR for an initial agreed upon purchase price of $859 million, which was reduced for transaction expenses and distributions occurring after September 30, 2012, resulting in cash consideration of approximately $730 million.

We applied the provisions of ASC 805 in accounting for our acquisition of LNR. In doing so, we initially recorded provisional amounts for certain items as of the date of the acquisition, including the fair value of certain assets and liabilities. During the measurement period, a period which shall not exceed one year, the provisional amounts recognized at the acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of such date that, if known, would have affected the measurement of the amounts recognized.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

3. Acquisition of LNR Property LLC (Continued)

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

	Initial Provisional Amounts	Measurement Period Adjustments	Final Adjusted Amounts
Assets acquired:			
Cash and cash equivalents	$ 143,771	$	$ 143,771
Restricted cash	24,413		24,413
Loans held-for-investment	8,015		8,015
Loans held-for-sale	256,502		256,502
Investment securities	314,471		314,471
Intangible assets servicing rights	276,989		276,989
Investment in unconsolidated entities	97,588	(34,291)	63,297
Derivative assets	3,103		3,103
Interest receivable	1,315		1,315
Other assets	60,853	(369)	60,484
Total assets acquired	1,187,020	(34,660)	1,152,360
Liabilities assumed:			
Accounts payable, accrued expenses and other liabilities	118,621	4,927	123,548
Secured financing agreements	438,377		438,377
Derivative liabilities	354		354
Total liabilities assumed	557,352	4,927	562,279
Net assets acquired	$ 629,668	$ (39,587)	$ 590,081

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

	Initial Provisional Amounts	Measurement Period Adjustments	Final Adjusted Amounts
Purchase price	$ 730,518		$ 730,518
Fair value of net assets acquired	629,668	(39,587)	590,081

Goodwill	$ 100,850	39,587	$ 140,437

On the acquisition date, we repaid LNR's senior credit facility for its outstanding balance and accrued interest of $268.9 million.

During the LNR Stub Period, we retrospectively adjusted our initial provisional estimates of the identified assets acquired and liabilities assumed for new information obtained regarding facts and circumstances that existed as of the acquisition date. The vast majority of the measurement period adjustments noted above pertains to the valuation of one of our investments in unconsolidated entities.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

3. Acquisition of LNR Property LLC (Continued)

In order to finalize the valuation of this investment, management was awaiting the receipt of certain information related to facts and circumstances that existed as of the acquisition date. This information was obtained during the fourth quarter of 2013, and our provisional estimate related to the valuation of this investment was adjusted accordingly. The information resulting in this measurement period adjustment also affected our earnings from unconsolidated entities as it relates to this same investment. The amounts as originally reported, and their adjusted amounts pursuant to the measurement period adjustment described herein, are as follows (in thousands):

For the period from April 19, 2013 to June 30, 2013			For the three months ended September 30, 2013		
As previously reported	As adjusted	Retrospective adjustment	As previously reported	As adjusted	Retrospective adjustment
$ 5,597	$ 3,770	$ (1,827)	$ 4,577	$ 2,222	$ (2,355)

Since the acquisition date and before consolidation of securitization VIEs, we recognized revenues of $248.7 million and net earnings of $110.7 million related to our investment in LNR which are reflected in our consolidated statements of operations. We incurred acquisition-related costs such as advisory, legal, and due diligence services of approximately $18.0 million during the year ended December 31, 2013, which are included in business combination costs within our consolidated statement of operations.

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

	For the year ended December 31,	
(Unaudited)	**2013**	**2012**
Revenues	$ 648,001	$ 554,484
Net income	408,134	418,204

Pro forma revenues and expenses were adjusted to exclude interest expense on LNR's senior credit facility, which was repaid at the acquisition date, and certain other non-recurring acquisition related costs. We included an estimated income tax provision and management fee expense for periods prior to the acquisition date and estimated interest expense for the term loan facility discussed in Note 10. The unaudited amounts of these adjustments are as follows (in thousands):

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

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Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

4. Restricted Cash

In connection with the LNR acquisition, we assumed a $23.1 million escrow account funded by the sellers of LNR on behalf of certain employees. The cash from this account is payable to the employees upon the occurrence of certain events, including involuntary termination without cause or the employees' rendering of service through the nine month anniversary of the acquisition date. Also in connection with the LNR acquisition, we were required to cash collateralize certain obligations of LNR, including letters of credit and performance obligations. The Company funded $3.3 million for these obligations and our affiliate funded the remaining $6.2 million. The full amount is in the name of a subsidiary of the Company and is therefore reflected as the Company's restricted cash. An offsetting payable to our affiliate of $6.2 million is recorded in related party payable in our consolidated balance sheet. A summary of our restricted cash as of December 31, 2013 and 2012 is as follows (amounts in thousands):

	For the year ended December 31,	
	2013	2012
Funds held in escrow for employees	$ 18,236	$
Cash collateral for derivative financial instruments	12,564	
Cash collateral for performance obligations	9,495	
Funds held in escrow on behalf of borrowers and other	28,757	3,429
	$ 69,052	$ 3,429

5. Loans

Our investments in loans held-for-investment are accounted for at amortized cost and the 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 December 31, 2013 and 2012 (amounts in thousands):

December 31, 2013	Carrying Value	Face Amount	Weighted Average Coupon	Weighted Average Life ("WAL") (years)(2)
First mortgages	$ 2,616,441	2,666,875	5.6%	4.3
Subordinated mortgages(1)	505,533	541,817	8.7%	4.2
Mezzanine loans	1,245,728	1,246,841	12.2%	3.7
Total loans held-for-investment	4,367,702	4,455,533		
First mortgages held-for-sale, fair value option elected	206,672	209,099	5.3%	9.6
Loans transferred as secured borrowings	180,414	180,483	5.4%	2.9
Total gross loans	4,754,788	4,845,115		
Loan loss allowance (loans held-for-investment)	(3,984)			

Total net loans	$ 4,750,804	$ 4,845,115

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

5. Loans (Continued)

December 31, 2012	Carrying Value	Face Amount	Weighted Average Coupon	WAL (years)(2)
First mortgages	$ 1,461,666	$ 1,502,382	6.2%	3.8
Subordinated mortgages(1)	397,159	430,444	9.8%	4.0
Mezzanine loans	1,057,670	1,079,897	10.3%	3.6
Total loans held-for-investment	2,916,495	3,012,723		
Loans transferred as secured borrowings	85,901	86,337	4.7%	3.2
Total gross loans	3,002,396	3,099,060		
Loan loss allowance (loans held-for-investment)	(2,061)			
Total net loans	$ 3,000,335	$ 3,099,060		

[1] Subordinated mortgages include (i) subordinated mortgages that we retain after having sold first mortgage positions related to the same collateral and (ii) B-Notes.

[2] Represents the WAL of each respective group of loans as of the respective balance sheet date. The WAL of each individual loan is calculated as a fraction, the numerator of which is the sum of the timing (in years) of each expected future principal payment multiplied by the balance of the respective payment, and with a denominator equal to the sum of the expected principal payments using the contractually extended maturity dates of the assets. Assumptions for the calculation of the WAL are adjusted as necessary for changes in projected principal repayments and/or maturity dates of the loan.

As of December 31, 2013, approximately $3.2 billion, or 68.0%, of the loans are variable rate and pay interest principally at LIBOR plus a weighted-average spread of 6.15%. The following table summarizes our investments in floating rate loans (amounts in thousands):

	December 31,			
	2013		2012	
Index	Base Rate	Carrying Value	Base Rate	Carrying Value
1 Month LIBOR	0.1677%	$ 590,444	0.2087%	$ 674,327
1 Month Citibank LIBOR(1)	N/A		0.1900%	93,195
3 Month Citibank LIBOR(1)	N/A		0.3000%	7,217

LIBOR Floor	0.19% - 3.00%(2)	2,641,162	0.5% - 2.0%	1,143,443
U.S. Prime Rate	3.25%	2,226	N/A	
Total		$ 3,233,832		$ 1,918,182

[1] The Citibank LIBOR rate is equal to the rate per annum at which deposits in United States dollars are offered by the principal office of Citibank, N.A. in London, England to prime banks in the London interbank market.

[2] The weighted-average LIBOR Floor is 0.49% as of December 31, 2013.

5. Loans (Continued)

As described in Note 2, we evaluate each of our loans where we have not exercised the fair value option for impairment at least quarterly. Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash flow from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan at maturity, and/or (iii) the property's liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub-market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

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

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

5. Loans (Continued)

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

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

	Loan structure	LTV does not exceed 80%.
4	Sponsor capability and financial condition	Sponsor credit history includes missed payments, past due payment, and maturity extensions. Management team is capable but thin.
	Loan collateral and performance relative to underwriting	Property performance lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. A sale of the property may be necessary in order for the borrower to pay off the loan at maturity.
	Quality and stability of collateral cash flows	Occupancy is not stabilized and the property has a large amount of rollover.
	Loan structure	LTV is 80% to 90%.
5	Sponsor capability and financial condition	Credit history includes defaults, deeds-in-lieu, foreclosures, and/or bankruptcies.
	Loan collateral and performance relative to underwriting	Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Sale proceeds would not be sufficient to pay off the loan at maturity.
	Quality and stability of collateral cash flows	The property has material vacancy and significant rollover of remaining tenants.
	Loan structure	LTV exceeds 90%.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

5. Loans (Continued)

As of December 31, 2013, the risk ratings for loans subject to our rating system, which excludes loans on the cost recovery method and loans for which the fair value option has been elected, by class of loan were as follows (amounts in thousands):

Balance Sheet Classification

Risk Rating Category	Loans Held-For-Investment						
	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Cost Recovery Loans	Loans Held-For-Sale	Loans Transferred As Secured Borrowings	Total
1	$	$	$	$	$	$	$
2	94,981	103,369	153,119			13,022	364,491
3	2,354,692	370,446	1,012,674			167,392	3,905,204
4	153,987	31,718	79,935				265,640
5							
N/A				12,781	206,672		219,453
	$ 2,603,660	$ 505,533	$ 1,245,728	$ 12,781	$ 206,672	$ 180,414	$ 4,754,788

As of December 31, 2012, the risk ratings by class of loan, excluding loans where we have elected the fair value option, were as follows (amounts in thousands):

Balance Sheet Classification

Risk Rating Category	Loans Held-For-Investment					
	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Loans Held-For-Sale	Loans Transferred As Secured Borrowings	Total
1	$	$	$	$	$	$
2	39,734	2,434	370,671		13,113	425,952
3	1,350,455	363,275	679,371		72,788	2,465,889
4	59,970	31,450	7,628			99,048
5	11,507					11,507
	$ 1,461,666	$ 397,159	$ 1,057,670	$	$ 85,901	$ 3,002,396

After completing our impairment evaluation process, we concluded that no impairment charges were required on any individual loans held-for-investment as of December 31, 2013 or 2012. As of December 31, 2013, approximately $8 million of our loans-held-for investment were in default. These loans are within the LNR segment and were acquired as non-performing loans prior to the April 19, 2013 acquisition.

Additionally, none of our held-for-sale loans where we have elected the fair value option were 90 days or more past due or on nonaccrual status.

We recorded 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." These

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

5. Loans (Continued)

groups accounted for 5.6% and 3.7% of our loan portfolio as of December 31, 2013 and 2012, respectively (amounts in thousands):

	For the year ended December 31,		
	2013	**2012**	**2011**
Reserve for loan losses at January 1	$ 2,061	$	$
Provision for loan losses	1,923	2,061	
Charge-offs			
Recoveries			
Reserve for loan losses at December 31	$ 3,984	$ 2,061	$
Recorded investment in loans related to the allowance for loan loss	$ 265,640	$ 110,555	$

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

	For the year ended December 31,		
	2013	**2012**	**2011**
Balance at January 1	$ 3,000,335	$ 2,447,508	$ 1,425,243
Acquisition of LNR loans	264,517		
Acquisitions/originations/additional funding	3,896,851	1,753,363	1,828,756
Capitalized interest(1)	19,599	3,594	7,485
Basis of loans sold(2)	(1,762,778)	(468,079)	(331,312)
Loan maturities/principal repayments	(770,313)	(670,450)	(332,249)
Transfer out loan converted to a security		(115,100)	(176,635)
Discount accretion/premium amortization	44,643	44,653	26,966
Changes in fair value	43,849	(5,760)	5,760
Unrealized foreign currency remeasurement gain (loss)	17,541	12,667	(6,506)
Capitalized cost written off	(1,517)		
Loan loss allowance	(1,923)	(2,061)	
Balance at December 31	$ 4,750,804	$ 3,000,335	$ 2,447,508

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

(2) See Note 12 for additional disclosure on these transactions.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

6. Investment Securities

Investment securities are comprised of the following as of December 31, 2013 and 2012 (amounts in thousands):

	Carrying Value as of December 31,	
	2013	2012
RMBS, available-for-sale	$ 296,236	$ 333,153
CMBS, available-for-sale	114,346	529,434
CMBS, fair value option(1)	140,960	
Held-to-maturity ("HTM") securities	368,318	
Equity security, fair value option	15,247	21,667
Total	$ 935,107	$ 884,254

(1) As of December 31, 2013, we hold $409.3 million of fair value option CMBS that are eliminated in consolidation against VIE liabilities pursuant to ASC 810.

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

	Available-for-sale		CMBS, fair value option	HTM Securities	Equity Security	Total
	RMBS	CMBS				
Year ended December 31, 2013						
Purchases	$ 20,090	$ 1,889	$ 90,518	$ 367,346	$	$ 479,843
Sales	30,964	413,323	12,372		6,769	463,428
Principal collections	59,957	10,460				70,417
Year ended December 31, 2012						
Purchases	254,035	372,252				626,287
Sales	87,957	173,334				261,291
Principal collections	69,298	19,836				89,134
Year ended December 31, 2011						
Purchases	161,204					161,204
Sales	53,529	238,739				292,268
Principal collections	69,466	44,449				113,915

RMBS and CMBS, Available-for-Sale

With the exception of one CMBS classified as HTM, the Company classified all of its RMBS and CMBS investments where the fair value option has not been elected as available-for-sale as of December 31, 2013 and 2012. These RMBS and CMBS are reported at fair value in the balance sheet with changes in fair value recorded in AOCI.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

6. Investment Securities (Continued)

The tables below summarize various attributes of our investments in available-for-sale RMBS and CMBS where the fair value option has not been elected as of December 31, 2013 and 2012 (amounts in thousands):

					Unrealized Gains or (Losses) Recognized in AOCI			
	Purchase Amortized Cost	**Credit OTTI**	**Recorded Amortized Cost**	**Non-Credit OTTI**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Net Fair Value Adjustment**	**Fair Value**
December 31, 2013								
RMBS	$ 253,912	$ (11,134)	$ 242,778	$ (55)	$ 55,154	$ (1,641)	$ 53,458	$ 296,236
CMBS	100,687		100,687		13,659		13,659	114,346
Total	$ 354,599	$ (11,134)	$ 343,465	$ (55)	$ 68,813	$ (1,641)	$ 67,117	$ 410,582
December 31, 2012								
RMBS	$ 293,321	$ (10,194)	$ 283,127	$	$ 50,717	$ (691)	$ 50,026	$ 333,153
CMBS	498,064		498,064		31,370		31,370	529,434
Total	$ 791,385	$ (10,194)	$ 781,191	$	$ 82,087	$ (691)	$ 81,396	$ 862,587

	Weighted Average Coupon(1)	**Weighted Average Rating (Standard & Poor's)**	**WAL (Years)(3)**
December 31, 2013			
RMBS	1.0%	B-	6.8
CMBS	11.5%	BB+(2)	5.9
December 31, 2012			
RMBS	1.1%	CCC+	5.4
CMBS	4.3%	BB+(2)	3.3

[1] Calculated using the December 31, 2013 and 2012 one-month LIBOR rate of 0.1677% and 0.2087%, respectively, for floating rate securities.

(2) As of December 31, 2013 and 2012 approximately 98.8% and 20.4%, respectively, of the CMBS securities were rated BB+. As of December 31, 2012, the remaining 79.6% were securities where the obligors are certain SPEs that were formed to hold substantially all of the assets of a worldwide operator of hotels, resorts and timeshare properties; the securities were not rated but the loan-to-value ratio was estimated to be in the range of 39%-44% at December 31, 2012.

(3) Represents the WAL of each respective group of securities calculated as of the respective balance sheet date. The WAL of each individual security or loan is calculated as a fraction, the numerator of which is the sum of the timing (in years) of each expected future principal payment multiplied by the balance of the respective payment, and with a denominator equal to the sum of the expected principal payments using the contractually extended maturity dates of the assets. Assumptions for the calculation of the WAL are adjusted as necessary for changes in projected principal repayments and/or maturity dates of the security.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

6. Investment Securities (Continued)

As of December 31, 2013, $1.3 million, or 1.2%, of the CMBS where we have not elected the fair value option are variable rate. As of December 31, 2012, $113.0 million, or 79.6%, of our CMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 2.3%. As of December 31, 2013, approximately $256.1 million, or 86.5%, of the RMBS are variable rate and pay interest at LIBOR plus a weighted average spread of 0.37%. As of December 31, 2012, approximately $281.2 million, or 84.4%, of the RMBS were variable rate and pay interest at LIBOR plus a weighted average spread of 0.38%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from the accretion of these discounts.

The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS and CMBS as of December 31, 2013 and 2012, excluding CMBS where we have elected the fair value option (amounts in thousands):

	December 31,			
	2013		2012	
	RMBS	CMBS	RMBS	CMBS
Principal balance	$ 414,020	$ 100,687	$ 489,218	$ 519,575
Accretable yield	(101,046)		(108,486)	(21,511)
Non-accretable difference	(70,196)		(97,605)	
Total discount	(171,242)		(206,091)	(21,511)
Amortized cost	$ 242,778	$ 100,687	$ 283,127	$ 498,064

The principal balance of credit deteriorated RMBS was $320.4 million and $438.0 million as of December 31, 2013 and 2012, respectively. Accretable yield related to these securities totaled $78.3 million and $93.6 million as of December 31, 2013 and 2012, respectively.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

6. Investment Securities (Continued)

The following table discloses the changes to accretable yield and non-accretable difference for our CMBS and RMBS during the year ended December 31, 2013 and 2012, excluding CMBS where we have elected the fair value option (amounts in thousands):

	Accretable Yield		Non-Accretable Difference	
	RMBS	**CMBS**	**RMBS**	**CMBS**
Balance as of January 1, 2012	$ 44,604	$ 18,489	$ 54,896	$
Accretion of discount	(18,080)	(15,884)		
Principal write-downs			(2,040)	
Purchases	75,918	30,374	80,926	
Sales	(27,048)	(11,468)	(7,487)	
OTTI	4,402			
Transfer to/from non-accretable difference	28,690		(28,690)	
Balance as of December 31, 2012	108,486	21,511	97,605	
Accretion of discount	(23,868)	(5,442)		
Principal write-downs			(2,771)	
Purchases	5,738		1,758	
Sales	(10,868)	(16,069)	(5,852)	
OTTI	1,014			
Transfer to/from non-accretable difference	20,544		(20,544)	
Balance as of December 31, 2013	$ 101,046	$	$ 70,196	$

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets excluding LNR VIEs. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was $2.4 million, $1.9 million and $0.7 million for the years ended December 31, 2013, 2012 and 2011, respectively, which has been recorded as management fees in the accompanying consolidated statements of operations.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

6. Investment Securities (Continued)

The following table presents the gross unrealized losses and estimated fair value of the available-for-sale securities where (i) we have not elected the fair value option, (ii) that were in an unrealized loss position as of December 31, 2013 and 2012, and (iii) for which OTTIs (full or partial) have not been recognized in earnings (amounts in thousands):

	Estimated Fair Value		Unrealized Losses	
	Securities with a loss less than 12 months	Securities with a loss greater than 12 months	Securities with a loss less than 12 months	Securities with a loss greater than 12 months
As of December 31, 2013				
RMBS	$ 26,344	$ 1,809	$ (1,444)	$ (252)
CMBS				
Total	$ 26,344	$ 1,809	$ (1,444)	$ (252)
As of December 31, 2012				
RMBS	$ 4,096	$ 599	$ (654)	$ (37)
CMBS				
Total	$ 4,096	$ 599	$ (654)	$ (37)

As of December 31, 2013, there were eight securities with unrealized losses reflected in the table above. After evaluating each security and recording adjustments, as necessary, for other-than-temporary impairments, the remaining unrealized losses reflected above were not considered to represent other-than-temporary impairments. We considered a number of factors in reaching this conclusion, including that we did not intend to sell any individual security, it was not considered more likely than not that we would be forced to sell any individual security prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of the other-than-temporary impairments we record, 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 in Note 2, we elect the fair value option for LNR's CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of December 31, 2013, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were $550.3 million and $3.9 billion, respectively. These balances represent our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value ($409.3 million at December 31, 2013) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS. During the year ended December 31, 2013, we purchased $268.9 million of CMBS for which we elected the fair value option. Due to our consolidation of securitization VIEs, a significant portion of this amount ($180.7 million

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

6. Investment Securities (Continued)

during the year ended December 31, 2013) is reflected as repayment of debt of consolidated VIEs in our consolidated statement of cash flows.

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

	Weighted Average Coupon	Weighted Average Rating (Standard & Poor's)	WAL (Years)(1)
December 31, 2013			
CMBS, fair value option	5.4%	D(2)	4.4

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

(2) Includes $55.5 million in fair value option CMBS that are not rated but assigned a rating weight one level lower than NR for purposes of this calculation. The remaining $85.4 million in fair value option CMBS have a weighted average rating of C.

HTM Securities

The table below summarizes various attributes of our investments in HTM securities as of December 31, 2013 (none were held at December 31, 2012) (amounts in thousands):

	Net Carrying Amount (Amortized Cost)	Gross Unrealized Holdings Gains	Gross Unrealized Holdings Losses	Fair Value
December 31, 2013				
Preferred interests	$ 284,087	$ 135	$	$ 284,222
CMBS	84,231			84,231
Total	$ 368,318	$ 135	$	$ 368,453

During 2013, we originated two preferred equity interests of $246.1 million and $37.2 million, respectively, in limited liability companies that own commercial real estate. These preferred equity interests mature in December 2018 and October 2014, respectively. Due to mandatory redemption features, we have classified these investments as debt securities in accordance with GAAP, and we expect to hold the investments to maturity. The $246.1 million preferred equity investment is to receive a monthly return on investment at a rate of 1-Month LIBOR plus an initial spread of 7.25% for the first two years, with annual increases to the spread of 1% for years three through year five, then annual increases of 5% for each year thereafter if not redeemed. The $37.2 million preferred equity investment is to receive a monthly return on investment at a rate of 1-Month LIBOR plus a spread of 10.0%.

6. Investment Securities (Continued)

During December 2013, we purchased a CMBS security with a face value and purchase price of $84.1 million, which we expect to hold to maturity. The stated maturity of this security is November 2016 and the coupon rate is LIBOR plus 4.50%.

Equity Security, Fair Value Option

During 2012, we acquired 9,140,000 ordinary shares (approximately a 4% interest) in Starwood European Real Estate Finance Limited ("SEREF"), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange, for approximately $14.7 million. We have elected to report the investment using the fair value option because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market, and also due to potential lags in reporting resulting from differences in the respective regulatory requirements. We received distributions of $120 thousand from SEREF, and the fair value of the investment remeasured in USD was $15.2 million as of December 31, 2013.

7. Residential Real Estate

During the second quarter of 2012, we began to purchase single family residential homes and non-performing residential loans. At acquisition, a significant portion of the properties were either vacant or had occupants that were not subject to a lease and/or were not paying rent to the previous owner. Upon acquisition, we began actively preparing the properties to be either rented or sold, as applicable. For the years ended December 31, 2013 and 2012, we incurred approximately $102.5 million and $5.4 million, respectively, in costs of preparing these properties for their intended use, and such costs were added to our investment basis.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

7. Residential Real Estate (Continued)

The following table summarizes our residential real estate as of December 31, 2013 and 2012 (in thousands):

Type	Depreciable Life	Acquisition Cost	Cost Capitalized Subsequent to Acquisition	Accumulated Depreciation	Net Book Value
December 31, 2013					
Building	30 years	$ 306,664	$ 56,443	$ (5,654)	$ 357,453
Land		84,334			84,334
Furniture & Fixtures	5 years	164	28	(113)	79
Development Assets(1)		259,915	47,433		307,348
		$ 651,077	$ 103,904	$ (5,767)	$ 749,214
December 31, 2012					
Building	30 years	$ 20,955	$ 3,036	$ (203)	$ 23,788
Land		20,457			20,457
Furniture & Fixtures	5 years	191	72	(10)	253
Development Assets(1)		52,275	2,342		54,617
		$ 93,878	$ 5,450	$ (213)	$ 99,115

(1) Development Assets represent residential properties that are being renovated or otherwise prepared for their intended use, which is either sale or rental. Costs incurred during the development period are capitalized.

The future minimum rental revenue to be received from residents as of December 31, 2013 is as follows (in thousands):

2014	$ 40,056
2015	17,245
2016	
2017	
2018	
Thereafter	
	$ 57,301

During the year ended December 31, 2013, residential real estate of $12.8 million was sold for a net gain of $0.8 million. Sales of residential real estate were not material during the year ended December 31, 2012.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

8. Investment in Unconsolidated Entities

The below table summarizes our investments in unconsolidated entities as of December 31, 2013 and 2012 (dollar amounts in thousands):

	Participation / Ownership %(1)	Carrying value as of December 31,		Carrying value over (under) equity in net assets as of December 31, 2013(2)
		2013	2012	
Equity method:				
Real estate brokerage services provider	50%	$ 19,371	$	$
Small balance bridge loan financing venture	50%	26,121		
European investment fund	50%	23,779		4,495
Mezzanine loan venture	49%	23,676	24,304	
Healthcare bridge loan venture	various	14,163		
Various	25% - 50%	4,371		
		111,481	24,304	$ 4,495
Cost method:				
Loan servicing venture	4% - 6%	8,014	8,014	
Various	2% - 10%	3,459		
		11,473	8,014	
		$ 122,954	$ 32,318	

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

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

9. Goodwill and Intangible Assets

Goodwill

Goodwill at December 31, 2013 represents the excess of consideration transferred over the fair value of net assets acquired on April 19, 2013 for the acquisition of LNR. The goodwill recognized is attributable to value embedded in LNR's existing platform, which includes an international network of commercial real estate asset managers, work-out specialists, underwriters and administrative support professionals as well as proprietary historical performance data on commercial real estate assets. The tax deductible component of our goodwill as of April 19, 2013 is $135.3 million and is deductible over 15 years. As discussed in Note 2, goodwill is tested for impairment at least annually. Based on our qualitative assessment during the fourth quarter of 2013, we determined that it is not more likely than not that the fair value of the LNR reporting unit to which the goodwill is attributed is less than its carrying value including goodwill. Therefore, we concluded goodwill was not impaired.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

9. Goodwill and Intangible Assets (Continued)

Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic and European servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. All of our servicing fees are specified by these Pooling and Servicing Agreements. At April 19, 2013 and December 31, 2013, the balance of the domestic servicing intangible is net of $87.3 million and $80.6 million, respectively, that is eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs. Before VIE consolidation, the domestic servicing intangible has a balance of $230.7 million, which represents our economic interest in this asset.

The table below presents information about our GAAP servicing intangibles for the LNR Stub Period (in thousands).

Domestic servicing rights, at fair value	
Fair value at April 19, 2013	$ 156,993
Changes in fair value due to changes in inputs and assumptions	(6,844)
Fair value at December 31, 2013	150,149
European servicing rights	
Gross carrying amount at April 19, 2013 (fair value)	32,649
Foreign exchange gain	2,431
Gross carrying amount at December 31, 2013	35,080
Amortization / accumulated amortization	(8,056)
Net carrying value at December 31, 2013 (fair value of $29.3 million)	27,024
Total servicing rights at December 31, 2013	$ 177,173

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

2014	$ 12,935
2015	8,750
2016	3,421
2017	540
2018	1,378
Thereafter	

Total	$ 27,024

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

10. Secured Financing Agreements

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

	Facility Type	Revolver	Eligible Assets	Current Maturity	Extended Maturity(a)	Pricing	Pledged Asset Carrying Value	Maximum Facility Size	Carrying Value at December 31,	
									2013	2012
Wells Fargo II	Repurchase	Yes	Identified Loans	Aug 2014	Aug 2015	LIBOR + 1.75% to 6%	$ 918,452	$ 550,000	$ 449,323	$ 347,785
Wells Fargo III	Repurchase	Yes	Identified RMBS	(b)	N/A	LIBOR + 1.90%	272,580	175,000	127,943	163,122
Wells Fargo IV	Repurchase	No	Identified Loans	Dec 2014	Dec 2016	LIBOR + 2.75%	210,807	154,133	154,133	181,243
Citibank	Repurchase	Yes	Identified Loans	Oct 2015	Oct 2018	LIBOR + 2.00% to 2.75%	157,970	225,000	100,886	49,045
OneWest Bank	Repurchase	No	Identified Loans	Jul 2015	Jul 2017	LIBOR + 3.00%	78,280	50,871	50,871	65,638
Goldman Sachs Conduit I	Repurchase	Yes	Identified Loans	Sep 2014	Sep 2014	LIBOR + 2.20%	170,665	250,000	129,843	
Barclays Conduit II	Repurchase	Yes	Identified Loans	Nov 2014	Nov 2014	LIBOR + 2.10%		150,000		
J.P. Morgan	Repurchase	No	Identified Loans	Oct 2015	Oct 2017	LIBOR + 2.60%	441,608	347,697	347,697	
RBS	Repurchase	No	Identified CMBS	Dec 2014	Dec 2014	LIBOR + 2.00%	84,231	58,467	58,467	
Borrowing Base	Bank Credit Facility	Yes	Identified Loans	Sep 2015	Sep 2017	LIBOR + 3.25%(c)	892,439	250,000	169,104	
Term Loan	Syndicated Facility	No	Specifically Identified Assets	Apr 2020	Apr 2020	LIBOR + 2.75%(c)	2,574,912	671,808	669,293(d)	
							$5,801,944	$2,882,976		
Prior agreements no longer outstanding(e)										498,979
									$2,257,560	$1,305,812

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

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

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

(d) Term loan outstanding balance is net of $2.5 million of unamortized discount.

(e) Secured financing agreements outstanding as of December 31, 2012 which matured or were paid off during the year ended December 31, 2013 include Wells Fargo I, Bank of America, Goldman Sachs II and Goldman Sachs III.

On December 17, 2013, we entered into a master repurchase agreement with the Royal Bank of Scotland, (the "RBS Repurchase Agreement"). At close, we borrowed $58.5 million under the facility to finance the purchase of certain securities.

On October 1, 2013, Starwood Property Mortgage Sub-11, LLC ("SPM Sub-11"), our indirect wholly-owned subsidiary, entered into a Master Repurchase Agreement with JPMorgan Chase Bank, NA (the "J.P. Morgan Repurchase Agreement"). We borrowed £210.0 million under the facility to finance the origination of a commercial mortgage loan.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

10. Secured Financing Agreements (Continued)

On April 19, 2013, we assumed two repurchase facilities from LNR. The first is an agreement ("Conduit I") between Starwood Mortgage Funding I LLC ("SMF I"), an indirect wholly-owned subsidiary, and Goldman Sachs Mortgage Company. Conduit I provides for funding of up to $250.0 million for the origination of commercial mortgage loans for securitization. The Trust guarantees certain of the obligations of SMF I under the agreement up to a maximum liability of 25% of the then Conduit I repurchase price of all purchased assets.

The second agreement ("Conduit II") is between Starwood Mortgage Funding II LLC ("SMF II"), an indirect wholly-owned subsidiary and Barclays Bank PLC. Conduit II provides for funding of up to $150.0 million for the origination of commercial mortgage loans for securitization. The Trust guarantees certain of the obligations of SMF II under Conduit II up to a maximum liability of 20% of the then currently outstanding repurchase price of all purchased assets.

Also on April 19, 2013, we assumed LNR's senior credit facility. Simultaneously with the acquisition, we repaid the outstanding balance plus accrued interest totaling $268.9 million, and entered into a new $300 million term loan facility (the "Term Loan"). On December 13, 2013, the Term Loan was amended and the balance was increased to $673.5 million. The total fees to obtain and amend the Term Loan were $13.8 million, the unamortized balance of which is reflected as deferred financing costs in other assets.

Our secured financing agreements contain certain financial tests and covenants. As of December 31, 2013, we are in compliance with all such covenants.

The following table sets forth our five-year principal repayments schedule for the secured financings, assuming no defaults or expected extensions and excluding the loans transferred as secured borrowings. Our credit facilities generally require principal to be paid down prior to the facilities' respective maturities if and when we receive principal payments on, or sell, the investment collateral that we have pledged. The amount reflected in each period includes principal repayments on our credit facilities that would be required if (i) we received the repayments that we expect to receive on the investments that have been pledged as collateral under the credit facilities, as applicable, and (ii) if the credit facilities that are expected to have amounts outstanding at their current maturity dates are not extended or if the respective amounts outstanding are not otherwise refinanced (amounts in thousands):

2014	$	938,867(2)
2015		662,937
2016		6,769
2017		6,769
2018		6,769
Thereafter(1)		637,963(2)
Total	$	2,260,074

[1] Principal paydown of the Term Loan through 2020 excludes $2.5 million of discount amortization.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

10. Secured Financing Agreements (Continued)

(2) Approximately $449.3 million of principal repayments in 2014 relates to our Wells Fargo II facility. We subsequently extended this facility as discussed in Note 26.

Secured financing maturities for 2014 primarily relate to $449.3 million on the Wells Fargo II Repurchase Agreement, $127.9 million on the Wells Fargo III Repurchase Agreement, $154.1 million on Wells Fargo IV Repurchase Agreement, $129.8 million on Conduit I and $58.5 million on the RBS Repurchase Agreement. In January 2014, we extended the Wells Fargo II facility (refer to Note 26).

As of December 31, 2013 and 2012, we had approximately $22.5 million and $7.8 million, respectively, of deferred financing costs from secured financing agreements, net of amortization which is included in other assets on our consolidated balance sheets. For the years ended December 31, 2013, 2012, and 2011 approximately $9.9 million, $5.7 million, and $3.8 million, respectively, of amortization was included in interest expense on our consolidated statements of operations.

11. Convertible Senior Notes

On February 15, 2013, we issued $600.0 million of 4.55% Convertible Senior Notes due 2018 (the "2018 Notes"). The 2018 Notes were sold to the underwriters at a discount of 2.05%, resulting in net proceeds to us of $587.7 million. On July 3, 2013, we issued $460.0 million of 4.00% Convertible Senior Notes due 2019 (the "2019 Notes"). The 2019 Notes were sold to the underwriters at a discount of 2.125%, resulting in net proceeds to us of $450.2 million. The following summarizes the unsecured convertible senior notes (collectively, the "Convertible Notes") outstanding as of December 31, 2013 (amounts in thousands, except rates):

	Principal Amount	Coupon Rate	Effective Rate(1)	Conversion Rate(2)	Maturity Date	Remaining Period of Amortization
2018 Notes	$ 600,000	4.55%	6.08%	35.5391	3/1/2018	4.2 years
2019 Notes	$ 460,000	4.00%	5.37%	37.9896	1/15/2019	5.0 years

	As of December 31, 2013
Total principal	$ 1,060,000
Net unamortized discount	(62,149)
Carrying amount of debt components	$ 997,851
Carrying amount of conversion option equity components recorded in additional paid-in capital	$ 48,502

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

[2] The conversion rate represents the number of common shares issuable per $1,000 principal amount of Convertible Notes converted. The initial conversion rate for the 2018

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

11. Convertible Senior Notes (Continued)

Notes was 35.5391, but is subject to a deferred adjustment in accordance with the applicable indenture because the dividend distributions of $0.46 per share declared in each of the second through fourth quarters of 2013 exceeded the initial dividend threshold amount of $0.44 per share specified in the indenture. If such deferred adjustment was applied as of December 31, 2013, the adjusted conversion rate would have been 35.6237. No such adjustment was necessary with respect to the 2019 Notes because the initial dividend threshold amount is $0.46 per share in the applicable indenture. Both conversion rates will be adjusted for the spin-off of the SFR segment effective February 3, 2014 as well as the deferred adjustment carried forward with respect to the 2018 Notes (refer to Note 26). The Company has the option to settle any conversions in cash, common shares or a combination thereof. The if-converted value of the 2018 Notes does not exceed their principal amount at December 31, 2013 since the closing market price of the Company's common stock of $27.70 per share does not exceed the implicit conversion price of $28.07 per share. The if-converted value of the 2019 Notes exceeds their principal amount by $24.1 million at December 31, 2013 since the closing market price of $27.70 per share exceeds the implicit conversion price of $26.32 per share for the 2019 Notes.

ASC Topic 470-20 requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer's nonconvertible debt borrowing rate. ASC 470-20 requires that the initial proceeds from the sale of these notes be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt that could have been issued by the Company at such time. The Company measured the fair value of the debt components of the 2018 Notes and 2019 Notes as of their respective issuance dates based on effective interest rates of 6.08% and 5.37%, respectively. As a result, the Company attributed an aggregate of $48.5 million of the proceeds to the equity components of the notes, which represents the excess proceeds received over the fair value of the liability components of the notes at the date of issuance. The equity components of the Convertible Notes have been reflected within additional paid-in capital in the consolidated balance sheet as of December 31, 2013. The resulting debt discount is being amortized over the period during which the Convertible Notes are expected to be outstanding (the maturity date) as additional non-cash interest expense. The additional non-cash interest expense attributable to each of the Convertible Notes will increase in subsequent reporting periods through the maturity date as the notes accrete to their par value over the same period. The aggregate contractual interest expense was approximately $33.0 million for the year ended December 31, 2013. With respect to the amortization of the discount on the liability components of the Convertible Notes, the Company reported additional non-cash interest expense of approximately $8.5 million for the year ended December 31, 2013.

Prior to the close of the business day immediately preceding September 1, 2017 for the 2018 Notes and July 15, 2018 for the 2019 Notes, the Convertible Notes will be convertible only upon satisfaction of one or more of the following conditions: (1) the closing market price of the Company's common stock is at least 130% of the conversion price of the respective Convertible Notes for at least 20 out of 30 trading days prior to the end of the preceding fiscal quarter, (2) the trading price of the Convertible Notes was less than 98% of the product of (i) the conversion rate and (ii) the closing price of the

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

11. Convertible Senior Notes (Continued)

Company's common stock during any five consecutive trading day period, (3) the Company issues certain equity instruments at less than the 10-day average closing market price of its common stock or the per-share value of certain distributions exceeds the market price of the Company's common stock by more than 10% or (4) other specified corporate events (significant consolidation, sale, merger, share exchange, fundamental change, etc.). On or after September 1, 2017 for the 2018 Notes and July 15, 2018 for the 2019 Notes, holders may convert each of their notes at the applicable conversion rate at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date irrespective of the foregoing conditions.

As of December 31, 2013, we had approximately $1.6 million of deferred financing costs from our Convertible Senior Notes, net of amortization which is included in other assets on our consolidated balance sheet.

12. 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 LNR, we originate commercial mortgage loans with the intent to sell these mortgage loans to SPEs for the purposes of securitization. These SPEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the SPE. In certain instances, we retain a subordinated interest in the SPE and serve as special servicer for the SPE. During the LNR Stub Period, we sold $1.3 billion par value of loans held-for-sale from our conduit platform for their fair values of $1.3 billion. During the LNR Stub Period, the sale proceeds were used in part to repay $947.4 million of the outstanding balance of the repurchase agreements associated with these loans.

Within the real estate investment lending segment (refer to Note 24), we originate or acquire loans and then subsequently sell a senior portion, which can be represented in various forms including first mortgages, A-Notes and senior participations. 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. The following table summarizes our loans sold and loans transferred as secured borrowings by the real estate investment lending segment net of expenses (in thousands):

	Loan Transfers Accounted for as Sales		Loan Transfers Accounted for as Secured Borrowings	
	Face Amount	Proceeds	Face Amount	Proceeds
For the year ended December 31,				
2013	$ 435,933	$ 435,818	$ 95,000	$ 95,000
2012	468,289	476,443	35,738	35,738
2011	331,312	341,626		

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

13. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, foreign exchange, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates, credit spreads, and foreign exchange rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of the known or expected cash receipts and known or expected cash payments principally related to our investments, anticipated level of loan sales, and borrowings.

Cash Flow Hedges of Forecasted Interest Payments

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

In connection with our repurchase agreements, we have entered into eight outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of December 31, 2013, the aggregate notional of our interest rate swaps designated as cash flow hedges of interest rate risk totaled $177.1 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.56% to 2.23% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from May 2014 to May 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2013 and 2012 we did not recognize any hedge ineffectiveness in earnings. During the year ended December 31, 2011 we recorded $45 thousand as hedge ineffectiveness in earnings, which is included in interest expense in our consolidated statement of operations.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable-rate debt. Over the next twelve months, we estimate that an additional $1.3 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 89 months.

13. Derivatives and Hedging Activity (Continued)

Non-designated Hedges

Derivatives not designated as hedges are derivatives that do not meet the criteria for hedge accounting under GAAP or for which we have not elected to designate as hedges. We do not use these derivatives for speculative purposes but instead they are used to manage our exposure to foreign exchange rates, interest rate changes, and certain credit spreads. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in gain (loss) on derivative financial instruments in the consolidated statements of operations. The LNR conduit platform uses interest rate and credit index instruments to manage exposures related to commercial mortgage loans held-for-sale.

During the year ended December 31, 2013, we entered into a series of forward contracts whereby we agreed to sell an amount of GBP or EUR for an agreed upon amount of USD at various dates through January 2018. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments.

During the year ended December 31, 2012, we entered into a series of forward contracts whereby we agreed to buy GBP for an agreed upon amount of USD at various dates through October 2013 to fix the future value of our losses on pre-existing GBP forward positions. We also entered into a series of forward contracts whereby we agreed to sell GBP or EUR for an agreed upon amount of USD at various dates through March 2016 and January 2014, respectively. These forward contracts were executed to economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments. Also during the year ended December 31, 2012, we terminated a portion of our contracts to sell EUR. The purpose of the terminations was to reduce the amount of EUR we were to sell at future dates as a result of the refinancing of our EUR-denominated loan investment.

During the year ended December 31, 2011, we entered into a series of forward contracts whereby we agreed to sell an amount of EUR for an agreed upon amount of USD at various dates through June 2014. These forward contracts were executed to economically fix the USD amount of EUR-denominated cash flows expected to be received by us related to a mezzanine loan investment in Germany. Also during the year ended December 31, 2011, we entered into several interest rate swaps that were not designated as hedges. Under certain of these agreements, we pay fixed coupons at fixed rates ranging from 0.716% to 2.505% of the notional amount to the counterparty and receive floating rate LIBOR. These interest rate swaps are used to limit the price exposure of certain assets due to changes in benchmark USD-LIBOR swap rates from which the pricing of these assets is derived. In connection with our acquisition of a loan portfolio during the fourth quarter of 2011, we also entered into several interest rate swaps whereby we receive fixed coupons ranging from 2.86% to 5.75% of the notional amount and pay floating rate LIBOR. These swaps effectively convert certain floating rate loans we acquired to fixed rate loans. Changes in the fair value of these interest rate swaps are recorded directly in earnings.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

13. Derivatives and Hedging Activity (Continued)

As of December 31, 2013, we had 73 foreign exchange forward derivatives to sell GBP with a total notional amount of GBP 235.3 million and 31 foreign exchange forward derivatives to sell EUR with a total notional amount of EUR 141.4 million that were not designated as hedges in qualifying hedging relationships. Also as of December 31, 2013, there were 44 interest rate swaps where the Company is paying fixed rates, with maturities ranging from 2 to 10 years and a total notional amount of $210.1 million, four interest rate swaps where the Company is receiving fixed rates with maturities ranging from 1 to 4 years and a total notional of $60.8 million and four credit index instruments with a total notional amount of $50.0 million.

The table below presents the fair value of our derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2013 and 2012 (amounts in thousands):

	Fair Value of Derivatives in an Asset Position(1) As of December 31,		Fair Value of Derivatives in a Liability Position(2) As of December 31,	
	2013	2012	2013	2012
Derivatives designated as hedging instruments:				
Interest rate swaps	$ 125	$	$ 729	$ 2,571
Total derivatives designated as hedging instruments	125		729	2,571
Derivatives not designated as hedging instruments:				
Interest rate swaps	5,102	4,892	983	1,772
Foreign exchange contracts	269	4,335	22,480	23,427
Credit index instruments	2,273			
Total derivatives not designated as hedging instruments	7,644	9,227	23,463	25,199
Total derivatives	$ 7,769	$ 9,227	$ 24,192	$ 27,770

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

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

The tables below present the effect of our derivative financial instruments on the consolidated statements of operations and of comprehensive income for the years ended December 31, 2013, 2012 and 2011:

Derivatives Designated as Hedging Instruments for the year ended December 31,	Gain (Loss) Recognized in OCI (effective portion)	Gain (Loss) Reclassified from AOCI into Income (effective portion)	Gain (Loss) Recognized in Income (ineffective portion)	Location of Gain (Loss) Recognized in Income
2013	$ 334	$ (1,633)	$	Interest Expense
2012	$ (3,609)	$ (2,458)	$	Interest Expense
2011	$ (1,951)	$ (2,113)	$ 45	Interest Expense

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

13. Derivatives and Hedging Activity (Continued)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income 2013	2012	2011
Interest rate swaps	Gain (loss) on derivative financial instruments	$ 3,549	$ 1,023	$ (27,130)
Foreign exchange contracts	Gain (loss) on derivative financial instruments	(13,160)	(15,180)	4,491
Credit index instruments	Gain (loss) on derivative financial instruments	(1,559)		2,358
		$ (11,170)	$ (14,157)	$ (20,281)

Credit-risk-related Contingent Features

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

As of December 31, 2013, we had posted collateral of $12.6 million related to our derivative financial instruments.

14. 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	Cash Collateral Received / Pledged	(v) = (iii) - (iv) Net Amount
As of December 31, 2013						

Derivative assets	$ 7,769	$	$ 7,769	$ 692	$ 1,916	$ 5,161
Derivative liabilities	$ 24,192	$	$ 24,192	$ 692	$ 7,150	$ 16,350
Repurchase agreements	1,419,163		1,419,163	1,419,163		
	$ 1,443,355	$	$ 1,443,355	$ 1,419,855	$ 7,150	$ 16,350
As of December 31, 2012						
Derivative assets	$ 9,227	$	$ 9,227	$ 4,335	$ 2,989	$ 1,903
Derivative liabilities	$ 27,770	$	$ 27,770	$ 4,335	$	$ 23,435
Repurchase agreements	1,305,812		1,305,812	1,305,812		
	$ 1,333,582	$	$ 1,333,582	$ 1,310,147	$	$ 23,435

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

15. Variable Interest Entities

Investment Securities

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

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

VIEs in which we are the Primary Beneficiary

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

VIEs in which we are not the Primary Beneficiary

In certain instances, we hold a variable interest in a VIE in the form of CMBS, but either (i) we are not appointed, or do not serve as, special servicer or (ii) an unrelated third party has the rights to unilaterally remove us as special servicer. In these instances, we do not have the power to direct activities that most significantly impact the trust'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.

Two of our CDO structures are currently in default, which pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO's economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO's economic performance, we do not consolidate the VIE. As of December 31, 2013, neither of these CDO structures was consolidated.

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization SPEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

15. Variable Interest Entities (Continued)

investment in the entity. As of December 31, 2013, our maximum risk of loss related to VIEs in which we were not the primary beneficiary was $141.0 million on a fair value basis.

As of December 31, 2013, the securitization SPEs which we do not consolidate have debt obligations to beneficial interest holders with unpaid principal balances of $130.7 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

16. Related-Party Transactions

Management Agreement

We entered into a management agreement with our Manager upon closing of our IPO on August 17, 2009, which provides for an initial term of three years with automatic one-year extensions thereafter unless terminated as described below (the "Management Agreement"). 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 is also entitled to charge us for certain expenses incurred on our behalf, as described below.

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

For the years ended December 31, 2013, 2012, and 2011, approximately $51.5 million, $33.3 million and $24.2 million, respectively, was incurred for base management fees. As of December 31, 2013 and 2012, there were no unpaid base management fees.

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

16. Related-Party Transactions (Continued)

The incentive fee will be an amount, not less than zero, equal to the difference between (1) the product of (x) 20% and (y) the difference between (i) our Core Earnings for the previous 12-month period, and (ii) the product of (A) the weighted average of the issue price per share of our common stock of all of our public offerings multiplied by the weighted average number of all shares of common stock outstanding (including any restricted stock units, any restricted shares of common stock and other shares of common stock underlying awards granted under our equity incentive plans) in such previous 12-month period, and (B) 8%, and (2) the sum of any incentive fee paid to our Manager with respect to the first three calendar quarters of such previous 12-month period. One half of each quarterly installment of the incentive fee is payable in shares of our common stock so long as the ownership of such additional number of shares by our Manager would not violate the 9.8% stock ownership limit set forth in our articles of incorporation, after giving effect to any waiver from such limit that our board of directors may grant in the future. The remainder of the incentive fee is payable in cash. The number of shares to be issued to our Manager is equal to the dollar amount of the portion of the quarterly installment of the incentive fee payable in shares divided by the average of the closing prices of our common stock on the NYSE for the five trading days prior to the date on which such quarterly installment is paid.

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

For the years ended December 31, 2013, 2012, and 2011, approximately $11.6 million, $7.9 million and $1.2 million, respectively, was incurred for the incentive fee. As of December 31, 2013 and 2012, approximately $6.8 million and $0.7 million, respectively, of unpaid incentive fees were included in related-party payable in our consolidated balance sheets.

Expense Reimbursement. We are required to reimburse our Manager for operating expenses incurred by our Manager on our behalf. In addition, pursuant to the terms of the Management Agreement, we are required to reimburse our Manager for the cost of legal, tax, consulting, auditing and other similar services rendered for us by our Manager's personnel provided that such costs are no greater than those that would be payable if the services were provided by an independent third party. The expense reimbursement is not subject to any dollar limitations but is subject to review by our independent directors. For the years ended December 31, 2013, 2012, and 2011, approximately $8.8 million, $5.8 million and $4.0 million was incurred, respectively, for executive compensation and other reimbursable expenses. As of December 31, 2013 and 2012, approximately $4.4 million and $1.1 million, respectively, of unpaid reimbursable executive compensation and other expenses were included in related-party payable in our consolidated balance sheets.

Termination Fee. After the initial three-year term, we can terminate the Management Agreement without cause, as defined in the Management Agreement, with an affirmative two-thirds vote by our independent directors and 180 days written notice to our Manager. Upon termination without cause,

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

16. Related-Party Transactions (Continued)

our Manager is due a termination fee equal to three times the sum of the average annual base management fee and incentive fee earned by our Manager over the preceding eight calendar quarters. No termination fee is payable if our Manager is terminated for cause, as defined in the Management Agreement, which can be done at any time with 30 days written notice from our board of directors.

Investments in Loans and Securities

On December 18, 2013, we acquired a subordinate CMBS investment in a securitization issued by an affiliate of our Manager. The security was acquired for $84.1 million and is secured by five regional malls in Ohio, California and Washington.

On November 8, 2013, we co-originated a GBP-denominated first mortgage loan with SEREF, which is secured by Centre Point, an iconic tower located in Central London, England. We funded £15 million of the initial £55 million funding and committed to future funding of £165 million. The A-Note bears interest at 8.55% fixed and the B-Note bears interest at three-month LIBOR plus 7.0%, unless the fixed rate option is elected. The loan matures on the earlier of December 30, 2017 or thirty-eight months after the refurbishment start date.

On September 13, 2013, we co-originated a EUR-denominated first mortgage loan with Starfin Lux S.a.r.l. ("Starfin"), an affiliate of our Manager. The loan had an initial funding of approximately $102.3 million ($53.8 million for us and $48.5 million for Starfin), and future funding commitments totaling $24.6 million, of which the Company is committed to fund $12.9 million and Starfin is committed to fund $11.7 million. The loan bears interest at three-month EURIBOR plus 7.0% and is secured by a portfolio of approximately 20 retail properties located throughout Finland. The loan matures in October 2016.

On August 12, 2013, we co-originated GBP-denominated first mortgage and mezzanine loans with Starfin. The loans are collateralized by a development of a 109 unit retirement community and a 30 key nursing home in Battersea Park, London, England. We and Starfin committed $11.3 million and $22.5 million, respectively, in aggregate for the two loans. The first mortgage loan bears interest at 5.02% and the mezzanine loan bears interest at 15.12%, and the loans each have three-year terms.

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

On December 22, 2012, we co-originated a junior mezzanine loan with SEREF, which is secured primarily by the ownership interest in entities that own a portfolio of three luxury hotels located in London, England. The total loan amount was GBP 98 million, of which we and SEREF own a 50% pari passu interest. The loan bears interest at one-month LIBOR plus a margin of 11.65%. The loan matures in January 2018.

On December 14, 2012, we acquired 9,140,000 ordinary shares in SEREF, a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange, for

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

16. Related-Party Transactions (Continued)

approximately $14.7 million. As a result, we own approximately 4% of SEREF. Refer to Note 6 for additional details.

On October 16, 2012, we co-originated $475.0 million in financing for the acquisition and redevelopment of a 10 story retail building located at 701 Seventh Avenue in the Times Square area of Manhattan through a joint venture with Starwood Distressed Opportunity Fund IX ("Fund IX"), an affiliate of our Manager. The financing consists of a fully funded $237.5 million first mortgage loan and a $237.5 million mezzanine loan, of which $137.5 million was funded at close. The remaining $100.0 million will be funded upon reaching certain milestones during the transformation of the property. On October 22, 2012, the joint venture sold a 25% participation in both the first mortgage and mezzanine loan to Vornado Realty Trust ("Vornado"). Upon settling this sale, the interest of the Company, Fund IX, and Vornado in the first mortgage and mezzanine loans are 56.25%, 18.75% and 25.0%, respectively, and each party will fund their pro rata share of any future fundings. On March 27, 2013, the joint venture, along with Vornado, sold its interest in the first mortgage to Berkadia Proprietary, LLC. Immediately following the sale of the first mortgage, the Company repurchased a 56.25% participation interest in the same first mortgage loan through a wholly-owned subsidiary, resulting in no change in net interest for the Company. The joint venture distributed $43.9 million from the sale, net of fees, to Fund IX. The joint venture remains the holder of the mezzanine loan.

On July 20, 2012, we purchased a 50% undivided participation interest (the "Le Meridien Participation Interest") in a EUR-denominated mezzanine loan for $68.4 million ("Le Méridien Loan") from an independent third party. The borrower is Starman Luxembourg Holdings S.À R.L. ("Holdings"), an entity that indirectly owns and operates a portfolio of hotels in France and Germany. Holdings is owned 50% by an independent third party and 50% by several private investment funds previously sponsored by Starwood Capital Group Global I, L.L.C., an affiliate of our Manager. The Le Méridien Loan has an initial term of two years with an option to extend for an additional year, subject to certain conditions, an interest rate of 12.5%, an upfront fee of 2.0% and a prepayment fee of 1.0%. We acquired the Le Meridien Participation Interest from an independent third party and own the Le Meridien Participation Interest subject to a participation agreement between us and the independent third party (the "Le Meridien Participation Agreement"). The Le Meridien Participation Agreement provides for the payment to us, on a pro rata basis with an independent third party, of customary payments in respect of our Le Meridien Participation Interest and affords us customary voting, approval and consent rights.

In April 2011, we purchased a $35 million pari passu participation interest (the "Mammoth Participation Interest") in a $75 million subordinate loan (the "Mammoth Loan") from an independent third party and a syndicate of financial institutions and other entities acting as subordinate lenders to Mammoth Mountain Ski Area, LLC ("Mammoth"). Mammoth is a single purpose, bankruptcy remote entity that is owned and controlled by Starwood Global Opportunity Fund VII-A, L.P., Starwood Global Opportunity Fund VII-B, L.P., Starwood U.S. Opportunity Fund VII-D, L.P. and Starwood U.S. Opportunity Fund VII-D-2, L.P. (collectively, the "Sponsors"). Each of the Sponsors is indirectly wholly-owned by Starwood Capital Group Global I, L.L.C., and an affiliate of our Chief Executive Officer. The Mammoth Loan was approved by our independent directors in accordance with our related party transaction policy. The Mammoth Loan has a term of up to six years and an interest rate of 14.0% through April 2014 and 13.25% thereafter. We acquired the Mammoth Participation Interest

16. Related-Party Transactions (Continued)

in the Mammoth Loan from an independent third party and own such Mammoth Participation Interest subject to a participation agreement between us and the independent third party (the "Mammoth Participation Agreement"). The Mammoth Participation Agreement provides for the payment to us, on a pro rata basis with an independent third party, of customary payments in respect of the Mammoth Participation Interest and affords us customary voting, approval and consent rights so long as no event of default is continuing under the Mammoth Loan.

Related Party Arrangements Resulting from the LNR Acquisition

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

As described in Note 4, in connection with the LNR acquisition, we were required to cash collateralize certain obligations of LNR, including letters of credit and performance obligations. Fund IX funded $6.2 million of this obligation, but the account is within our name and is thus reflected within our restricted cash balance. We have recognized a corresponding payable to Fund IX of $6.2 million within related party payable in our consolidated balance sheet as of December 31, 2013.

17. Stockholders' Equity

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

At the time of our IPO in 2009, the underwriters for the IPO agreed to defer and condition the receipt of a portion of their underwriting fees on our future achievement of certain minimum investment returns. Similarly, at the time of the IPO our Manager agreed to pay to the underwriters a separate portion of the underwriting fees on our behalf, with our reimbursement of our Manager of those amounts conditioned upon our achievement of the same investment returns. In the absence of the achievement of such investment returns, we would not pay the underwriters the deferred portion of the underwriting fees nor would our Manager be reimbursed for the portion of the underwriting fees that it paid on our behalf. Specifically, pursuant to the IPO underwriting agreement among the underwriters, our Manager and us, we were required to pay to the underwriters $18.1 million of underwriting fees if during any full four calendar quarter period during the 24 full calendar quarters after the consummation of the IPO our Core Earnings for any such four-quarter period exceeded the product of (x) the weighted-average of the issue price per share of all public offerings of our common stock, multiplied by the weighted-average number of shares outstanding (including any restricted stock units, any restricted shares of common stock and any other shares of common stock underlying awards granted under our equity incentive plans) in such four-quarter period and (y) 8%. Additionally, because at the time of our IPO our Manager paid $9.1 million of underwriting fees on our behalf, pursuant to our Management Agreement with our Manager, we agreed to reimburse our Manager for such payments to the extent the same 8% performance threshold was exceeded. For the four calendar quarter periods ended March 31, 2011 we exceeded the threshold and therefore paid $27.2 million related to these contingent arrangements during the second quarter of 2011.

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

17. Stockholders' Equity (Continued)

We issued common stock as follows during the years ended December 31, 2013, 2012 and 2011:

Pricing date	Shares issued (in thousands)	Price per share	Proceeds (in thousands)
9/9/13	28,750	$ 24.04	$ 691,150
4/8/13	30,475	$ 26.99	$ 822,368
10/3/12	18,400	$ 22.74	$ 418,416
4/16/12	23,000	$ 19.88	$ 457,321
5/10/11	22,000	$ 21.67	$ 476,740

In June 2012, we entered into an ATM Equity Offering Sales Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated, (the "Agent"), relating to our shares of common stock. In accordance with the terms of the agreement, we may offer and sell shares of our common stock having an aggregate gross sales price of up to $250 million from time to time through the agent, as our sales Agent. Sales of the shares, if any, will be made by means of ordinary brokers' transactions or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices.

Underwriting and offering costs for the years ended December 31, 2013, 2012 and 2011 were $1.4 million, $2.0 million and $1.1 million, respectively, and are reflected as a reduction of additional paid-in capital in the consolidated statements of equity.

Our board of directors declared the following dividends in 2013, 2012 and 2011:

Ex-Dividend Date	Record Date	Announce Date	Pay Date	Amount	Frequency
12/27/13	12/31/13	11/7/13	1/15/14	$ 0.46	Quarterly
9/26/13	9/30/13	8/6/13	10/15/13	$ 0.46	Quarterly
6/26/13	6/28/13	5/8/13	7/15/13	$ 0.46	Quarterly
3/26/13	3/28/13	2/27/13	4/15/13	$ 0.44	Quarterly
12/27/12	12/31/12	12/13/12	1/15/13	$ 0.10	Special
12/17/12	12/31/12	11/6/12	1/15/13	$ 0.44	Quarterly
9/26/12	9/28/12	8/3/12	10/15/12	$ 0.44	Quarterly
6/27/12	6/29/12	5/8/12	7/13/13	$ 0.44	Quarterly
3/28/12	3/30/12	2/29/12	4/13/12	$ 0.44	Quarterly
12/28/11	12/31/11	11/4/11	1/13/12	$ 0.44	Quarterly
9/28/11	9/30/11	8/2/11	10/14/11	$ 0.44	Quarterly
6/28/11	6/30/11	5/10/11	7/15/11	$ 0.44	Quarterly
3/29/11	3/31/11	3/1/11	4/15/11	$ 0.42	Quarterly

Equity Incentive Plans

The Company currently maintains the Starwood Property Trust, Inc. Manager Equity Plan (the "Manager Equity Plan"), which provides for the grant of stock options, stock appreciation rights, restricted shares of common stock, restricted stock units and other equity-based awards, including dividend equivalents, to our Manager. The Company also maintains the Starwood Property Trust, Inc. Equity Plan (the "Equity Plan"), which provides for the same types of equity-based awards to natural

17. Stockholders' Equity (Continued)

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

In August 2009, we granted 1,037,500 restricted stock units with a fair value of approximately $20.8 million at the grant date to our Manager under the Manager Equity Plan. The grant vested ratably in quarterly installments over three years beginning on October 1, 2009, with 86,458 shares vesting each quarter. In connection with the supplemental equity offering in December 2010, we granted 1,075,000 restricted stock units with a fair value of approximately $21.8 million at the grant date to our Manager under the Manager Equity Plan. The grant vests ratably in quarterly installments over three years beginning on March 31, 2011, with 89,583 shares vesting each quarter. In May 2012, we granted 30,000 restricted common shares to our Manager under the Manager Equity Plan. In connection with the supplemental equity offering in October 2012, we granted 875,000 restricted stock units with a fair value of approximately $19.9 million at the grant date to our Manager under the Manager Equity Plan. The grants vest ratably in quarterly installments over three years beginning on December 31, 2012, with 72,917 shares vesting each quarter.

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

Timing of Issuance	Shares of Common Stock Issued	Price per share
November 2013	89,269	$ 26.72
March 2013	13,188	27.83
November 2012	46,653	22.91
August 2012	50,203	22.61
May 2012	70,220	19.76
August 2011	54,234	18.58
May 2011	9,021	22.08

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

17. Stockholders' Equity (Continued)

The following table summarizes our share-based compensation expenses during the years ended December 31, 2013, 2012 and 2011 (in thousands):

	For the year ended December 31,		
	2013	2012	2011
Management fees:			
Manager incentive fee	$ 5,764	$ 3,591	$ 1,207
Manager Equity Plan	15,688	15,714	12,286
	21,452	19,305	13,493
General and administrative:			
Non-Executive Director Stock Plan	217	242	179
Equity Plan	437	206	71
	654	448	250
Income tax effect			
Total share-based compensation expense	$ 22,106	$ 19,753	$ 13,743

Schedule of Non-Vested Shares and Share Equivalents

	Non-Executive Director Stock Plan	Equity Plan	Manager Equity Plan	Total	Weighted Average Grant Date Fair Value (per share)
Balance as of December 31, 2012	9,538	15,361	1,160,419	1,185,318	$ 22.02
Granted	11,228	25,000		36,228	26.87
Vested	(9,538)	(17,859)	(650,004)	(677,401)	21.60
Forfeited					
Balance as of December 31, 2013	11,228	22,502	510,415	544,145	22.88

The weighted average grant date fair value per share of grants during the years ended December 31, 2013, 2012 and 2011 was $26.87, $22.57 and $19.92, respectively.

Vesting Schedule

	Non-Executive Director Stock Plan	Equity Plan	Manager Equity Plan	Total
2014	11,228	14,168	291,667	317,063
2015		8,334	218,748	227,082
2016				
Total	11,228	22,502	510,415	544,145

Starwood Property Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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17. Stockholders' Equity (Continued)

As of December 31, 2013, there was approximately $14.9 million of total unrecognized compensation costs related to unvested share-based compensation arrangements which are expected to be recognized over a weighted average period of 1.7 years. The total fair value of shares vested during the year ended December 31, 2013 was $16.3 million as of the respective vesting dates.

18. Net Income per Share

The following table provides a reconciliation of both net income and the number of common stock used in the computation of basic and diluted income per share. We use the two-class method in calculating both basic and diluted earnings per share as our unvested restricted stock units (refer to Note 17) are participating securities as defined in GAAP (amounts in thousands, except share and per share amounts):

	For the year ended December 31,		
	2013	2012	2011
Net income attributable to Starwood Property Trust, Inc.	$ 305,030	$ 201,195	$ 119,377
Net income allocated to participating securities	(1,579)	(1,605)	(2,226)
Numerator for basic and diluted net income per share	$ 303,451	$ 199,590	$ 117,151
Basic weighted average shares outstanding	166,355,599	113,721,070	84,974,604
Diluted weighted average shares outstanding(1)	167,322,602	114,633,183	86,409,327
Basic income per share	$ 1.82	$ 1.76	$ 1.38
Diluted income per share	$ 1.82	$ 1.76	$ 1.38

(1) The weighted average number of diluted shares outstanding includes the weighted average impact of (i) unvested restricted stock units and restricted stock awards, of which 544,145, 1,185,318 and 998,604 remain unvested as of December 31, 2013, 2012 and 2011, respectively, and (ii) 139,495, 13,188 and 70,220 shares that were estimated to be payable in connection with the incentive fee to our Manager as of December 31, 2013, 2012 and 2011, respectively.

As of December 31, 2013, there were 38.8 million potential shares of common stock contingently issuable upon the conversion of the Convertible Notes excluded from the calculation of diluted income per share because the effect would have been anti-dilutive.

Since distributions were greater than earnings during the years ended December 31, 2013, 2012, and 2011, the diluted earnings per share calculation would result in anti-dilution and therefore diluted EPS has been computed in the same manner as basic earnings per share.

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Notes to Consolidated Financial Statements (Continued)

As of December 31, 2013

19. Accumulated Other Comprehensive Income

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

	Effective Portion of Cumulative Loss on Cash Flow Hedges	Cumulative Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation	Total
Balance at January 1, 2011	$ (1,625)	$ 9,828	$	$ 8,203
OCI before reclassifications	(1,951)	(11,248)		(13,199)
Amounts reclassified from AOCI	2,156	(2,297)		(141)
Non-controlling interests		1,139		1,139